

ANNUAL REPORT 2016

*'One Nolato' for continued
growth and success*



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*The content of pages 51–89 has been audited.

Financial information 2017

► Three-month interim report 2017:	26 April 2017
► 2017 Annual General Meeting:	26 April 2017
► Six-month interim report 2017:	19 July 2017
► Nine-month interim report 2017:	25 October 2017

All financial information is posted on www.nolato.com as soon as it is published.

The printed annual report is sent by post to those shareholders who have notified the company that they wish to receive a copy. It can also be ordered at www.nolato.com, where a digital version is also available. New shareholders are offered the opportunity in a welcome letter to receive future annual reports as long as they own shares in the company.

The annual report is also available in Swedish.

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‘One Nolato’

Our business areas have lots of unique features, giving us the opportunity to develop closer customer relationships through Nolato’s comprehensive offering, both of technologies and products.

Nolato in 15 seconds

Nolato is a Swedish publicly listed group with 6,400 employees in Europe, Asia and North America. Nolato develops and manufactures products in polymer materials such as plastic, silicone and TPE for leading customers within medical technology, pharmaceuticals, telecom, automotive and other selected industrial sectors.

Nolato’s business model is based on close, long-term, innovative collaboration with our customers. Nolato endeavours to create added value for both customers and shareholders through leading polymer technology, wide-ranging capabilities and highly efficient production.

2016 in brief

- Nolato's sales for 2016 amounted to SEK 4,447 million (4,726).
- Operating profit (EBITA) was SEK 457 million (570).
- Operating margin (EBITA) of 10.3% (12.1).
- The lower sales were fully attributable to Nolato Telecom. Nolato Medical and Nolato Industrial both increased their sales.
- Earnings per share were SEK 12.77 (15.97).
- Nolato acquired the Swiss company Treff, with operations in medical technology and industry, and the Polish medical technology firm Grizzly Medical.

First quarter

- Consolidated sales totalled SEK 1,022 million (1,073).
- Operating profit (EBITA) was SEK 113 million (123).
- Adjusted for currency effects, both Nolato Medical and Nolato Industrial increased their sales, by 14% and 7%, respectively, through healthy order intake and high customer activity. This contributed to a strong Group EBITA margin of 11.1% (11.5).



Nolato Medical experienced continued good sales performance and, adjusted for currency, increased sales by 14%.

Third quarter

- Sales totalled SEK 1,036 million (1,084).
- Operating profit (EBITA) was SEK 104 million (142).
- Adjusted for currency, Nolato Medical increased sales by 11%, owing primarily to good growth in volumes within Medical Devices and the ramp-up of new products.
- Adjusted for currency, Nolato Industrial's sales rose by 6% through positive volume performance in automotive and hygiene.



In the third quarter Nolato acquired Poland-based Grizzly Medical with annual sales of around SEK 25 million and, after the end of the period, Switzerland-based Treff AG, which has annual sales of approximately SEK 450 million.

Second quarter

- Sales totalled SEK 1,037 million (1,280).
- Operating profit (EBITA) was SEK 110 million (167).
- Adjusted for currency, sales decreased by 17% due to Nolato Telecom, which had very strong volumes in the previous year.
- Cash flow increased to SEK 61 million (-52). The improvement was largely due to lower investments compared with the same period in 2015.



Considerably lower volumes at Nolato Telecom owing to mobile phone product changeovers.

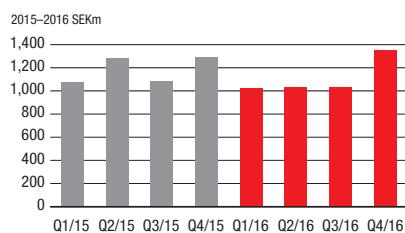
Fourth quarter

- Sales increased to SEK 1,352 million (1,289).
- Operating profit (EBITA) was SEK 130 million (138).
- The Board proposes a dividend of SEK 10.50 per share (10.00).
- Continued strong financial position after acquisitions, with net liabilities of SEK 408 million and an equity/assets ratio of 47%.

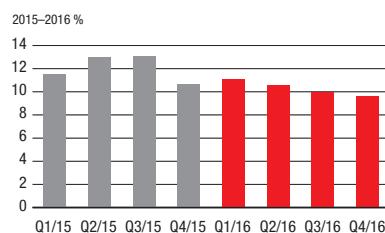


The acquisition of Switzerland-based Treff AG was consolidated from 3 October.

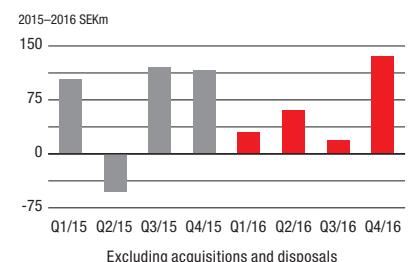
Sales per quarter



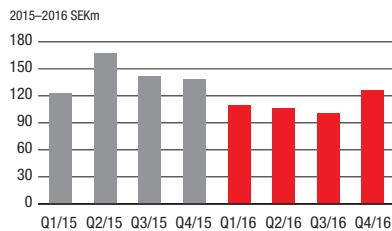
EBITA margin per quarter



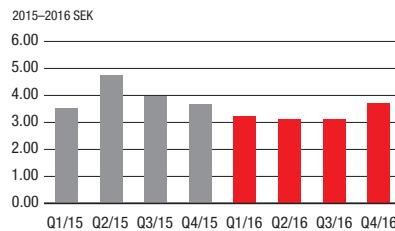
Cash flow after investments per quarter



Operating profit (EBITA) per quarter



Earnings per share per quarter



Financial highlights

SEKm (unless otherwise specified)

	2016	2015	2014	2013	2012
Net sales	4,447	4,726	4,234	4,522	3,874
Operating profit (EBITDA) ¹⁾	636	737	619	568	444
Operating profit (EBITA) ²⁾	457	570	470	427	303
EBITA margin, %	10.3	12.1	11.1	9.4	7.8
Profit after financial income and expense	438	555	462	403	272
Profit after tax	336	420	364	314	202
Earnings per share ³⁾ SEK	12.77	15.97	13.84	11.94	7.68
Adjusted earnings per share ³⁾⁴⁾ SEK	13.19	16.35	14.29	12.39	8.13
Cash flow after investments, excl. acquisitions and disposals	245	288	127	362	317
Return on capital employed, %	20.6	29.6	28.4	26.7	19.4
Return on shareholders' equity, %	19.0	25.3	25.0	24.9	17.7
Cash conversion, %	55	52	28	82	111
Equity/assets ratio, %	47	54	54	52	44
Net financial liabilities (-) / net financial assets (+)	-408	122	59	122	-113
Dividend per share (2016 proposal), SEK	10.50	10.00	8.50	8.00	6.00
Average number of employees	6,418	7,759	8,020	9,357	8,421

¹⁾ EBITDA – Earnings before interest, taxes, depreciation and amortisation.

²⁾ EBITA – Earnings before interest, taxes and amortisation of intangible assets arising from acquisitions.

³⁾ The Group has a share warrant programme (Series 1) that may result in the dilution of the number of shares.

⁴⁾ Adjusted earnings per share – Profit after tax, excluding amortisation of intangible assets arising from acquisitions, divided by the average number of shares.

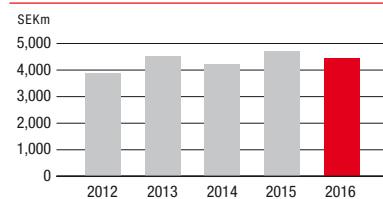
The Nolato Group in brief

● Development, production & sales
○ Sales & technology

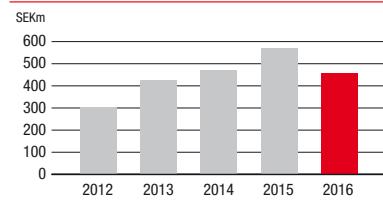
Sales by market



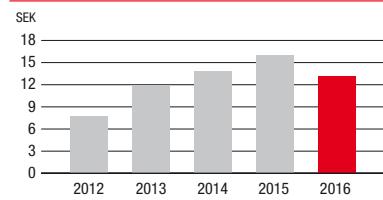
Sales



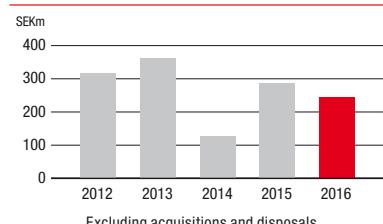
Operating profit (EBITA)



Earnings per share



Cash flow after investments



Our operations

Nolato is a Swedish publicly listed group with operations in Europe, Asia and North America. We develop and manufacture products in plastic, silicone and TPE for leading, often global, companies within three areas:

- Medical devices (such as autoinjectors, insulin pens and catheter balloons).
- Telecommunications components (such as subsystems for mobile phones, often with significant cosmetic content, methods and materials for shielding electronics, as well as fast-growth areas of technology, i.e. selected consumer electronics).
- Products for industrial companies (such as vehicle components, hygiene products and specialist packaging).

Our offering

Nolato's customer offering comprises most technologies in the field of polymers and covers the entire value chain from development to product delivery. The 'One Nolato' concept means we can offer customers a comprehensive offering of technologies and products from our three business areas. This includes both products that are unique to customers such as pharmaceutical injection systems, car components for specific models, standard products such as packaging for medical devices, and plugs and caps for industrial products.

We endeavour to develop close, long-term and constructive collaboration with customers and we are often chosen for the production of complex products with stringent technical demands.

Our wide-ranging capabilities support our customers' product development. Our involvement in customers' development work at an early stage allows us to optimise materials and product design to help achieve better and more cost-effective end products.

Our values

Nolato has a long tradition of responsible business practice, and one of our Basic Principles is that efficient business operations must be combined with ethics, responsibility and environment awareness. These areas are consequently natural and integral aspects of our business operations.

Our employees

The average number of employees in 2016 was 6,418 people. Of these, 87% were outside Sweden.

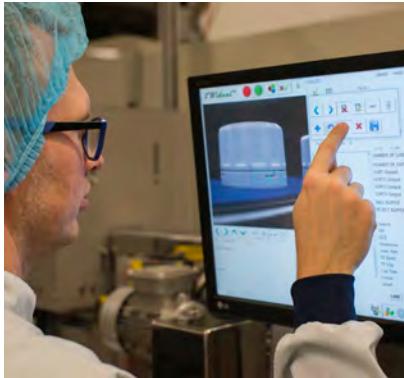
Our shares

Nolato was listed on the stock exchange in 1984, and its B shares are listed on Nasdaq Stockholm in the Mid Cap segment, where they are included in the Industrials sector.

Our history

Nolato was founded in 1938 as Nordiska Latexfabriken i Torekov AB, with the trademark Nolato, which has been the company name since 1982.

Today's global Group is the result of organic growth and acquisitions. The head office is still in Torekov, Sweden, but the majority of operations are now based abroad.



Nolato Medical

Financial highlights:	2016	2015
Sales, SEKm	1,645	1,464
Operating profit (EBITA), SEKm	216	191
EBITA margin, %	13.1	13.0
Average number of employees	1,157	1,053

Customer offering:

Development and manufacture of complex product systems and components within medical technology and advanced packaging solutions for pharmaceuticals and dietary supplements.

Geographic information:

Development, production and sales in Sweden, the UK, Hungary, Switzerland, Poland, the US and China. Sales offices in Denmark, Germany, France and the Czech Republic.

Success factors:

Medical understanding, broad technological offering, expertise in developing reliable product solutions, global production and robust quality.

Customers include:

Abbot, Becton Dickinson, Boston Scientific, Coloplast, Hamilton, Medtronic, Novo Nordisk, Pfizer, Roche, Sanofi, Takeda.

Volatility:

Low. Steady market growth. Long-term growth potential.

Product life cycle:

Long.



Share of the Group's net sales



Share of the Group's operating profit (EBITA)



Nolato Telecom

Financial highlights:	2016	2015
Sales, SEKm	1,402	2,017
Operating profit (EBITA), SEKm	131	272
EBITA margin, %	9.3	13.5
Average number of employees	4,480	6,002

Customer offering:

Development and manufacture of advanced components and subsystems for mobile phones, and products in fast-growth areas of consumer electronics technology. EMC (electromagnetic compatibility) products and systems for shielding of electronics.

Geographic information:

Development, production and sales in Sweden, China and Malaysia. Sales and technology offices in the US, India, Korea, Japan and Hungary.

Success factors:

Creative development work, cutting-edge technology, advanced project management, fast production start-ups and high productivity.

Customers include:

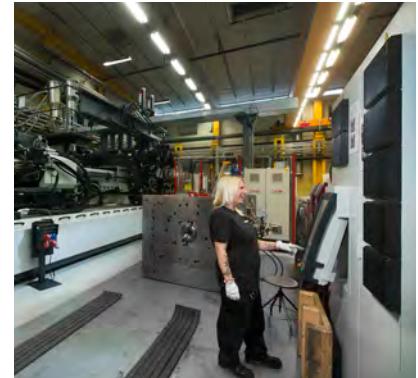
Ericsson, Fitbit, Huawei, Microsoft, Motorola Solutions, Nokia, Sonos, Sony Mobile, Xioami, ZTE.

Volatility:

High. Project-based operations.

Product life cycle:

Short.



Nolato Industrial

Financial highlights:	2016	2015
Sales, SEKm	1,409	1,251
Operating profit (EBITA), SEKm	134	132
EBITA margin, %	9.5	10.6
Average number of employees	775	698

Customer offering:

Development and manufacture of products and product systems for customers in the automotive industry, hygiene, packaging, gardening/forestry, furniture and other selected industrial segments.

Geographic information:

Development, production and sales in Sweden, Hungary, Romania, Switzerland and China.

Success factors:

Technology, project management and productivity.

Customers include:

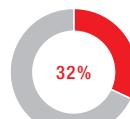
Atlas Copco, Brose, Geberit, Husqvarna, Jaguar/Land Rover, MCT Brattberg, Scania, SKF, Volvo and Volvo Cars.

Volatility:

Medium. Follows the Northern European industrial business cycle.

Product life cycle:

Medium/Long.



Share of the Group's net sales



Share of the Group's operating profit (EBITA)

'One Nolato' and being 'our customers' first choice of partner' are key to further growth and success

Christer Wahlquist took up the post as Nolato's new CEO on 5 February 2016. Here he reflects on developments over the past year and looks ahead to 2017.

► How would you sum up 2016?

The Nolato Group achieved good financial performance in 2016 despite not matching the record figures of 2015. Nolato Medical experienced strong growth and Nolato Industrial also continued growing. The decrease for Nolato Telecom is due to product changeovers at customers in the mobile phone sector. We also took market share in most market segments and gained new customers. We've worked hard in recent years to bring about the successful completion of acquisitions. So it was especially pleasing to announce two strategic acquisitions in the third quarter – Switzerland-based Treff and Poland-based Grizzly Medical. I'd also like to take the opportunity to extend my sincere thanks to our customers and partners for the constructive cooperation over the year, and to all our employees for their hard work in 2016.

► Are you pleased with the Group's financial performance?

You can never be entirely satisfied when sales and earnings are lower than the previous year. But there was a very clear reason for this: 2015 was an exceptional year for Nolato Telecom, with a number of important projects and customers experiencing great success with the sale of handsets. The mobile phone market is highly volatile and we're expanding our offering to related products beyond the mobile phone sector to even out the fluctuations in this business area. So overall 2016 was more of a normal year, but allowing us to continue growing over the coming years. In terms of earnings, we achieved our financial target of a profit margin of at least 10%. Cash flow and cash conversion were adversely affected by our relatively extensive investments, increased working capital requirements and the two acquisitions.

► What's your financial position like after the acquisitions?

It's still strong and we're well over our equity/assets ratio target of 35%. That allows us to make further acquisitions, and our banks have increased our credit facility agreements.

► How do you view the performance of Nolato Medical?

Medical performed well, with strong growth through orders from both existing and new customers. Project activity was good and Medical has a good project portfolio across a number of areas. We continued to expand in China with increased production, but we invested and grew in all countries. Medical's growth is very much a result of our methodical approach to working with customers. Our objective is to gain at least one new customer every 18 months, get to know the customer and its needs and develop long-term customer relationships. We're also looking at additional acquisitions – particularly in the North American market.

► How do you view the performance of Nolato Telecom?

Telecom's lower sales are mainly the result of volumes for the previous year being extremely strong due to good demand for customers' handsets. Despite being a volatile market, the mobile phone segment is important for us. But in order to find a better balance we've expanded our offering to related products, such as home electronics that often communicate with other electronic products. This strategy has been successful and we gained a number of new customers over the year. Our EMC business grew, both in shielding solutions and new products like TIM (thermal interface material), which is heat-dissipating material for electronic circuits. Our growth strategy is to use our

expertise in electronics for other market segments such as home electronics.

► How do you view the performance of Nolato Industrial?

Industrial's increased sales were mainly due to the positive development of volumes in automotive and hygiene. Industrial is good at taking market share and providing customers with added value. They develop cost-effective solutions and also incorporate multiple functions into customers' products. This business area experienced significant success particularly in automotive, with a number of development projects entering production. The growth strategy is partly based on the ability to grow together with customers into new geographic markets.

► What expectations do you have for the Treff and Grizzly Medical acquisitions?

Both are strategic acquisitions that are a really good fit for the Nolato Group, both in terms of geographic location and technologies. Treff uses high-temperature polymers to manufacture products with extreme tolerance requirements, and is strong in in-vitro diagnostics (IVD). I see opportunities for rolling this technology out to other units in the Group. Treff also offers us the opportunity to break into German-speaking markets in Europe. Grizzly Medical offers significant expertise in assembly, both manual and semi-automated, which suits low- and medium-volume products, as well as post-processing and quality assurance of medical device components and systems. So they complement our customer offering perfectly.

► What investments have you made over the year?

They've mainly been in production capacity, particularly in Sweden and Hungary, but also in markets like China, the UK and the US.





And we're continually investing in product development, which strengthens our role as a strategic development partner for our customers.

► **How do you view your corporate responsibility activities?**

For us they're a natural part of our day-to-day work, part of our corporate culture and how we view the world and people. They're key to reducing our environmental footprint and underlining the equal value of all people. That's why we continually work on issues including everything from our Code of Conduct and the introduction of whistleblower systems to energy efficiency and other measures to reduce our environmental impact. A typical example from 2016 related to the Grizzly Medical acquisition. They used coal-fired heating for their production facility, which we've quickly converted to a more environmentally sustainable alternative.

► **What's your take on the market in 2017?**

We're still experiencing a relatively strong industrial economy in lots of markets around the world. So we see continued opportunities to bolster our market positions by creating added value for our customers.

► **What's the significance of the 'One Nolato' concept?**

The 'One Nolato' concept is key for me. Our business areas have lots of unique features and we have an opportunity to develop closer customer relationships through Nolato's comprehensive offering. This involves both different technologies and products, such as connected medical devices. We have three

strong business areas and that will continue to be the case. But we want to encourage synergies on the customer side. This will be an issue of corporate culture and we're going to highlight good examples. It's ultimately about clear leadership at all levels of the Group.

► **What will you be focusing on over the next year?**

Other issues that are key for us are continued acquisitions, ideally in North America, as well as bolt-on technology acquisitions to allow us to expand our customer offering. For Nolato Telecom, we want to carry on extending our offering into related products with our integrated solutions. For Nolato Medical, we see opportunities for sustained growth by investing in new projects and customer relationships. And finally for Industrial, we can continue growing in new markets and through acquisitions.

► **How do you intend to achieve your vision for Nolato?**

We're working hard to ensure we are our customers' first choice of partner. To achieve that, we need to be responsive, flexible and work closely with our customers, as well as mobilise the resources required to make our customers successful.

Torekov, March 2017

Christer Wahlquist
President and CEO

"We've worked hard in recent years to bring about the successful completion of acquisitions. So it was especially pleasing to announce two strategic acquisitions in the third quarter – Switzerland-based Treff and Poland-based Grizzly Medical."

"In terms of earnings, we achieved our financial target of a profit margin of at least 10%."

"For Nolato Telecom, we want to carry on extending our offering into related products with our integrated solutions."

Nolato's strategic focus

Operating environment

Nolato's customers face four fundamental challenges.

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[Find out more on page](#)

Vision

Nolato aims to be the customer's first choice of partner.

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[Find out more on page](#)



Ethical & sustainable approach



Long-term customer relationships



Broad customer offering



Expertise



High productivity



Local yet global presence



Stable finances

Targets

Nolato aims to achieve growth that exceeds the level of growth within each market segment.

>10%

EBITA margin

>75%

Cash conversion

>35%

Equity/assets ratio

14

[Find out more on page](#)

Strategy

To achieve its growth targets, Nolato has developed a strategy in the areas of: repositioning, employees, customers, sustainable development and structural growth.

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[Find out more on page](#)

Values

Our values have evolved over a long period and describe what we stand for.

Our operating environment's requirements and Nolato's position as a high-tech partner

Operating environment

Nolato's customers face four fundamental challenges:

- Managing continued globalisation
- Meeting consumer demands for continual innovation
- Managing increased competition
- Meeting ever increasing corporate responsibility requirements

To address these challenges, customers are focusing on their core capabilities and outsourcing other parts of their business to subcontractors and partner companies.

The aim of such outsourcing is to increase the level of innovation, so companies can launch products faster, manufacture closer to end markets and reduce the cost of products.

Focus on being an advanced high-tech partner

This trend presents Nolato with significant opportunities. By becoming involved at an earlier stage in the customer's development process, working on design and proposing innovative solutions, improving productivity by focusing on lean manufacturing and increasing quality at all stages, Nolato is becoming a more advanced partner for its customers. This development is enabling Nolato to move up the value chain and strengthen its market position. This focus on becoming a partner for our customers is a key reason for the Group's increased profitability in recent years.

Overall, Nolato has progressed from being a component manufacturer on a local market, to today being a supplier and high-tech partner for subsystems and composite details on a regional and sometimes also a global market.

Previously, Nolato would receive technical drawings from customers in order to manu-

facture a plastic component, for example. Today, Nolato offers innovation and design, ultimately providing customers with more cost-effective products. Nolato simplifies and shortens customers' logistics chain by supplying integrated solutions either in the form of subsystems or finished products. This may involve the development and production of an insulin pen which the customer then fills with the relevant drug, or the supply of a complete inlet manifold for Volvo's new engine on which Nolato has already performed function tests. This trend is expected to continue into the future, with Nolato providing innovative design and integrated solutions for its customers on a global market, generating increased added value for Nolato.

Our operating environment – global trends benefitting Nolato

Macro	Our customers	Nolato
➤ Globalisation	➤ Focusing on core business: Outsourcing	➤ Early involvement/partnership
➤ Shorter product life cycle	➤ Time to market	➤ Multi-site offering
➤ More for less	➤ Differentiation	➤ Project management
➤ Corporate responsibility	➤ Competitiveness	➤ Pre-engineering/simulations
	➤ Sustainable development	➤ Shorter lead times
		➤ Innovation
		➤ Design
		➤ Productivity
		➤ Quality
		➤ Sustainable development

Nolato has repositioned itself from being a contract manufacturer to being an advanced high-tech partner for our customers.

Vision



Nolato aims to be the customer's first choice of partner.

Being the customer's first choice means customers thinking of Nolato first as the natural choice of partner and supplier. Being the customer's first choice means that customers value what we provide – quality in all aspects of our business. We deliver what we promise, products reach the market on time and customers can rely on us. We maintain a long-term approach and honest relationships with customers. We always go the extra mile and constantly ask ourselves how we can be even better.

The factors in achieving our vision

The key factors in achieving our vision are:



Ethical & sustainable approach

We have strong core values based on the view that efficient and profitable business operations must be ethical and sustainable. Issues relating to ethics, social responsibility, environmental matters, and health and safety are therefore natural and integral features of our business activities.



Long-term customer relationships

We endeavour to develop long-term and close relationships with our customers. The better we understand their processes and needs, the greater the value we can create for them.



Broad customer offering

The general trend is for customers to reduce their number of suppliers and prioritise those providers with the resources and capabilities to support them from concept

to delivery. We therefore have a broad customer offering within the development and production of polymer-based products. Our customer offering comprises everything from concept development, product design and process optimisation to high-volume production, post-processing, assembly and logistics.



Expertise

Our customers constantly challenge us with new requests and tougher requirements. We therefore enhance our offering by continually raising the skill levels of our employees and investing in cutting-edge technologies. We also work internally across our companies and business areas to create a broad customer offering.



High productivity

We concentrate on activities that create value for our customers and their long-term priorities. High productivity and a

continual focus on costs are consequently vital aspects of our day-to-day operations. Continual improvements and lean manufacturing lead to better business for both us and our customers through efficient processes, reduced scrap, shorter lead times and new solutions.



Local yet global presence

Proximity to our customers is always key, for both us and them. Not only in terms of logistics, but also to create efficient management lines and enable quick decisions.



Stable finances

A strong financial position provides us with a stable basis and means our customers can feel secure in their choice of Nolato as supplier, even in challenging economic conditions.

Targets

Growth targets

Nolato aims to achieve growth that exceeds the level of growth within each market segment.

+ 11%

► Nolato Medical's sales in 2016 were 11% higher than the previous year, adjusted for currency and acquisitions. The assessment is that long-term volume growth for Nolato Medical's market segments and applications is 4%–5%. Growth in this market is considered to have been lower in 2016.

– 30%

► Nolato Telecom's sales decreased by 30%, adjusted for currency, as a result of product changeovers by customers in the mobile phone segment. In 2016, the number of smartphones sold globally increased by 5% to 1.5 billion units, according to research firm Gartner.

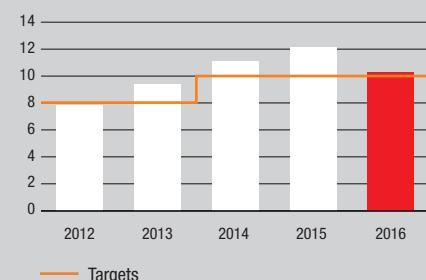
+ 6%

► Nolato Industrial's sales rose by 6% adjusted for currency and acquisitions, which is considerably better than the performance of overall Swedish industrial production, which fell by around 1% in 2016, according to Statistics Sweden.

Financial targets and outcomes

Nolato's financial targets ensure the Group is managed with the aim of achieving healthy earnings, generating adequate cash flow and maintaining a healthy level of financial risk. These financial targets reflect Nolato's strategic focus on a well-balanced Group structure with three business areas and advanced market positions, which provides financial flexibility to make new acquisitions and/or provide good potential dividends for shareholders.

EBITA margin

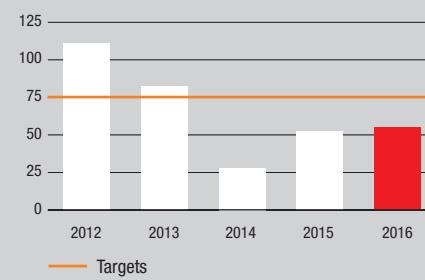


The target for the EBITA margin is for it to exceed 10% over a business cycle.

The outcome for 2016 was 10.3% (12.1). Last year the margin was strong due to very high volumes and a favourable product mix at Nolato Telecom. Nolato Medical's margin was roughly unchanged from a high level, while Nolato Industrial's fell slightly owing to temporarily higher costs at the start of new projects and the effect of the acquisition.

Over the last five years, the EBITA margin has averaged 10.2%.

Cash conversion

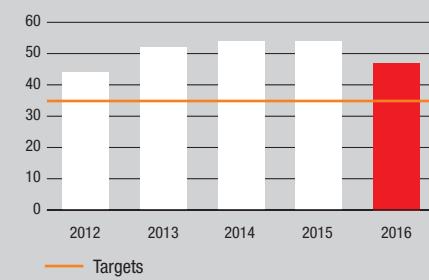


The target is to achieve cash conversion of more than 75% of EBIT over a business cycle, measured as the ratio of cash flow after investments and EBIT. Cash flow after investments is charged with financial expenses and tax as well as investments, but not with acquisitions or disposals. Cash conversion is a target that, among other things, indicates opportunities to provide own funding of acquisitions and/or dividends to shareholders with internally generated funds.

The outcome for 2016 was 55% (52). Cash conversion was adversely affected by investments exceeding depreciation and amortisation and working capital requirements, which were both affected by investments in growth.

Over the last five years, cash conversion has averaged 66%.

Equity/assets ratio



The target for the equity/assets ratio is for it to exceed 35% over a business cycle. The outcome at year-end 2016 was 47% (54). Nolato's financial position remains strong, although the equity/assets ratio has decreased mainly as a result of the acquisitions in the second half of the year.

Over the last five years, the equity/assets ratio has averaged 50%.

Strategy

Overall strategy

Nolato has developed the following overall strategy for achieving its growth targets:

► Positioning

The Nolato Group aims to have long-term growth and generate a stable return for shareholders. We aim to be an advanced high-tech partner for our customers, on a regional/global market.

► Employees

We aim to achieve this by ensuring our employees are highly capable, by investing in advanced development technology and by offering global and competitive lean manufacturing. With a few exceptions (such as EMC), we operate based on a customer-oriented strategy instead of a segment-oriented strategy.

► Customers

Focus on large customers in segments with organic growth.

► Sustainable development

We operate our business in a decentralised way in accordance with Nolato's Code of Conduct, which is specified by means of Group-wide targets on the environment, social responsibility and business ethics. Nolato aims to be at the forefront of sustainable development measures.

► Structural growth

We aim to continue looking for acquisitions, primarily within polymer products and systems relating to the Medical and Industrial business areas, and we aim to position our business to benefit from outsourcing

opportunities. Those companies that we may be interested in should essentially have the same corporate culture and approach as Nolato and provide relevant customers and an opportunity to expand either geographically or in terms of capabilities. It is important that acquired companies are not turnaround businesses, but operationally and financially stable companies. We will also consider selective acquisitions in the EMC area. In 2016, Nolato acquired Poland-based Grizzly Medical and Switzerland-based Treff AG. The latter has operations in both Medical and Industrial's areas.

Business areas' focus for growth

Nolato Medical has a global growth strategy, with the aim of growing in America, Europe and Asia. This business area sees growth opportunities on a market with increased healthcare needs, with customers increasingly outsourcing production to skilled suppliers.

Nolato Telecom is increasingly focusing on customers in Europe and the US, although Asia remains an important market. In Mobile Phones, the company mainly sees growth opportunities within existing production capacity, which reduces financial risk. In EMC – electromagnetic compatibility – Nolato Telecom sees opportunities for continued growth in the telecom segment through new applications for the 'internet of things', as well as in other segments such as automotive and medical technology.

Acquisitions may also be a possibility.

Nolato Industrial is mainly a Nordic business but it also has operations in selected markets in Central Europe. The objective is for growth to mainly take place on existing markets with the possibility of bolt-on acquisitions.

Strategy and future focus

Yesterday	Today	Tomorrow
► Contract manufacturer	► Supplier/partner	► Partner
► Build to print (B-to-P)	► B-to-P/design/innovate	► Design/innovative
► Components	► Subsystems	► Integrated solutions
► Local	► Regional/global	► Global
Lower added value	→	
	Higher added value	

Values



Nolato's basic principles constitute the company's shared values. They have evolved over a long period and describe what we stand for. They are an important guide for our employees in their day-to-day work.

Professional

- We are professional and endeavour to achieve long-term profitability
- We focus on the needs and wishes of our customers
- We combine expertise and experience with innovative approaches

Well organised

- We ensure our operations are well organised
- Our operations are based on a shared foundation
- We grasp opportunities and solve problems when they arise

Responsible

- We take responsibility for all aspects of our business
- We work actively towards sustainable development
- We operate with integrity and openness

Nolato's business

Our business mission

Our business mission is the basis for our operations and describes how we can meet our customers' needs.

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[Find out more on page](#)

Our business model

Is based on achieving our customers' requirements, our vision and financial targets in order to create job security for our employees and lasting value for our owners.

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[Find out more on page](#)



Concept development



Customer-oriented solutions



Design



Prototypes (3D)



Production tools



Quality control

Our production technologies

Nolato uses most manufacturing technologies, principally in the area of polymers, to develop products for the medical technology, telecom and industrial sectors.

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[Find out more on page](#)

Injection moulding

Injection blow moulding

Dip moulding

Extrusion

Die-cutting

Shielding

Post-processing

Assembly

Our value creation – corporate responsibility

Nolato interacts with a number of stakeholder groups, which have a range of requirements and expectations in relation to issues such as sustainable development.

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[Find out more on page](#)

STAKEHOLDERS



Customers



Employees



Suppliers



Shareholders



Society



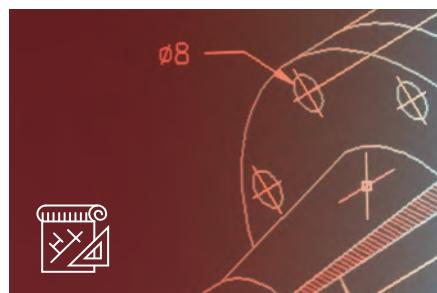
Nolato's business

Nolato develops and manufactures products in polymer materials such as plastic, silicone and TPE for customers within medical technology, pharmaceuticals, telecom, automotive and other selected industrial sectors.

We manufacture everything from individual components, which the customer assembles in its own product, to complete products that are ready for delivery to a customer's client.

We also develop and manufacture our own products, such as pharmaceutical packaging.

From concept to fully developed product



Concept development

We support customers from the concept stage and are involved in discussions about production possibilities.

Customer-oriented solutions

We create technical solutions that give products unique haptic and cosmetic features, make them water-resistant, reduce the weight of products and/or minimise their environmental impact.

Design

We optimise design in order to create the most efficient and effective production solutions in terms of function, quality and price.

Our mission

Our mission is the basis for our operations and describes how we can meet our customers' needs:

"Nolato is a high-tech developer and manufacturer of polymer products and systems for leading customers in specific market areas.

With its many years of experience, in-depth expertise in materials and processes, early involvement in customer projects, advanced project management and detailed knowledge of each customer's specific requirements, Nolato is an effective and innovative partner."

- Being a *high-tech developer* is key for Nolato. Customers approach us with a concept and possibly an initial drawing. It often involves advanced products that the customer plans to launch on its markets. We are involved at this early development stage and help develop a functional and cost-effective product that is ready to manufacture.
- *Polymer products and systems* are the basis of our business. Our company has had in-depth expertise in materials such as plastics, silicone and TPE since it was founded in 1938. This advanced knowledge of materials and processes makes us a unique player in the market.

► *Experience, expertise, early involvement in customer projects, advanced project management and good knowledge of customers and their markets* – these factors bring together Nolato's three business areas and provide customers with reassurance of delivery security. Our success is based on close and long-term customer relationships. We support customers and constantly endeavour to find improvements. Furthermore, Nolato adopts responsible business practices, which we consider self-evident in a world facing environmental problems and dwindling resources.

Our business model

Our business model is based on achieving our vision and financial targets in order to create job security for our employees and lasting value for our owners.

Based on our extensive experience and wide-ranging capabilities, we have close, long-term and innovative relationships with our customers. We create added value for our customers and our owners through progressive, leading technology, extensive expertise in development and design, advanced project management and highly efficient production.

Our operations are based on our three Basic Principles of being professional, well organised and responsible.

Our revenue model

One aspect of Nolato's business is its development work in collaboration with customers. This calls upon our expertise to help our customers achieve as competitive a product as possible. Revenue from the development phase comes from both the time our engineers spend working on development and from the creation, for example, of moulds for future production. A development assignment does not necessarily mean Nolato will be awarded the contract to manufacture the product at the next stage, but it puts us in a good position to win the production contract and carry it out well. This combination of advanced development work and highly efficient production is an important element of the value with which we provide customers.

Alongside development assignments, most of our business consists of the actual manufacture of products to order for customers. We supply products according to customers' specifications and requirements. Nolato invoices customers following delivery. We do not build up inventory. Instead, our operations are based on short production times and turnaround times. This enables Nolato to avoid any significant risks for warehousing and obsolescence.



Prototypes (3D)

We visualise the future product by producing prototypes and materials samples.

Production tools

We specify and manufacture, or buy in, moulds and related production equipment.

Quality assurance

We constantly ensure the correct quality through automated vision systems, professional operators and effective systems for continuous improvements.

Our production technologies

Injection moulding

Technology for manufacturing components from plastic, silicone, TPE and ceramics to highly precise dimensions and stringent quality requirements.

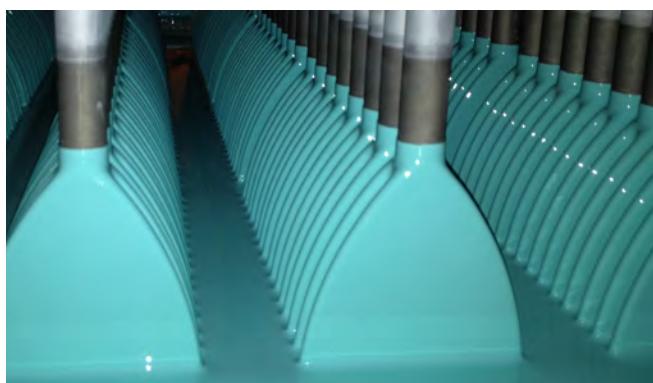
Our most common production technology.



Dip moulding

Technology for the production of flexible, airtight latex rubber products.

This is used to manufacture items such as catheter balloons and breathing bags.



Injection blow moulding

Technology for manufacturing plastic containers and bottles.

We use this method for the manufacture of pharmaceutical packaging.



Extrusion

Technology for the production of tubing and other tubular products.

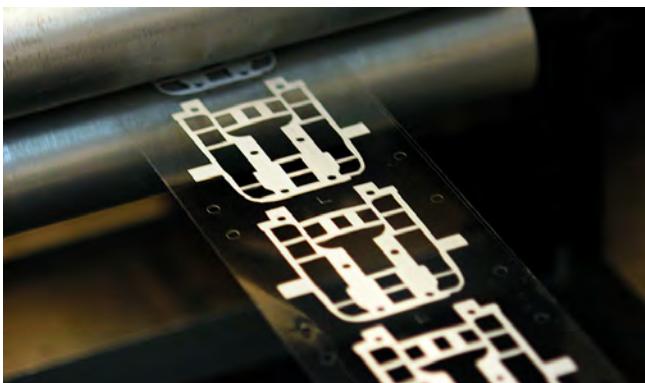
This technique is used to manufacture surgical instruments and urine catheters, as well as EMC shielding gaskets etc.



Die-cutting

Technology for producing flat products from one or more materials and for providing effective joining of components and electronics.

We use die-cutting for manufacturing adhesive, gaskets, seals and cosmetic details for customers in the telecom, automotive, medical technology and electronics industries.



Post-processing

We provide components with the desired finish through painting, decoration and metallisation of components for products like mobile phones and medical devices etc.



Shielding

Techniques and materials developed to achieve electromagnetic compatibility, i.e. to prevent disruption from electromagnetic radiation between electronic components. Radio base stations are an example of a customer product that use shielding.



Assembly

Assembly of components to create a complete product or subsystem. This may take place on a fully automated, semi-automated or fully manual basis. Automated assembly is mainly carried out for medical devices such as autoinjectors, for which assembly is performed on a fully automated basis at high volumes.



Value for stakeholders

Nolato interacts with a number of stakeholder groups, which have a range of requirements and expectations in relation to sustainable development. Our understanding of which stakeholders are significant – and what they consider to be important – is based on experience and long-standing commercial relationships, as well as events over the past financial year.

Stakeholder engagement is carried out in various ways and includes performance reviews with employees, customer satisfaction surveys, analyst meetings and cooperation with suppliers and contractors.

STAKEHOLDER	KEY ISSUES, REQUIREMENTS AND EXPECTATIONS	VALUE CREATED
 Customers	All Nolato's companies are affected by customer requirements regarding sustainable development. These requirements include matters such as environmental management systems, prohibited chemical substances, environmental declarations, product labelling, Code of Conduct, and the fulfilment of specific legislation.	In 2016, customers carried out monitoring at many of the Group's companies. The outcome was positive and the results were used to enhance the Group's sustainability work and strengthen customer relationships. The operations in China and Malaysia are certified as Sony Green Partners.
 Employees	Health, safety, pay, benefits, social conditions, well-being, development opportunities.	We carried out performance reviews and provided training, professional development and health care. Preventive health and safety measures were a high priority and the frequency of accidents remained low. The Employee Care Programme was further developed in China. During the year, Nolato paid SEK 1,283 million in wages to employees.
 Suppliers	Nolato endeavours to have long-term and transparent relationships with suppliers. The aim is to ensure the right quality, financial stability and sustainable development for both parties. Suppliers expect consistent and clear requirements.	Suppliers have been informed of Nolato's Code of Conduct and we expect them to share the Group's values. We assessed suppliers' sustainability work and conducted around 175 surveys and audits. Suppliers met the Group's requirements to a satisfactory degree. In 2016, Nolato paid its suppliers a total of SEK 2,767 million.
 Shareholders	Reduce risks, create business opportunities and demonstrate credible and forward-looking sustainability work.	Integration of sustainable development in strategies and day-to-day work created value for shareholders. Use of the sustainability report allowed shareholders and potential investors to evaluate the Group's sustainability work. Nolato's share price rose by 2% in 2016.
 Society	Social engagement is an important aspect of The Nolato Spirit and something that is expected by local communities where the Group operates. As a global company, the Group is expected to undertake measures that contribute to national and global sustainable development goals.	Social engagement created trust and interest in Nolato. Contact with schools and universities contributed to attracting future employees. The Building Hope Together school project in China was further developed. By signing up to the UN Global Compact, Nolato contributed to the UN Sustainable Development Goals. In 2016, Nolato paid SEK 119 million in tax.

Potential risks in the organisation

An important aspect of Nolato's strategic planning is identifying potential risks in the organisation, assessing their likelihood and any consequences and minimising the negative impact that such risks could have on the Group. Financial risks are managed in accordance with a financial policy established annually by the Board of Directors.

The chart below shows our assessment of the probability of a risk occurring and – if it did – the anticipated impact on Nolato's operations and earnings.

The letters marked on the chart refer to the review of risks, risk exposure and risk management set out in the directors' report on pages 56–57.

The aim of Nolato's risk management

- To manage the risks in the Group's operations while enabling good business opportunities to be strengthened.
- To create a high level of risk awareness throughout the entire organisation, from operational functions at company level to Group management and the Board.
- To support Nolato's Board and Group management in risk assessments.
- To create, by means of an open and reliable information flow, a basis for the constant evaluation of risks and opportunities.
- To contribute to constant improvements at all levels through continual evaluation and monitoring of risks.



Acquisition of Switzerland-based Treff contributes strong customer base and geographic expansion

In October 2016, Nolato acquired the Swiss company Treff AG. Treff is focused on high-tech development and production of plastic products for medical technology and industrial customers. The company has annual sales of just over SEK 450 million. Treff will contribute healthy profitability, a strengthened customer base and geographical expansion of both Nolato Medical and Nolato Industrial.

“The acquisition is an important part of our growth strategy, and we are continually working to boost shareholder value by identifying companies that complement our offering, hold solid market positions and have a high level of technical expertise,” says Christer Wahlquist, President of Nolato.

Treff is based in Degersheim, St Gallen, in north-eastern Switzerland and has around 190 employees. The company manufactures consumables for medical and self-care diagnostics (in-vitro diagnostics, IVD), as well as technically advanced precision components for various industrial segments.

“It’s a great company with good management and a good organisational structure. It’s also well invested, with a high level of technology and strong skills in high-volume production, assembly and advanced automation,” says Johan Arvidsson, President of the Nolato Industrial business area.

Treff was founded in 1946 and was family-owned. It’s a good fit with Nolato’s corporate culture and the management will remain at the company.

“The acquisition gives us a presence in the German-speaking part of Europe. It opens doors to a large group of new and internationally leading customers, particularly within medical technology, several of which are existing customers of Treff,” says Christer Wahlquist.

The acquisition was consolidated within the Nolato Group from October 2016. Around two-thirds of Treff’s operations will be reported within Nolato Industrial, and one-third within Nolato Medical. Treff will operate under the name Nolato Treff within the Nolato Group.

The acquisition was financed using existing credit agreements.

“The acquisition gives us a presence in the German-speaking part of Europe. It opens doors to a large group of new and internationally leading customers, particularly within medical technology.”



Strategically important acquisition in Poland



In addition to the acquisition of Switzerland-based Treff AG, Nolato also acquired a smaller Polish company in 2016 – Grizzly Medical with annual sales of approximately SEK 25 million. Grizzly Medical is involved in the assembly, post-processing and quality assurance of medical device components. The company has long been a subcontractor to Nolato Medical and is a strategically important acquisition for Nolato.

This Polish business is based in Stargard in north-west Poland, around 2 hours' drive from Berlin.

The company, which was founded in 1996, employs around 90 people and has performed manual and semi-manual processing for Nolato Medical for almost 20 years.

“This is a relatively small but strategically important acquisition that boosts our capacity in the low-volume, clean room-based production segment, including assembly and post-processing,” says Johan Iveyberg, President of Nolato Medical.

“We are seeing growing demand for complex products and systems that require manual or semi-automated processing.”

Stargard is logically a good location for Nolato’s Swedish operations as it’s only around 100 kilometres from the ferries between Ystad and Poland. The acquisition gives Nolato the opportunity to be more competitive on short production runs with high value added. Grizzly Medical will operate under the name Nolato Stargard within the Nolato Group.

“We are seeing growing demand for complex products and systems that require manual or semi-automated processing.”

Three business areas in balance



Nolato Medical



Nolato Telecom



Nolato Industrial

Nolato's three business areas are based on shared values and similar technologies, while each having their own specific circumstances and characteristics.

Nolato's operations comprise three customer-focused business areas: Nolato Medical, Nolato Telecom and Nolato Industrial. While all three business areas are based on common values and technologies, they each create their own optimal conditions to succeed in their respective market.

The division of operations into business areas also allows for far-reaching decentralisation of our operations. This provides a sound basis for committed and motivated employees, while enabling us to make operational decisions in close contact with our customers.

Our three business areas often collaborate with each other to create additional customer value. This allows both Nolato Medical and Nolato Industrial to offer their customers

integration of electronics and advanced decoration solutions, based on the capabilities of Nolato Telecom, through its long-standing work with mobile phone producers.

When Nolato Industrial identifies a need among its customers for production in China, this is achieved at low risk by establishing operations as part of our existing activities in Beijing. This was how Nolato Medical started its production in China a few years ago without requiring major investments.

We place a strong emphasis on those factors that bind the Group together, resulting in an organisation that is greater than the sum of its parts: corporate responsibility, wide-ranging technical capabilities, materials know-how and similar production technology.

Balance through differences

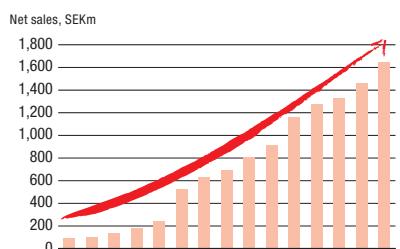
The fact that all three business areas are affected differently by business cycle fluctuations, events and market patterns means the Group benefits from a healthy balance and stability in its operations.

Nolato Medical operates on a market with long product life cycles and low business cycle dependency, while Nolato Telecom is the opposite, with short product life spans and high project volatility. And between these two extremes is Nolato Industrial.

The charts below clearly show the different fundamentals in the form of sales trends for each business area.

Nolato Medical 2002–2016

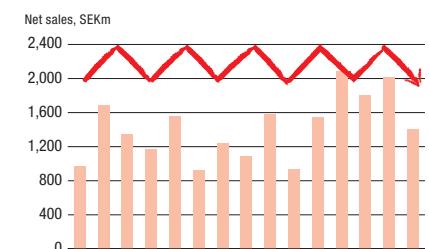
From local to global



Growth-related

Nolato Telecom 2002–2016

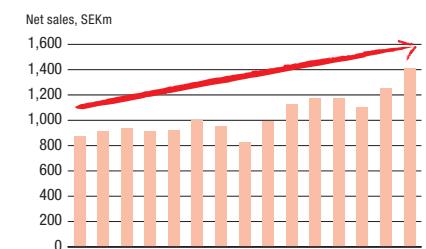
Adaptation and flexibility



Project-related

Nolato Industrial 2002–2016

Innovative technology and productivity



Business cycle-related

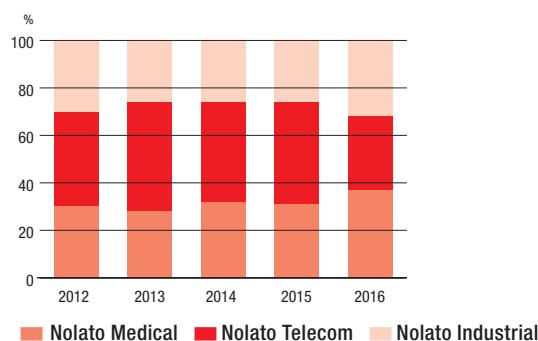
Similar yet different

	Nolato Medical	Nolato Telecom	Nolato Industrial
Product	Components Systems Consumables	Components Systems Technical solutions Niche technologies	Components Systems Standard products
Product life cycle	Long	Short/project-related	Medium/long
Number of customers	Medium	Few	Many
Success factors	Medical understanding Robust quality Broad technology offering Global production Development expertise	Creative development Cutting-edge technologies Advanced project management Fast production start-ups High productivity	Technology Project management Productivity
Market	Continental/global	Global	National/continental
Market growth	↗	↗	→
Driving forces	Quality of life Lifestyle diseases Increased self-care	Technology development Increased communication Projects	Industrial production Cost-effectiveness Innovation

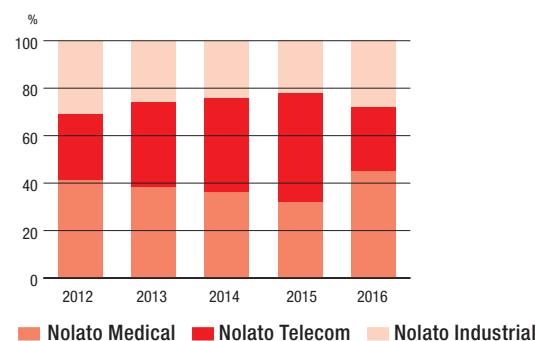
Strategic focus of the business areas

Nolato Medical	<ul style="list-style-type: none"> – Growth market – Structural changes – Further internationalisation 	<ul style="list-style-type: none"> → Organic growth → Partnerships – Increased proportion of system projects → Global expansion and acquisitions
Nolato Telecom	<ul style="list-style-type: none"> – Rapidly changing growth market – Project-related/volatile – Strong price pressure 	<ul style="list-style-type: none"> → Organic growth → Expanded customer offering → Technology and project management → Focus on EMC
Nolato Industrial	<ul style="list-style-type: none"> – Tracks the industrial business cycle – Fragmented market – Polymer materials gaining ground 	<ul style="list-style-type: none"> → Market share → Productivity → Cash flow → Selective geographic expansion

The business areas' share of net sales



The business areas' share of operating profit (EBITA)



Nolato Medical

Continued growth and strengthened market positions



Business Area President:
Johan Iverberg
Employed since 2010
President since 2016

Financial highlights:	2016	2015
Sales, SEKm	1,645	1,464
Operating profit (EBITA), SEKm	216	191
EBITA margin, %	13.1	13.0
Average number of employees	1,157	1,053

Market characteristics:

Large, global medical technology and pharmaceutical companies. Long-term development work, strict regulatory requirements, stringent requirements on quality, safety and traceability.

Market trends:

Decreased lead times and increased outsourcing of development and production. Reduction in the number of suppliers. Increased globalisation of projects.

Customer offering:

Development and manufacture of complex product systems and components within medical technology and advanced packaging solutions for pharmaceuticals and dietary supplements.

Geographic information:

Development, production and sales in Sweden, the UK, Hungary, Switzerland, Poland, the US and China. Sales offices in Denmark, Germany, France and the Czech Republic.



Success factors:

Medical understanding, broad technological offering, expertise in developing reliable product solutions, global production and robust quality.

Customers include:

Abbott, Becton Dickinson, Boston Scientific, Coloplast, Hamilton, Medtronic, Novo Nordisk, Pfizer, Roche, Sanofi and Takeda.

Competitors include:

Bespak/Consort, Carclo, Gerresheimer, Nemera, Phillips-Medisize, West Pharmaceuticals.

Volatility:

Low. Steady market growth.
Long-term growth potential.

Product life cycle:

Long.

Performance in 2016

- Sales rose by 12% to SEK 1,645 million (1,464). Adjusted for currency and acquisitions, the increase was 11%.
- Operating profit (EBITA) rose to SEK 216 million (191) and the EBITA margin was 13.1% (13.0).
- The acquisition of Switzerland-based Treff AG was consolidated from 3 October.

Nolato Medical is a fast-growing business area that develops and manufactures medical device products for customers in the medical technology and pharmaceuticals sectors. The market in 2016 was marked by high activity and Nolato had healthy capacity utilisation. The business area strengthened its market positions as a result of numerous new orders. Volumes increased in both the Medical Devices and Pharma Packaging sectors and most customer segments experienced positive growth.

Operational focus

Nolato Medical's operations are divided into two business sectors:

- **Medical Devices:** Develops and manufactures complex product systems and components based on advanced polymer technology and automation.
- **Pharma Packaging:** Develops and manufactures advanced packaging solutions for pharmaceuticals and dietary supplements.

Events during the year

- The business area experienced strong growth in both sectors and most customer segments as a result of healthy volume growth and the ramp-up of new products. The business area won several new contracts which will enter production over the next few years. Nolato Medical strengthened its market positions and noted a marked increase in the number of enquiries from customers.

- Nolato entered into an agreement to acquire Poland-based Grizzly Medical, which is involved in the assembly, post-

processing and quality assurance of medical device components and systems. The company, which has annual sales of around SEK 25 million, has been a supplier to and partner of Nolato Medical since the 1990s. This acquisition is a strategically important acquisition as it boosts Nolato's capacity in the low-volume, clean room-based production segment, including assembly and post-processing, giving Nolato Medical an even more comprehensive customer offering.

- Nolato signed an agreement to acquire the Swiss company Treff AG. The company, which has sales of just over SEK 450 million with healthy profitability, will strengthen the customer base and geographical expansion of both Nolato Medical and Nolato Industrial. The acquisition gives Nolato a presence in the German-speaking part of Europe. It will open doors to a large group of new and internationally leading customers, particularly within medical technology.

Nolato Medical's market

The medical devices market is estimated to have long-term global volume growth of around 4%–5%. There are a number of drivers behind developments in the medical devices market. Global population growth and rising average age is leading to a greater need for health care. There is also a trend of increasing self-care at home to reduce overall healthcare costs for society. Hospitals are therefore increasingly taking on the role of diagnostic centres, while self-care is generating a greater need for medical technology equipment. For Nolato Medical this presents an opportunity to supply

products both for diagnostics at hospitals and for home care. In the latter case, the trend is being driven by medical devices being made more user-friendly for patients. The development of new pharmaceuticals, such as high-viscosity medicines that require other types of medical devices, is also positive for Nolato's development.

Nolato Medical's market is characterised by three key changes in trend:

- Pharmaceutical and medical technology companies are focusing more on their core capabilities, which is leading to increased outsourcing of both development and manufacturing.
- A focus on a smaller number of suppliers that can offer end-to-end service from product development to global supply.
- Shorter lead times in the development phase, which are necessary to cope with the transition to new, cost-effective products.

These changes are leading to smaller suppliers with a limited offering and a narrow geographic presence being forced out of the market or bought up. Meanwhile, larger companies with a more global focus, like Nolato, have the opportunity to advance their positions. In 2016 the sector continued to consolidate, with Phillips-Medisize being purchased by Molex LCC and, on the customer side, Abbott Laboratories acquiring St. Jude Medical.

Nolato Medical's market position

Over the past 10 years the Medical Devices business sector has adopted a strategy of moving from being a local manufacturer of components to being an end-to-end supplier with global resources to support customers from concept development to supply of the final product. Nolato Medical offers customers a broad technological base, advanced support in the development process and 12 production units in Europe, Asia and North America.

Medical Devices is working on the Better Together concept, which involves taking overall responsibility for development projects. It involves a three-party relationship with

the customer, the design company and Nolato in close cooperation. Important aspects of this development work are Design for Manufacturing and Design for Assembly (DFM and DFA), whereby Nolato helps customers ensure their products can be manufactured to the highest quality and at the right cost. This concept is proving successful and contributed to Nolato gaining a number of new customers in 2016, including both medical technology and pharmaceutical companies.

Nolato has a leading position in Pharma Packaging on the Scandinavian and UK markets and also has significant exports outside these regions. Nolato Medical is one of only a few suppliers focusing on packaging systems solely for the pharmaceutical and dietary supplements market. This focus provides a stronger customer offering as a result of a deeper understanding of regulation and quality requirements that apply in these markets, not only for individual components but also for packaging in general. In 2016, this business sector demonstrated good growth, particularly as a result of previous development projects entering production.

In recent years, Nolato Medical has taken market share both in customer-specific solutions and platform solutions (standard solutions). For customer-specific solutions, Nolato Medical develops a specific new product that is tailored to a customer's needs. Nolato Medical supports customers through the entire process, from idea, concept and design to validation, quality control and full-scale production. Within platform solutions, Nolato Medical has in-house product development, design and development of production moulds. Products include pharmaceutical packaging, catheter balloons, breathing bags, laboratory products and hazardous waste containers from which customers choose based on Nolato's existing range.

Nolato Medical's strategic focus

Nolato Medical's vision is to be the acknowledged best polymer materials development and production partner for medical technology and pharmaceutical companies.

Nolato Medical aims to be particularly strong in product development and production on a global basis. This means being

Examples of products



Medical Devices

Examples of therapy areas and products: Asthma (inhalers, check valves), diabetes (insulin pens, infusion sets), hearing aids (seals, earpieces), heart rhythm treatment (seals for pacemakers, cardiac anchors), dialysis (seals, connectors), urology (catheter balloons, uridomes), surgery (catheter balloons, complete blood purification equipment), diagnostics (allergy tests, pregnancy tests).



Pharma Packaging

Standard or customer-specific primary plastic packaging that meets pharmaceutical and dietary supplement industry requirements.

able to grow with customers and offer production on the major international markets in Europe, America and Asia. Nolato Medical operates both using in-house sales and distributors to bolster its market position.

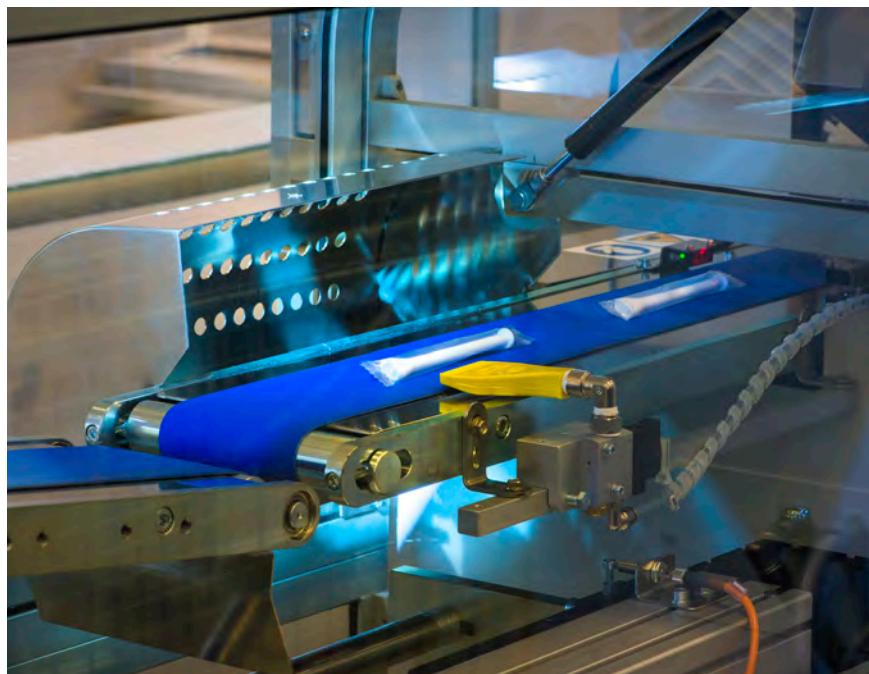
Nolato Medical key features

Like the rest of the Group, Nolato Medical's operations are based on: Corporate responsibility, high quality management and technical expertise, advanced production methods and an extensive customer network. What distinguishes Nolato Medical is its in-depth knowledge of the specific conditions governing customer needs in the medical technology sector. A good understanding of complex medical technology applications, extensive quality and documentation requirements and risk analysis are key factors for succeeding in this market. Production is principally carried out in clean rooms, with extremely strict requirements in terms of quality, safety and traceability.

Nolato Medical's continued development

Nolato Medical expects sustained high activity in the market in 2017. This business area aims to continue taking market share in both Medical Devices and Pharma Packaging. Nolato Medical will be focusing on boosting capacity at a number of its production facilities in order to meet customer demand. This includes the factory in Hörby, Sweden, which will be expanded and additional employees will also be hired in the longer term. Investments will also be made in the facility in China, which will be expanded, along with capacity investments in production equipment in most other units.

Case study



Overall approach for improved design and production of vaginal applicator

In 2016, Nolato Medical in Hörby, Sweden, was contracted by a large international pharmaceutical company to take over production of an applicator for self-administration of vaginal medication. Nolato Medical adopted an overall approach and redesigned the product and developed an optimised production solution to produce a complete packaged product. The customer did not require exclusive rights to the product and Nolato Medical now also offers the updated applicator to other pharmaceutical companies.

When Nolato Medical was awarded the contract, it was logically optimal for the customer to have production in the US. There was also scope for developing the design in order to simplify production and ensure quality.

Nolato Medical redesigned the product and improved the production solution. The vaginal applicator is now being manufactured using a fully automated, continual process comprising two-component mould injection, application of decor and assembly of components. The process also includes individual and batch packaging.

The customer gained some advantage from the enhanced applicator, but Nolato Medical is also offering the product to other pharmaceutical companies, and the applicator can be provided with individual markings, branding and decor.

Strategic focus

- Organic growth
- Partnerships
 - Increased proportion of system projects
- Global expansion and acquisitions

The business area's units

Medical Devices:

Nolato Beijing Medical

Beijing, China.

MD Jörgen Karlsson

Nolato Contour

Baldwin, Wisconsin, US

MD Russell Steele

Nolato Hungary

Mosonmagyaróvár, Hungary

MD Johan Arvidsson

Nolato MediTech

Hörby and Lomma, Sweden

MD Johan Iweberg

Nolato MediTor

Torekov, Sweden

MD Michael Holmström

Nolato Stargard

Stargard, Poland

MD Wojciech Orlowski

Nolato Treff

Degersheim, Switzerland

MD Guido Vollrath

Pharma Packaging:

Nolato Cerbo

Trollhättan, Sweden

MD Glenn Svedberg

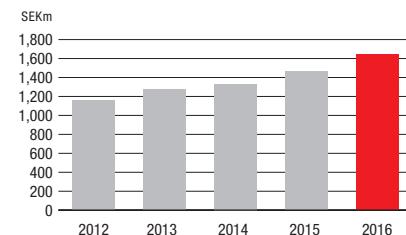
Nolato Jaycare

Portsmouth & Newcastle, UK

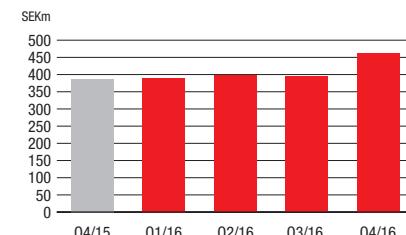
MD Joe Barry

Nolato Medical: five-year review

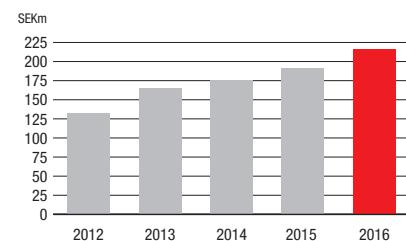
Net sales, full year



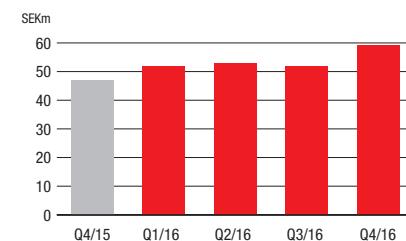
Net sales, quarter



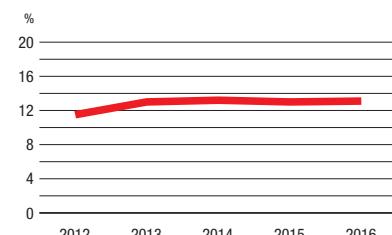
Operating profit (EBITA), full year



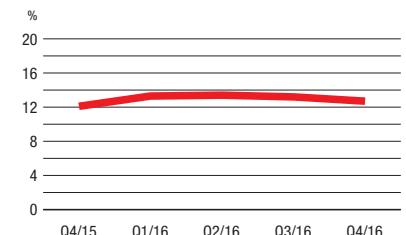
Operating profit (EBITA), quarter



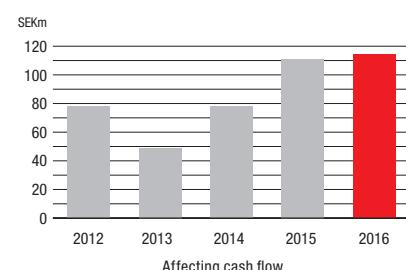
EBITA margin, full year



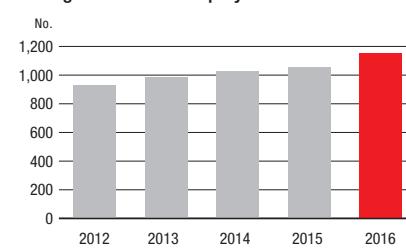
EBITA margin, quarter



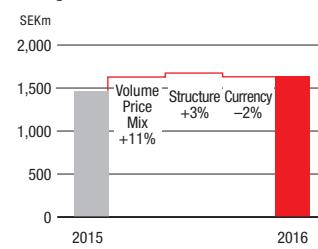
Investments



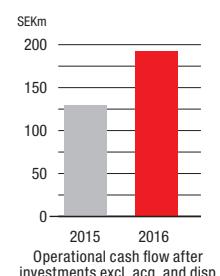
Average number of employees



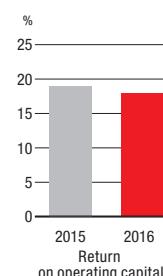
Change in sales



Cash flow



Return



Reduced sales but positive development



Business Area President:
Jörgen Karlsson
Employed since 1995
President since 2009

Financial highlights:	2016	2015
Sales, SEKm	1,402	2,017
Operating profit (EBITA), SEKm	131	272
EBITA margin, %	9.3	13.5
Average number of employees	4,480	6,002

Market characteristics:

A few large, global companies. These customers have high technological demands, extremely short development times and quick production start-ups.

Market trends:

Constant new demands for cost-effective solutions. Continued high importance of cosmetic effects and unique design solutions, as well as speciality functions such as water resistance. Greater need for shielding of electronics (EMC).

Customer offering:

Development and manufacture of advanced components and subsystems for mobile phones, and products in fast-growth areas of technology within consumer electronics. EMC (electromagnetic compatibility) products and systems for shielding of electronics.

Geographic information:

Development, production and sales in Sweden, China and Malaysia. Sales and technology offices in the US, India, Korea, Japan and Hungary.



Success factors:

Creative development work, cutting-edge technology, advanced project management, fast production start-ups and high productivity.

Customers include:

Ericsson, Fitbit, Huawei, Microsoft, Motorola Solutions, Nokia, Sonos, Sony Mobile, Xiaoami, ZTE.

Competitors include:

Chiyoda, Chomerics, Jabil Green Point, Laird and Worldmark.

Volatility:

High. Project-based operations.

Product life cycle:

Short.

Performance in 2016

- Sales decreased by 30% to SEK 1,402 million (2,017). Adjusted for currency, the decrease was 30%.
- Operating profit (EBITA) was SEK 131 million (272), with an EBITA margin of 9.3% (13.5). In 2015, the margin was exceptionally strong due to high volumes and a favourable product mix.

Nolato Telecom is a supplier of technically advanced solutions and products, mainly in the telecom sector. In 2016, sales in the business area decreased as a result of product changeovers at customers in the mobile phone sector. However, the EMC sector, which provides products for electromagnetic compatibility, performed strongly during the year. Previous launches of new product areas also performed well, with a number of products beginning production.

Operational focus

Nolato Telecom's operations are divided into two business sectors:

- **Mobile Phones:** Development and manufacturing of mechanical subsystems and components for mobile phones, tablet devices and new areas of technology such as selected consumer electronics. These products have high cosmetic and haptic content, often with requirements regarding special functions such as water resistance and heat dissipation.
- **EMC:** Development techniques and materials for shielding of electronics to achieve electromagnetic compatibility, i.e. to prevent disruption from electronic components, and other applications such as heat dissipation for circuit board components.

Events during the year

- Nolato Telecom's sales decreased in 2016 owing to lower demand in Mobile Phones, which experienced exceptionally high volumes in 2015 due to very high consumer demand for customers' handsets. Activity in the EMC (electromagnetic compatibility) area showed strong development in 2016.

➤ Nolato Telecom has a flexible cost structure in China and operations were adapted to lower volumes following the decrease in Mobile Phones.

➤ Nolato Telecom gained a number of new customers in new fast-growth areas of technology, i.e. selected consumer electronics. Notable among these were Sonos – components for its new speaker system; Nest – components for thermostats and web cameras; Fitbit – components for wearable fitness trackers.

➤ This business area also supplied ceramic components to two customers: Vinaya, a developer of smart jewellery and Cloudtag, which develops fitness trackers.

➤ The Ceramics and Laser Applications product areas experienced strong performance during the year, with significant interest from new customers.

➤ The EMC business sector continued to perform strongly, with new hirings and rising order intake. Over the past two years, around 20 staff have been recruited in product development and sales. Comatherm, Nolato's portfolio of thermal interface material, which dissipates heat from circuit board components, is showing continual growth. Process and material solutions for EMC also performed well.

Nolato Telecom's market

The market for smartphones is volatile. In addition to providers such as Samsung, Apple and Huawei, new companies are entering the market. Chinese challengers like Xiaoami and Lenovo have been overtaken by

new brands such as Oppo and Vivo. This is resulting in rapid changes in volumes, creating uncertainty for suppliers like Nolato. While Mobile Phones remains an important segment, this business area is increasingly directing its offering at fast-growing areas of consumer electronics technology. The offering, including product areas such as Laser Applications and Ceramics, is gaining increasing interest from companies developing loudspeaker systems, fitness trackers and action cameras.

EMC operates in an interesting market, with additional needs for applications and products as new networked products are rolled out for 4G networks, in particular. Nolato's EMC area supplies the telecom market with products and systems for the shielding of electronics to achieve electromagnetic compatibility. The main driver is mobile phone use by consumers, particularly for sending data and the use of streaming/social media (known as rich media), which requires much more network capacity than normal phone calls. As network loads increase there is a growing need for EMC's process and materials solutions for shielding applications.

One area increasing in significance for Nolato Telecom is TIM, or thermal interface materials products. TIM is a more mature, competitive market. The advantage for Nolato Telecom, however, is that the need for heat dissipation often applies to the same products that require EMC, such as radio base stations. The fact that the Nolato brand is already known in the EMC market makes the sale of TIM products easier.

Nolato Telecom's market position

Compared with the large EMS (Electronics Manufacturing Services) companies, Nolato Telecom is a niche player in Mobile Phones, offering strong in-house expertise in development, design and production. Customers mainly consist of a number of selected Original Equipment Manufacturers (OEMs) that develop and produce their own end-product, in contrast to mobile phone companies, which use large EMS providers to manufacture an entire mobile phone. Nolato is also a niche operator in the new product areas, but it sees good growth for its products. Customers include both established companies like Sonos, Nest

and Fitbit, and relatively new companies such as Vinaya and Cloudtag.

Within EMC, Nolato Telecom has a strong position as a supplier of shielding solutions for mobile network base stations and is continuing to take market share. Customers include major international telecom companies such as Ericsson, Nokia, Huawei and ZTE. Nolato is also showing good growth in both EMC and other applications such as TIM (thermal interface materials) in other sectors like automotive, medical technology and electronics. For example, electric cars require shielding when charging the vehicle, in health care there is a growing amount of equipment requiring shielding, and in the electronics sector there are a range of interesting applications requiring this technique. Customers include Siemens, Harman, Autoliv and Kongsberg.

The main international competitors in Mobile Phones are Jabil Green Point, Chiyoda and Worldmark. In EMC, the principal competitors include Chomerics and Laird.

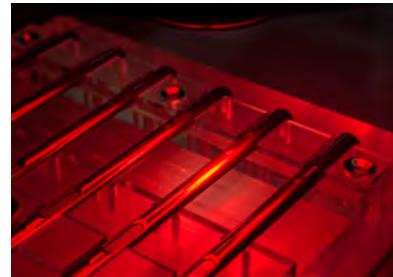
Nolato Telecom's strategic focus

Nolato Telecom's strategy is to be a partner and supplier of technically advanced products mainly to the upper segment of the telecom industry, but also to other sectors such as fast-growing areas of consumer electronics. Nolato Telecom's extensive experience in the development and production of mobile phones means the company has a unique ability to offer customers a wide range of technologies and expertise, making it a one-stop shop. Within EMC, Nolato Telecom's strategy is to be a supplier to customers mainly in the radio base stations, automotive, healthcare equipment and electronics segments. Sales of EMC material take place both directly and via Nolato's licensed partners. As well as developing various electrically conductive materials solutions and electronics shielding components, development work also focuses on TIM (thermal interface materials) products.

Nolato Telecom key features

Like the rest of the Group, Nolato Telecom's operations are based on: Corporate responsibility, wide-ranging technical capabilities and advanced production technology. The main distinguishing factor is the techno-

Examples of products



Mobile phone components and subsystems

Injection-moulded, painted and decorated components for mobile phones, in certain cases integrated as 'mechanical modules', sometimes water-resistant. Creative material and surface design with significant cosmetic and haptic content.

Small, designed adhesive components with mechanical and/or cosmetic functions, such as logos, speaker grilles and three-dimensional design elements.



EMC

Process and material solutions for the shielding of electronics to achieve electromagnetic compatibility (EMC).

logical content. Nolato Telecom has developed its own portfolio of unique technical products in order to offer unique solutions. These include ACMs, acoustic cosmetic modules, which are the 'protection' in front of speakers and microphones on mobile phones, Waterproof Technologies for water-resistant products, Laser Applications for joining components, Ceramics for their decorative and tough properties and the previously mentioned EMC and TIM products.

This business area also offers particular expertise in handling rapid start-ups of new products and production with major fluctuations in volume. In addition, unlike the rest of the Nolato Group, the bulk of Nolato Telecom's revenues come from technologies other than injection moulding, such as tool production, assembly and various methods of painting and decoration.

Nolato Telecom's continued development
 Within Mobile Phones, Nolato Telecom will continue to focus on products in new areas and technologies in order to gain more customers. In 2016, Nolato's one-stop shop offering proved highly attractive to customers. Taking overall responsibility for everything from purchasing components to integration, assembly and testing of electronics such as circuit boards and batteries to offer even more advanced, ready-packaged complete products to existing and new customers.

In EMC and TIM, Nolato Telecom will be concentrating on using its strong offering to take market share. This will require marketing to both new sectors such as automotive and electronics, as well as new geographic markets like India, Japan and Korea. In EMC and TIM, the focus is also continuing on the development of existing and new technologies. This will require further recruitment of engineers in 2017.

Case study



New effective bonding technique for manufacturing consumer electronics

Lövepac Converting has developed a new bonding technique for the assembly of items such as screen glass for products including handheld consumer devices. The new technique is very quick to use in manufacturing and provides a strong waterproof bond between materials. This technique has generated significant interest among makers of devices including fitness trackers and smart watches. Lövepac Converting offers a complete system for the new bonding technique, comprising laser equipment, adhesive and technical solutions.

The new bonding technique is based on a laser-activated adhesive. The adhesive tape is activated immediately during assembly by being irradiated with a laser beam. No curing time is required, making the process quick and efficient. A major advantage of the new technique, in addition to the strong bond it provides, is that it's easy to rework the materials if an error occurs in manufacturing. The material can be deactivated through re-exposure to a laser beam, allowing easy reassembly or replacement of a component. This eliminates time-consuming and labour-intensive removal of residual adhesive when a product needs to be reworked.

Strategic objectives

- Organic growth
- Expanded customer offering
- Technology and Project Management
 - in-house niche technologies
 - project management and start-ups
- Further development of the shielding business (EMC)
 - new markets
 - acquisitions

The business area's units

Mobile Phones:

Nolato Beijing

Beijing, China
MD Jörgen Karlsson

Lövepac Converting

Beijing, China
Shenzhen, China
Penang, Malaysia
MD Dan Wong

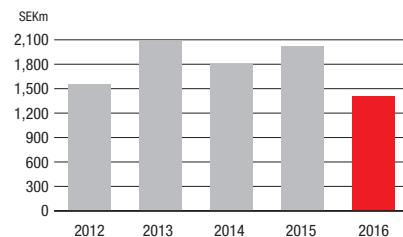
EMC:

Nolato Silikonteknik

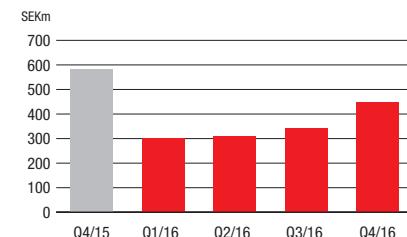
Hallsberg, Sweden
Beijing, China
Penang, Malaysia
MD Anders Ericsson

Nolato Telecom: five-year review

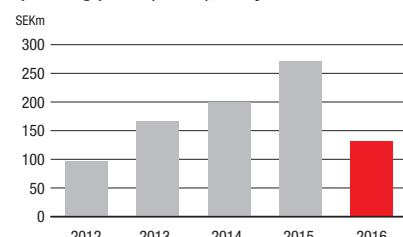
Net sales, full year



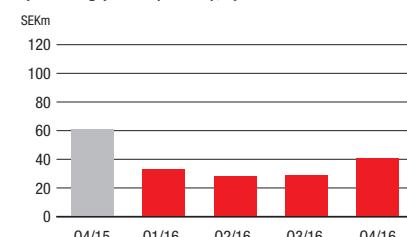
Net sales, quarter



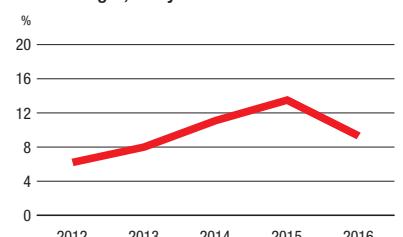
Operating profit (EBITA), full year



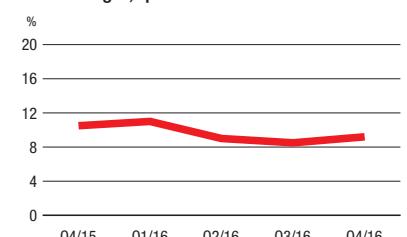
Operating profit (EBITA), quarter



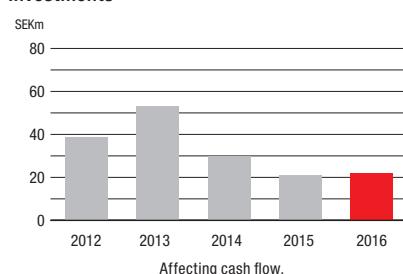
EBITA margin, full year



EBITA margin, quarter



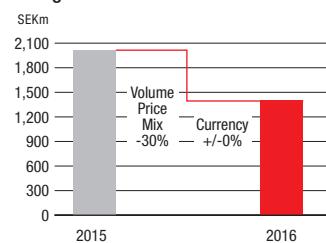
Investments



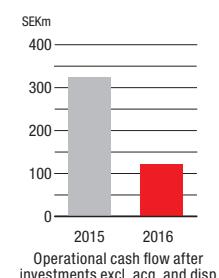
Average number of employees



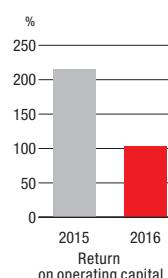
Change in sales



Cash flow



Return



Nolato Industrial

Strong demand from automotive and hygiene segments



Business Area President:
Johan Arvidsson
Employed since 1994
President since 2012

Financial highlights:	2016	2015
Sales, SEKm	1,409	1,251
Operating profit (EBITA), SEKm	134	132
EBITA margin, %	9.5	10.6
Average number of employees	775	698

Market characteristics:

Fragmented and diversified, with a large number of customers and a large number of suppliers.

Market trends:

Plastic is replacing heavier metal components. Customers want more extensive support earlier on in the development phase. Smaller suppliers with a limited customer offering are being forced out of the market.

Customer offering:

Development and manufacture of products and product systems for customers in the automotive industry, hygiene, packaging, gardening/forestry, furniture and other selected industrial segments.

Geographic information:

Development, production and sales in Sweden, Hungary, Switzerland, Romania and China.



Success factors:

Technology, project management and productivity.

Customers include:

Atlas Copco, Brose, Geberit, Husqvarna, Jaguar/Land Rover, MCT Brattberg, Scania, SKF, Volvo and Volvo Cars.

Competitors include:

AQ Group, Euroform, KB Components, Mann+Hummel, Promens, Rosti (Nordstiernan).

Volatility:

Medium. Follows the Northern European industrial business cycle.

Product life cycle:

Medium/Long.

Performance in 2016

- Sales rose by 13% to SEK 1,409 million (1,251). Adjusted for currency and acquisitions, the increase was 6%.
- Operating profit (EBITA) was SEK 134 million (132), with an EBITA margin of 9.5% (10.6). New product start-ups had a slightly negative effect on the margin compared with last year.

Nolato Industrial consists of nine strong specialist companies that develop and manufacture products and product systems in mainly polymer materials for a range of customer segments. These companies create business opportunities both individually and in cooperation with one another. Over the year, volumes in primarily the automotive and hygiene segments showed positive performance. Increased market share had a positive effect on production volumes within most customer segments.

Operational focus

Nolato Industrial's operations mainly focus on two customer sectors:

- For the automotive sector, Nolato Industrial supplies advanced technical products.
- For general industry, including segments such as hygiene, packaging, gardening/forestry and furniture, Nolato Industrial provides products such as components for chainsaws and a range of packaging solutions.

Customers in both of these sectors have continual and extensive purchasing operations, high volumes and long product runs.

Events during the year

- During the year, Volvo Cars launched its new V90, S90 and V90CC models, which contributed to good production volumes for Nolato Industrial. This involves the supply of components for engines, cosmetic details and the plenum cover that covers the space between the bonnet and the windscreen. Nolato Industrial supplies both direct to Volvo Cars and to systems suppliers.
- 2016 saw the launch of Scania's new generation of truck models with new cabs, energy-efficient technology and a comprehensive approach to transport systems. Scania's new truck programme contributed to increased orders for Nolato.
- Nolato signed an agreement to acquire Swiss company Treff AG, which will strengthen the customer base and geographical expansion of both Nolato Medical and Nolato Industrial. The acquisition gives Nolato a presence in the German-speaking part of Europe. It open doors to a large group of new and internationally leading customers.
- Nolato Industrial gained market share in both automotive and general industry. Nolato Industrial has a comprehensive offering and cooperates closely with vehicle manufacturers, with this business area contributing simpler and smarter solutions for the production of new models. Nolato Industrial's focus on the automotive segment also contributed to attracting more customers.
- Consolidation in the general industry market led to customers increasing orders. Nolato Industrial has a strong position in a number of segments such as office furniture and gardening/forestry.
- Nolato Industrial increased its production capacity to meet strong customer demand. This business area's investments included

an additional four-component machine in Götene, allowing it to offer customers more integrated solutions.

Nolato Industrial's market

The European market for the manufacture of polymer products is fragmented, consisting of almost 50,000 companies with combined sales of over SEK 500 billion. The typical company is family-owned, turns over SEK 20–35 million annually and operates in its local market. Business is done locally as the products in this market are usually bulky, making them costly to transport.

The Nordic region is just as fragmented as elsewhere in Europe. There are over 700 manufacturers of polymer products in Sweden, two-thirds of which have fewer than five employees. Only around 30 companies have sales exceeding SEK 50 million. There are currently three to four companies that can be considered Nolato Industrial's competitors on the Nordic market.

There are a number of driving forces behind developments in Nolato Industrial's market. The main driver for customers is being able to offer better and more cost-effective products on its markets. This means that customers want more comprehensive suppliers that work closely with them and are able to offer smart and cost-effective solutions. Nolato is a good example of a supplier that provides more integrated production processes with higher added value for customers.

The Nordic markets for automotive and general industry products and systems largely follow the industrial economic cycle. The development of the automotive industry in Sweden is particularly beneficial for Nolato Industrial. Scania's investment in new models and Volvo Cars' launch of its V90, S90 and V90CC models based on its SPA platform are driving demand. After the launch of these models, the next stage will be the introduction of the 60 and 40 series. For Nolato Industrial, these investments mean a transfer from project-based orders to production orders.

Nolato Industrial's market position

Nolato Industrial is a market leader in the Nordic region, with around one-fifth of the business done by suppliers with sales

of over SEK 50 million. The companies in Nolato Industrial are all among the largest operators in the market and Nolato Industrial is the largest overall player in its sector.

In Central Europe, Nolato Industrial has a strong position as a quality supplier of products, particularly in the hygiene sector.

It is believed the extensive fragmentation in the sector will lead to continued consolidation in the Nordic region and the rest of Europe. Nolato Industrial's main competitors are AQ Group, Euroform, KB Components, Mann+Hummel, Promens and Rosti (Nordstiernan).

Nolato Industrial's strategic focus

Nolato Industrial's strategy is to be a leading supplier, providing development and production of products and polymer material product systems for customers in the automotive and general industry sectors (including hygiene products, packaging, gardening/forestry and furniture). With the Nordic market as its base, Nolato Industrial aims to grow by developing existing customers and taking market share in these segments.

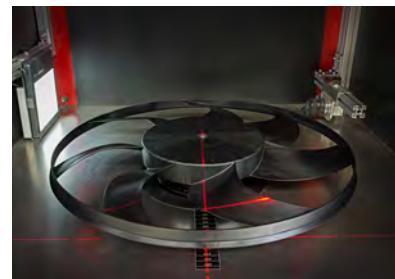
A key objective for Nolato's business area is to be customers' high-tech partner. For Nolato Industrial, this means investing in more advanced technology for increased productivity to ensure a more integrated production process with a high level of added value.

These advanced technologies and Nolato Industrial's ability to combine them provides added value for customers. The number of parts in a product can be cut through multi-component injection moulding, weight can be reduced and sustainability improved. For example, by replacing metal with plastics and complex structures such as piping with a single component.

Nolato Industrial key features

Like the rest of the Group, Nolato Industrial's operations are based on: Corporate responsibility, wide-ranging technical capabilities and advanced production technology. The main distinguishing factor is the importance of high productivity. Continuous improvement and lean manufacturing are key elements for the entire Nolato Group, but are even more important for Nolato Industrial's competitiveness.

Examples of products



Automotive

Engine components, gaskets for engines and exhaust systems, interior details, battery casings, etc.



General Industry

Ball retainers and storage seals for ball bearings, armrests etc. for office chairs, conveyor belts and fireproof cable ducts. Components for microwave ovens, components for strimmers and chainsaws (recoil housing, filler caps, air filter holders, etc.), flushing mechanisms for toilets and transportation crates for the clothing industry.

Lean manufacturing measures are being undertaken throughout Nolato Industrial's factories and involve integrated processes, a high level of automation, good organisation, little or no inventory, efficient flows and targeting of zero faults in production.

Nolato Industrial's continued development

Key goals for 2017 are to continue taking market share in both automotive and general industry, as well as supplying existing projects that are receiving capacity investments in both Sweden and Central Europe. This business area will also be focusing on acquisitions to boost growth.

Nolato Industrial believes that in 2017 the market will carry on following the North European business cycle. The market in key segments for Nolato is expected to grow at a faster rate, although Nolato Industrial mainly depends on the performance of individual customers. Long-term and stable customer relationships, along with the capacity investments that have been made, are expected to contribute to stronger market positions.

Case study



New design provides efficient production solution for Scania's new trucks

In 2016, Scania presented its new truck range after more than 10 years of development and SEK 20 billion in project costs. This is Scania's largest ever investment in its 125-year history. The result of the investment is a brand new cab programme featuring a unique Scania design. Nolato has a long-standing relationship with Scania and will be supplying more than 70 different items for the new cabs.

Scania has focused strongly on customer profitability in its development of the range, which promises to reduce fuel consumption by 5%. The new trucks have been well received and the long-haul range has already won the prestigious International Truck of the Year 2017 award for its driver comfort, safety and economy.

Scania involved Götene-based Nolato Gota as early as 2013 in the development of the new truck programme. The work began with supplier audits and extensive tendering work. Nolato now supplies items for cabs in the newly launched R and S series. This includes both large and small items made from a variety of materials, for both the interior and exterior of the new cabs. More items will be supplied as other cabs enter production around the world. The cooperation involves a total of around 70 components for Scania's truck cabs.

Nolato Gota's aim has been to optimise design in order to create the most effective production solution for Scania, both financially and in terms of quality.

Strategic objectives

- Market share
- Productivity
- Cash flow
- Selective geographic expansion
 - alongside customers
 - through selective acquisitions that bring new customers or technologies

The business area's units

Nolato Gota

Götene, Sweden
MD Peter Holterberg

Nolato Hertila

Åstorp, Sweden
MD Stefan Persson

Nolato Hungary

Mosonmagyaróvár, Hungary
MD Johan Arvidsson

Nolato Lövepac

Skånes Fagerhult, Sweden
Beijing, China
MD Henrik Enoksson

Nolato Plastteknik

Gothenburg, Sweden
MD Magnus Hettne

Nolato Polymer

Torekov & Ängelholm, Sweden
MD Anders Willman

Nolato Romania

Negoesti, Romania
MD Johan Arvidsson

Nolato Treff

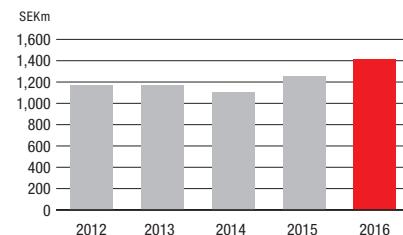
Degersheim, Switzerland
MD Guido Vollrath

Nolato Automotive Components (Beijing)

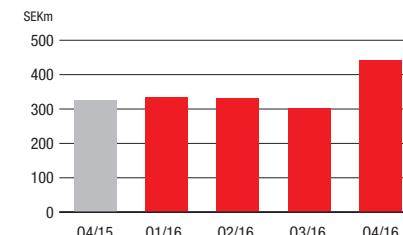
Beijing, China
MD Jörgen Karlsson

Nolato Industrial: five-year review

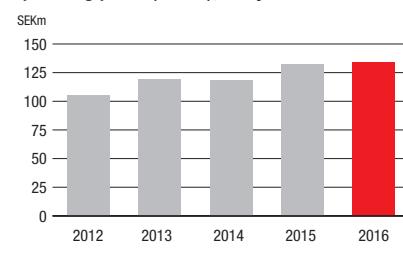
Net sales, full year



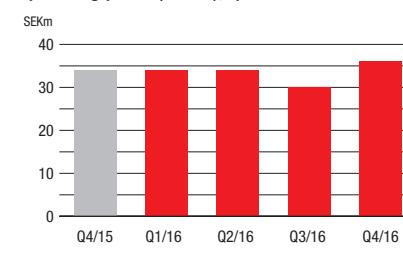
Net sales, quarter



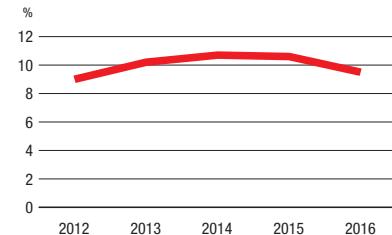
Operating profit (EBITA), full year



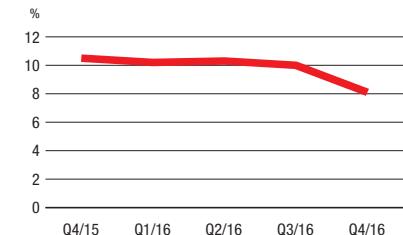
Operating profit (EBITA), quarter



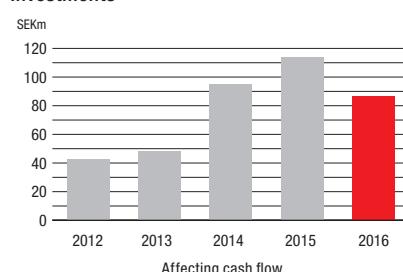
EBITA margin, full year



EBITA margin, quarter



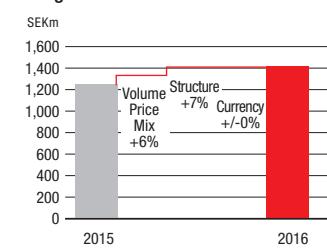
Investments



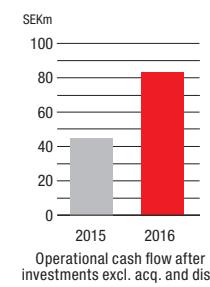
Average number of employees



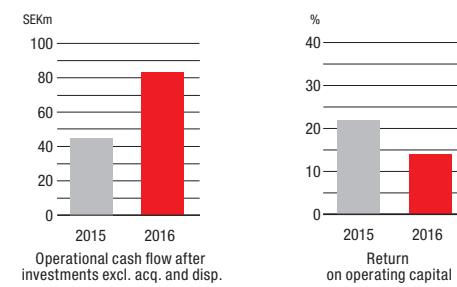
Change in sales



Cash flow



Return



Operational cash flow after investments excl. acq. and disp.

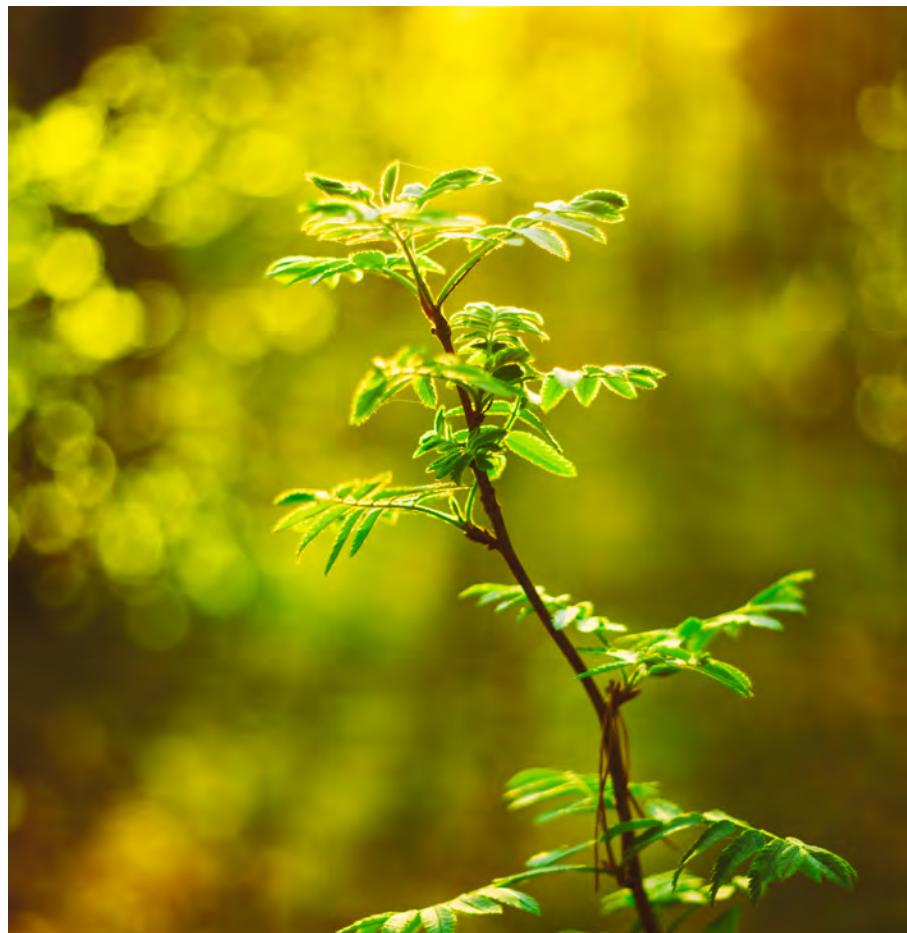
Return on operating capital

Sustainability work for long-term growth

2016 highlights

- Global Compact work was further developed and reported to the UN. Nolato's goals were linked to the UN Sustainable Development Goals.
- Good energy efficiency results from audits and investing in intelligent lighting and production equipment, such as electric injection moulding machines.
- Measures to reduce carbon emissions – energy efficiency, reduced use of fossil fuels, auditing of transport emissions and the purchase of fossil-free electricity. These measures were reported under the Carbon Disclosure Project.
- Involvement in a school in a poor area of Beijing, known as Building Hope Together, continued with additional input from Nolato.
- Continued systematic sustainability work using environmental (ISO 14001) and health and safety (OHSAS 18001) standards. Several new certifications were achieved during the year, and our systems are currently being updated according to the new ISO 14001:2015 standard.
- The Employee Care Programme at Nolato Beijing was further developed. The programme is boosting employees' skills and is contributing to their personal development and well-being.
- Customers are placing increasing requirements on Nolato's sustainability work and conducting audits and assessments. The Group's companies met these requirements successfully over the year.
- Numerous activities were undertaken focusing on schools and universities such as study visits, internships and workplace degree projects relating to sustainable development.

➤ Find out more about our sustainability work in Nolato's Sustainability Report at www.nolato.com/sustainability



Work on sustainability issues is an integral part of Nolato's strategy for growth and value creation and is a natural part of our day-to-day work. The aim is to contribute to a better environment, create business opportunities, reduce costs, minimise risks and meet the requirements and expectations of external and internal stakeholders.

Nolato and the UN's Sustainable Development Goals

The 10 principles of the UN Global Compact have provided a guide for Nolato's sustainability work since 2010. These principles are specified in the Group's Code of Conduct, as described in The Nolato Spirit document. The Code should be regarded as the guiding principle for managers and employees on issues concerning the environment, social responsibility and ethics.

Over the years, the view of business' role in sustainable development has changed and this is expressed very clearly in the UN Sustainable Development Goals. The goals were published just over a year ago and expectations on the efforts of business are high. This applies to both responsible conduct and the development of products and services that benefit sustainable development.

Nolato communicates its sustainable development activities in a separate sustainability report in accordance with the guidelines of the Global Reporting Initiative (GRI G4). The report is also designed to satisfy requirements in the new legislation on compulsory sustainability reporting for major companies in the EU. The Group's performance with regard to carbon emissions is reported under to the Carbon Disclosure Project (CDP).

Strategy and governance

Sustainable development strategy

The Group has long had preventive measures in place relating to health and safety and environmental issues and these are important elements of The Nolato Spirit. Issues regarding social responsibility and good business ethics have become increasingly important and can now be regarded as essential for successful business operations. There are also significant expectations that Nolato and other companies must apply a clear life cycle approach to raw materials, product development, processes and products. Responsibility in the supply chain has become increasingly important.

Nolato's sustainable development activities are being further developed. This applies to everything from Group-wide strategies and reporting to day-to-day operations at production facilities. The long-term strategy remains in place, with a focus on:

- Reducing risks and costs through preventive measures, risk analysis and investments in modern technology. Energy and emissions issues are a particular priority.
- Creating business opportunities through responsible operations and development of resource-efficient production methods and products.
- Working systematically based on ISO standards and concepts like lean manufacturing, Medical Excellence and 5S. ISO 14001 has been in place for some

time and the Group is now introducing the OHSAS 18001 health and safety standard at its units. The ISO 50001 energy management standard has been introduced at a number of units.

- Being a good corporate citizen, and encouraging employee involvement and attracting new employees.
- Applying sound business principles and good ethics. Preventing corruption is a key aspect of this work.
- Communicating in a transparent way on sustainable development, both with regard to achievements and failings.
- Continuing to integrate sustainability issues into Nolato's business model.

Governance and monitoring

The overall focus of and responsibility for our sustainability work is set out in Nolato's Basic Principles and Code of Conduct. The Code of Conduct is specified by Group-wide goals on the environment, social responsibility and business ethics. Each unit works towards these overall goals, as well as their own detailed targets.

Operational responsibility for the environment and health and safety is delegated to the Managing Director of each company. Group management regularly follows up on the development of this work and how sustainability development is being integrated into strategic planning. One representative on Nolato's Board has special responsibility for these issues. These activities are followed up through dialogue with the companies' management and through internal and external audits. Along with the annual sustainability report, we also carry out an in-depth analysis of compliance with legislation, target outcomes and the development of performance and key indicators during the year.

Key guidelines



The Nolato Spirit

The Nolato Spirit booklet summarises the Group's core values, Code of Conduct and policies and explains how they relate to the business model.



The UN Global Compact

Since 2010 Nolato has been a signatory to the UN Global Compact, a framework document that comprises 10 principles on the environment, human rights, labour conditions and the combatting of corruption.



Sustainability reporting

Nolato's sustainability work is reported in accordance with Global Reporting Initiative (GRI G4) guidelines, the Carbon Disclosure Project (CDP) and the UN Global Compact (Communication on Progress; COP).

Certified management systems

Nolato's units are certified to the international standards ISO 14001 (environment) and ISO 9001 (quality management). The OHSAS 18001 health and safety standard is being gradually introduced throughout the Group and some units operate in accordance with ISO 50001 (energy). The ISO 26000 social responsibility standard provides us with guidance for our overarching sustainable development efforts.

Sustainable development key figures

Nolato undertakes extensive work relating to responsibility for the environment, people and society. Moreover, we believe that sustainability measures create business benefits. The work is undertaken systematically according to goals and results are reported in detail in the Group's annual sustainability report. This page provides key performance indicators (KPIs) on developments in some important areas.



► Environmental responsibility

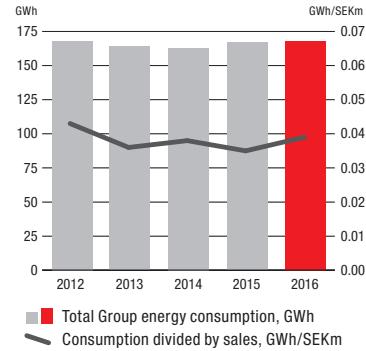
Work continued on a wide range of environmental issues during the year. A fundamental theme was reducing the Group's environmental footprint and meeting environmental legislation in those countries in which the Group operates. In addition, there were many activities focused on generating business benefits from environmental improvements. Better management of resources through more efficient use of energy, water and raw materials illustrates the link between environmental and business benefits. Environmentally sustainable product development is another priority, and Nolato's expertise and technology can aid customers' environmental efforts. Nolato has a number of long-term targets relating to the environment.



Energy

Target: The object is more efficient energy use and for 2014–2016 Nolato targeted a 10% reduction compared with the average for 2011–2012. The Group-wide KPI is GWh/net sales and many production units use locally adapted targets. This target is linked to UN Global Goal 7 'Affordable and clean energy'.

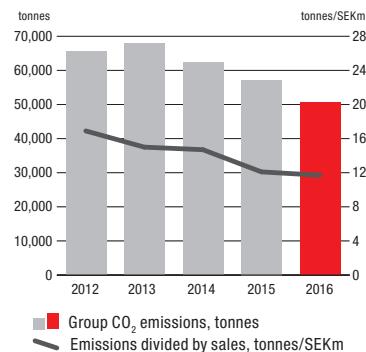
Outcome: Work on energy audits and efficiency improvements continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring contributed to more efficient use of energy. The Group target was achieved and a new long-term target will be established.



Carbon dioxide emissions

Target: The target is a 10% reduction in the greenhouse gas carbon dioxide (CO₂) during 2014–2016 compared with the average for 2011–2012. The target relates to carbon dioxide emissions from energy consumption. The Group-wide KPI is tonnes of CO₂/net sales and there are also different types of local targets. The target is linked to UN Global Goal 13 'Climate action'.

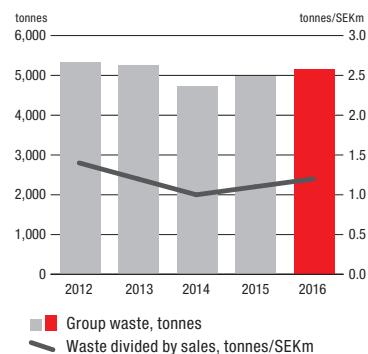
Outcome: To achieve this target, Nolato is working to achieve more efficient energy usage, phase out fossil energy, make transportation more environmentally sustainable and purchase electricity from renewable sources. This work is generating results, but the situation in China poses a significant challenge as the Group is only able to use electricity there mainly generated from coal. Despite this, the Group target was achieved and a new long-term target will be established.



Waste

Target: The amount of waste should decrease in relation to net sales. The Group's units use their own targets regarding scrap and waste management. These targets are part of ISO 14001 or initiatives such as 5s and lean manufacturing. The target is linked to UN Global Goal 9 'Sustainable industry, innovation and infrastructure', and Goal 12 'Responsible consumption and production'.

Outcome: Over time the total amount of waste has varied, owing in part to the variation in production volumes. It is positive that the percentage of waste disposed of in landfill has decreased and the percentage that is recycled has increased. This is the result of more demanding legislation in many countries, but ultimately relates to a range of measures introduced at Nolato's facilities. Many of the units have succeeded in cutting scrap to very low levels and creating good systems for the sorting of waste. There are also good examples of packaging waste being reduced both at Nolato and at customers. This target is part of the Group's continual improvement measures and has no specific deadline.



Environmental management systems

Target: The objective is for all units to be certified in accordance with the international ISO 14001 environmental management system. Acquired companies should be certified within two years. The target is linked to UN Global Goal 9 'Industry, innovation and infrastructure'.

Outcome: All units, apart from the two companies acquired in 2016, are certified under ISO 14001. Work has begun on introducing environmental management systems at the acquired companies. Other plants are working on updating their management systems to comply with new requirements in ISO 14001:2015. This work will be completed by the end of 2018.



► Social responsibility

Nolato's Code of Conduct applies in the same way all over the world. The company aims to be a good neighbour to communities and a good corporate citizen. The Group has its own long-term objectives relating to social responsibility and The Nolato Spirit booklet provides clear guidelines in this area. We believe these aims help attract, develop and retain committed and skilled staff. Nolato provides professional development for managers and training for employees, and addresses health and safety issues. The Group continues to engage with communities wherever it is based around the world.



A safe work environment

Target: The number of workplace accidents should be minimised with the long-term targeting of zero occurrences. All units must have a functioning system for registering and addressing events that could have caused an accident (near misses). There is also a requirement for operations to gradually gain OHSAS 18001 health and safety certification. The target is linked to UN Global Goal 8 'Decent work and economic growth'.

Outcome: In 2016, there were 63 (36) workplace accidents, which resulted in a total of 447 (405) days of absence. Over a five-year period the frequency varies between 2 and 5 accidents resulting in absence per million hours worked. Systems for recording near misses are in place at all units. Work to introduce OHSAS 18001 is ongoing and six units have achieved certification. In an industrial perspective, the frequency of accidents remains low but there is no clear downward trend. This target was not achieved.



Human rights and gender equality

Target: There should be no cases of infringements of human rights, discrimination or forced labour. Active information shall continue to be provided to employees and new staff. The target is linked to UN Global Goal 5 'Gender equality' and Goal 8 'Decent work and economic growth'.

Outcome: Information for employees about The Nolato Spirit continued to be provided during the year. No cases of infringements of human rights were recorded. Of the Group's approximately 6,400 employees (7,800), 51% (50) are women. 22% (11) of Nolato's Board are women, while the corresponding figure for Group management is 0% (0). The percentage of women in Group companies' management teams is 18% (17) and the recruitment of female managers is important to Nolato. The units in China and Hungary have continued to have a positive experience of employing of people with disabilities.



► Business benefits

In accordance with the principles of Nolato's Code of Conduct and the tenth principle of the Global Compact, our business principles should be characterised by integrity and responsibility. Many of Nolato's customers operate in industries in which issues regarding the environment, social responsibility and business ethics have a high priority. There is strong interest in more environmentally sustainable products and the link between environmental and business benefits. Here are a number of good examples within Nolato. You can find out more about this in Nolato's sustainability report.



Anti-corruption measures

Target: There should be no cases of bribery, corruption or cartel formation. Continued active information for employees. This target can be linked to UN Global Goal 16: 'Peace, justice and strong institutions'.

Outcome: The managements of all Group companies use measures to prevent corruption. The Group has introduced a whistleblowing system and no events relating to corruption or inadequate business ethics were recorded in 2016.



Customers

Target: Customer requirements regarding the environment and social responsibility shall be met by a comfortable margin.

Outcome: The results of customer evaluations and audits remained good. Three plants in China and one in Malaysia have been approved as Sony Green Partners.



Suppliers

Target: Improved evaluation of suppliers' sustainability work. In 2016, each company should have evaluated at least five suppliers. This target can be linked to UN Global Goal 12 'Sustainable consumption and production'.

Outcome: In 2016, Group companies conducted 173 (134) evaluations of suppliers' sustainability work. The suppliers satisfied Nolato's requirements at an acceptable or good level. Cooperation was discontinued in one case due to certain deficiencies.

Continued work

In 2017, Nolato will be working on:

- Activities that contribute to more efficient use of resources such as energy, water and materials, by means of measures including energy audits.
- Measures to cut Nolato's emissions of greenhouse gases.
- Updating Group sustainable development targets, taking account of the UN Sustainable Development Goals.
- Preventive health and safety measures, in part through the introduction of certified management systems.
- Adaptation of environmental management systems to the new ISO 14001:2015 standards.
- Generation of business benefits by offering customers expertise and experience in making products and transportation more environmentally sustainable.
- Further development of Nolato's social engagement and social responsibility, through projects like the Employee Care Programme and Building Hope Together, as well as through contact with schools and universities.
- Sustainability reporting in line with new EU legislation on sustainable development reporting by large companies. Continued reporting under the Carbon Disclosure Project and Global Compact.

Case study – Energy and climate

Energy efficiency and reduced carbon footprint

Keeping the Nolato Group running in 2016 required 168 GWh, which is the equivalent to the energy consumption of more than 8,000 houses or a small town. The cost of energy was SEK 123 million, resulting in emissions of 51,000 tonnes of the greenhouse gas carbon dioxide.

Long-term energy and carbon emissions targets

Energy and carbon emissions issues are a high priority at Nolato and we have set long-term targets to increase energy efficiency and reduce carbon dioxide emissions. Numerous measures are being undertaken to make energy usage more efficient and the key performance indicators in this area are moving in the right direction, i.e. down. As well as measures like replacing inefficient lighting and machines, we have also started conducting energy audits and introducing ISO 50001-certified energy management systems. The purchase of fossil-free electricity in a number of countries is helping reduce carbon dioxide emissions.

Energy audit was an eye-opener

Under the EU's new Energy Efficiency Directive, all large companies must carry out energy audits. These have to be conducted according to set guidelines and reported to each country's relevant authorities. Nolato Polymer, based in Torekov and Ängelholm, Sweden and Torekov-based Nolato MediTor carried out a joint energy audit and Per-Olof Jansson, Property and Maintenance Manager, is delighted:

"We've been fairly successful in our work on energy issues and thought we had a good handle on energy consumption in our properties and the different production processes. The systematic audit was a real eye-opener and things we didn't know were so significant turned out to be consuming a lot of power."

Similar energy audits are now being conducted at Nolato's plants across Europe, which is good for both the environment and for Nolato's bottom line.



Per-Olof Jansson at Nolato Polymer in Torekov, Sweden, shows off a new energy-efficient injection moulding machine.

Case study – UN Global Goals



Antoine Bonnamy's research at Lund University finds that the UN Global Goals for Sustainable Development can be applied in a specific way at Nolato and other companies.

Global perspective on Nolato's sustainability work

The UN Global Goals for Sustainable Development carry significant hopes that the business sector will be able to work with these goals and, through technological development and other means, contribute to the sustainable development of society. How will the goals work in practice and how will Nolato's strategy and sustainable development targets be affected?

Antoine Bonnamy from France used Nolato as a specific example in his master's dissertation at the International Institute for Industrial Environmental Economics (IIIEE) at Sweden's Lund University, which was about the application of these global targets in the private sector.

What really is the difference between the Global Goals and the previous millennium goals?

"The Global Goals have a better comprehensive approach to sustainable development," says Antoine Bonnamy. "They're more clearly interlinked and a real effort has been made to ensure these goals interact with one another. They're also grounded in a very extensive process in which the 193 UN member states, lots of organisations and, not least, representatives from business, have been involved. The fact that the business sector will participate actively in realising these targets is also important."

Should Nolato use the goals in its sustainability work?

"Nolato already uses a number of sustainable development goals, which is good and provides a transparent overview of progress and setbacks. I can see all 17 of these global targets being used in some way by Nolato. However, some goals are more relevant than others, such as 'Affordable and clean energy', 'Industry, innovation and infrastructure' and 'Climate action'."

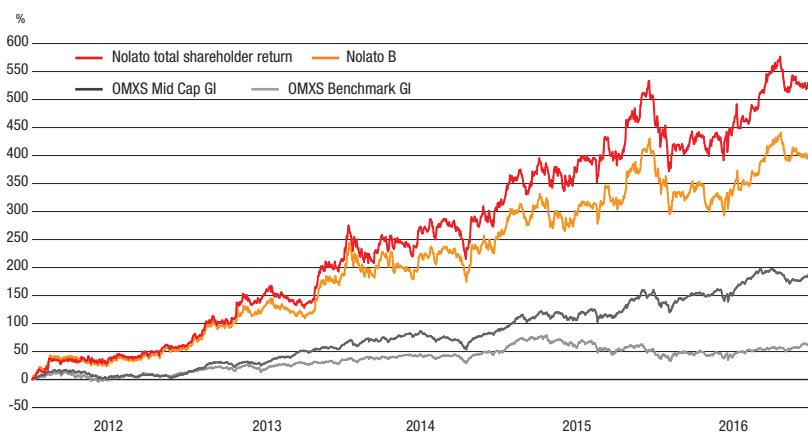
Nolato has taken on board the experience from Antoine Bonnamy's research with regard to how the Global Goals can be used in private-sector companies. One specific result is that most of Nolato's sustainable development targets in its Annual Report and Sustainability Report 2016 are linked to the Global Goals. When the Group updates its targets in 2017, the UN goals will affect wording and the areas that are prioritised in various ways.

Shareholder information

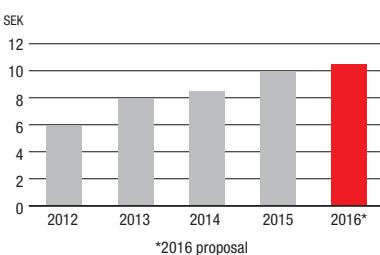
Share price performance 2016



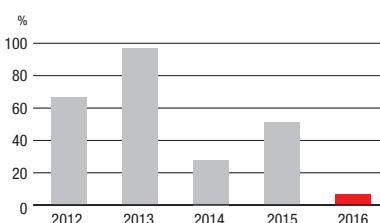
Total shareholder return and share price performance 2012–2016



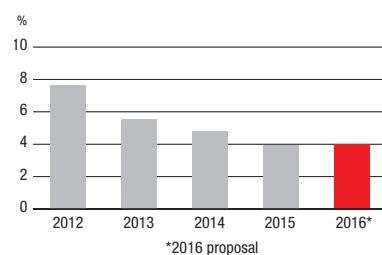
Dividend 2012–2016



Annual total shareholder return 2012–2016



Dividend yield, 2012–2016



Total shareholder return:

5 years 574% (yearly average 46.5%)
 3 years 106% (yearly average 27.2%)
 2 years 61% (yearly average 26.9%)

Listing

Nolato AB was listed on the Stockholm Stock Exchange in 1984, and its B shares are now listed on Nasdaq Stockholm. Nolato is a Mid Cap company in the Industrials sector. The B shares traded on Nasdaq Stockholm, BATS and Turquoise during the year. The share symbol is STO:NOLA B and the ISIN code is SE0000109811.

Share price performance

Nolato's B shares rose by 2% during the year (45). The share price at the end of 2016 was SEK 263.00 (257.50). The highest closing price on Nasdaq Stockholm in 2016 was SEK 274.50 (24 October) and the lowest closing price was SEK 199.50 (16 June). The highest price paid during the year was SEK 277.50 (24 October) and the lowest was SEK 199.50 (16 June). The market value of the shares at 31 December 2016 was SEK 6,919 million (6,774). In 2016, SEK 13.7 million of Nolato shares were traded, 60% of which was in open exchange trading and 40% was off-book, anonymously or by auction. Of stock exchange trading, 90% was on Nasdaq Stockholm, 8% on BATS and 2% on Turquoise.

The turnover rate, i.e. the degree of liquidity, was 58% (75). The number of shareholders increased by 14% during the year, totalling 11,982 (10,487) at 31 December.

Share capital

The share capital of Nolato AB totals SEK 132 million, divided into 26,307,408 shares. Of these, 2,759,400 are A shares and 23,548,008 are B shares. Each A share entitles the holder to ten votes, while a B share entitles the holder to one vote. All shares have equal rights to the assets and earnings of the company.

Incentive programmes

Nolato has a share warrant programme (Series 1) for management that results in the dilution of the number of shares.

Dividend policy and dividend

The Board's dividend proposal shall take into consideration Nolato's long-term development potential, financial position and investment needs. The intention is to

propose a dividend each year that exceeds 50% of profit after tax. The Board of Directors proposes an ordinary dividend for 2016 of SEK 10.50 (10.00), corresponding to SEK 276 million (263). The pay-out ratio, i.e. the dividend in relation to profit after tax, is 82% (63). The dividend yield is 4.0% in relation to the share price on 31 December 2016. Over the last five years, the average dividend yield from Nolato's shares was 5.2%.

Transferability

There are no restrictions on the transferability of the shares as a result of legal provisions or the company's Articles of Association.

Analysts

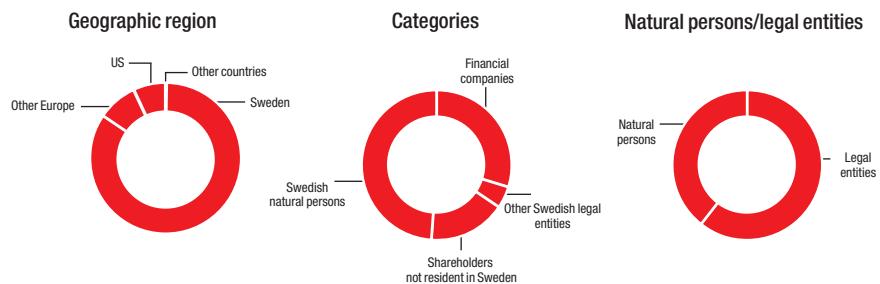
Over the course of the year, Nolato's shares were monitored and analysed by analysts including the following:

- ABG Sundal Collier – Per Lindberg
+46 8 566 286 25
- Carnegie – Mikael Laséen
+46 8 588 687 21
- Redeye – Greger Johansson
+46 8 545 013 30
- Remium – Carl Ragnerstam/Claes Vikbladh
+46 8 454 32 23

Financial information

Nolato's management works continuously to develop and improve financial information, in order to provide the market with good conditions for determining the value of the company as fairly as possible. This includes participating actively when dealing with analysts, shareholders and the media. Information about the current and historical price of Nolato's B shares and monthly updates on Nolato's largest shareholders can be found on our website, www.nolato.com. On the website you will also find all interim reports, annual reports and press releases since 1998.

Breakdown of shareholders at 31 December 2016



The 15 largest shareholders at 31 December 2016

Shareholders	31 Dec. 2016	% of capital Change*	31 Dec. 2016	% of votes Change*
Jorlén family	9.8	0.0 ▶	24.5	0.0 ▶
Boström family	9.4	0.0 ▶	19.6	0.0 ▶
Didner & Gerge Funds	7.6	4.2 ▲	3.9	2.1 ▲
Hamrin family	6.3	6.3 ▲	17.7	17.7 ▲
Lannebo Funds	4.3	4.3 ▲	2.2	2.2 ▲
Swedbank Robur Funds	3.9	-2.8 ▼	2.0	-1.4 ▼
SEB Investment Management	3.6	1.4 ▲	1.9	0.8 ▲
Verdipapirfond Odin Sweden	2.7	0.7 ▲	1.4	0.4 ▲
DnB – Carlson Funds	2.7	-0.3 ▼	1.4	-0.2 ▼
Svolder	2.3	0.9 ▲	1.2	0.4 ▲
Nordea investment Funds	1.4	0.2 ▲	0.7	0.1 ▲
Skandia Funds	1.3	-0.2 ▼	0.7	-0.1 ▼
Goldman Sachs International	1.3	-0.9 ▼	0.7	-0.5 ▼
Länsförsäkringar Fund Management	1.0	0.4 ▲	0.5	0.2 ▲
Försäkringsaktiebolaget, Avanza Pension	1.0	-0.1 ▼	0.5	-0.1 ▶
Total for 15 largest shareholders	58.6		78.9	
Other shareholders	41.4		21.1	

*Change (percentage points) in shareholdings compared with 31 December 2015.

Data per share

	2016	2015	2014	2013	2012
Earnings per share after tax, SEK ¹⁾	12.77	15.97	13.84	11.94	7.68
Shareholders' equity per share, SEK ²⁾	70	67	60	51	44
Cash flow per share, SEK, excl. acquisitions and disposals	9.31	10.95	4.83	13.76	12.05
Share price at 31 December, SEK	263.00	257.50	178.00	146.50	78.50
Price/earnings ratio, times ³⁾	21	16	13	12	10
Turnover rate, %	58	75	86	62	19
Dividend (2016 proposal), SEK	10.50	10.00	8.50	8.00	6.00
Yield (2016 proposal), % ⁴⁾	4.0	3.9	4.8	5.5	7.6
Dividend as a percentage of earnings per share (2016 prop.)	82	63	61	67	78
Average number of shares, thousand	26,307	26,307	26,307	26,307	26,307
Price/equity ratio per share, times	3.8	3.8	3.0	2.9	1.7
Market capitalisation at 31 December, SEK million	6,919	6,774	4,683	3,854	2,065

Definitions

¹⁾ Profit after tax divided by the average number of shares.

²⁾ Shareholders' equity divided by the number of shares.

³⁾ Quoted share price at 31 December divided by earnings per share after tax.

⁴⁾ Dividend for the year divided by the market price quoted on 31 December.

Corporate governance

Policy documents

The following overall policy documents for the Group have been established by the Board of Directors:

➤ **Nolato's Basic Principles**

These define the platform of shared values for all Group operations.

➤ **Code of Conduct**

This sets out the ethical and compassionate principles that Nolato employees are obliged to follow. Nolato's Group-wide policies regarding the environment, working environment, suppliers and quality are integrated into the Code of Conduct.

➤ **Financial Policy**

This governs how financial risk should be managed within the Group.

➤ **IT Policy**

This governs the Group's IT security structure.

➤ **Information Policy**

This governs the dissemination of information by the Group, including in relation to listing requirements.

➤ **Insider Policy**

Supplements the rules contained in the EU Market Abuse Regulation and other insider trading legislation with directives on notification obligations and trading in Nolato's shares.

➤ **Whistleblowing Policy**

This governs the Group's systems and procedures for receiving and handling reports of possible irregularities.

Nolato is a Swedish limited company. Its corporate governance is based on Swedish legislation (primarily the Swedish Companies Act), the regulations set out by Nasdaq Stockholm, the Swedish Code of Corporate Governance and the rules and recommendations issued by relevant organisations.

Corporate governance report

Nolato's formal corporate governance report is available to read on our website at www.nolato.com/corpgov. The report specifies how the assessment of the Board's work is conducted and reported.

Shareholder governance

Shareholders exercise their power of ownership at annual general meetings. Nolato's A shares entitle holders to ten votes, and the B shares to one vote. There is no restriction on how many votes shareholders may cast at general meetings.

Resolutions at annual general meetings are normally passed by simple majority. On certain issues, the Swedish Companies Act stipulates a specific minimum percentage of the shareholders present and/or a larger majority.

The meeting of the company at which the Board presents the annual accounts and the audit report is called the Annual General Meeting (AGM) and is normally held by Nolato at the end of April. The AGM also deals with matters relating to subjects such as dividends, discharging the members of the Board and the President from liability, and electing the Board members, the Chairman of the Board and auditors. The AGM also determines the fees payable to the Board and the auditors, guidelines for the remuneration of senior executives and the principles for appointing the Nomination Committee for the next AGM.

Shareholders have the opportunity to ask questions about the company and its performance at the AGM. Shareholders also have opportunities to request that a particular issue be dealt with by submitting such a request in writing to the Board.

The company's application of the Code

The Swedish Code of Corporate Governance is based on the principle of comply or explain. This means that companies which apply the Code may deviate from specific rules, but must then provide explanations and reasons for each individual deviation.

Nolato deviates from one of the points in the Code:

Point 2.4 states that the Chairman of the Nomination Committee should not be the Chairman of the Board or another Board member. Nolato's largest shareholders are of the opinion that the company's ownership structure, with three families which hold just over 60% of the votes, is best represented in the Nomination Committee by these shareholders together with other large shareholders. Since the representatives of these families have such a large shareholding, they have deemed it to be both natural and necessary that they should also be involved and exercise their shareholders' interests through representation on both the company's Nomination Committee and the Board.

Auditor elected by AGM

The 2016 AGM elected Ernst & Young AB as auditor of Nolato with authorised public accountant Stefan Engdahl as principal auditor.

Auditor

Stefan Engdahl, born in 1967. Authorised public accountant, Ernst & Young AB. Auditor of Nolato since 2015. Other clients include: ITAB Shop Concept AB, Doro AB and AGES Industri AB.

Schematic description of the Nolato Group's corporate governance

The Nomination Committee is responsible for submitting proposals to the AGM regarding the Chairman of the Board, Board members, directors' fees, remuneration for committee work, how the Nomination Committee should be appointed for the coming year and submitting proposals regarding auditors and auditors' fees.

The shareholders' right to make decisions on matters relating to Nolato is exercised at the AGM, which is normally held at the end of April. The AGM elects the Board, makes decisions about dividends and fees and adopts the annual report. By registering a matter in writing with the Board within certain timeframes, shareholders have the right to have a matter addressed by the AGM.

The Auditor is elected by the shareholders at the AGM to audit the company's annual report and accounts, and the Board and President's management of Nolato. The auditor also reviews the remuneration of senior executives and the corporate governance report.

Reporting takes place to the Board and the Audit Committee. At the AGM, the auditor provides information about the auditing work and observations made in an auditors' report.

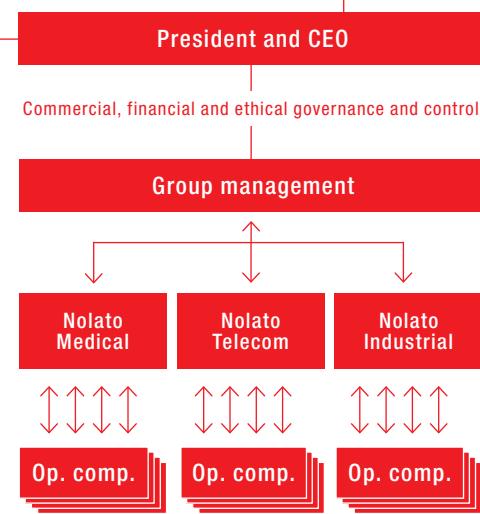
The Audit Committee's task is to supervise the procedures for accounting, financial reporting and internal auditing.

The Remuneration Committee is responsible for proposing to the Board all remuneration and benefits for the President and CEO and principles for variable remuneration for senior executives.

The President and CEO manages business operations within the framework established by the Board of Directors. In consultation with the Chairman of the Board, the President and CEO draws up the necessary information and documentation for the Board's decision-making, presents items and justifies proposals. The President and CEO is responsible for Nolato's commercial and financial performance, and manages and coordinates day-to-day operations in accordance with the guidelines and decisions of the Board.

Nolato's Board of Directors receives **Targets, Strategies, Policy documents, CEO instructions** from the President and CEO and **Reporting Proposals, Documentation for decision-making** from the Board of Directors.

The Board must consist of at least five and at most nine members, and a maximum of three deputies elected by the AGM. In addition, it includes two members elected by employees. The Board decides on the strategic direction of Nolato's operations. It appoints, dismisses and oversees the President and CEO.



Reporting and control occurs by means of the Board and the Audit Committee analysing and assessing risks and control environments, and overseeing the quality of financial reporting and Nolato's internal control systems. This takes place through, for example, issuing instructions to the President and CEO and establishing requirements for the content of the financial performance reports provided to the Board on an ongoing basis. In addition, the Committee is responsible for making recommendations and proposals for ensuring reporting reliability. The Board reads and checks financial reporting such as monthly reports, forecasts, interim reports and the Annual Report. The committee must inform the Board of the result of the audit, how it contributed to the reliability of reporting and what role the committee had.

Group management is appointed by the President and CEO and, besides the President and CEO, consists of the CFO and the business area presidents.

The Group's three **business areas** coordinate the activities in a number of Group companies with a similar focus. Each business area is managed by a business area president with overall responsibility for operations.

Each **Group company** has a managing director. It has its own board of directors, which approves and makes decisions on the company's long-term strategies and overall structural and organisational changes.

Nolato's Board of Directors

					
Name	Fredrik Arp	Dag Andersson	Sven Boström-Svensson	Åsa Hedin	Henrik Jorlén
Elected	2009 (also member 1998–1999)	2014	2013	2014	1974
Position	Chairman of the Board and Chairman of the Remuneration Committee.	Board member	Board member	Board member	Board member and member of the Audit and Remuneration Committees.
Born	1953	1961	1983	1962	1948
Education	Master of Science (Economics) and Ec. Doctor h.c.	Master of Science (Economics), Stockholm School of Economics. MBA Insead.	Bachelor of Science (Chemistry) Master of Science (Analytical Chemistry) and Bachelor of Science (Economics)	Master of Science (Biophysics), Bachelor of Science (Physics).	Business school
Other assignments	Board member of Vattenfall, Parques Reunidas and Swedfund International.	Member of the board of Diaverum AB and various boards within Diaverum, including joint venture companies.	—	Board member of Tobii AB, E J:or Öhman AB, Cellavision AB, Immuno-via AB, Sensavis AB and Fingerprint AB.	—
Background	CEO of Volvo Cars, Trelleborg, PLM.	President and CEO of Diaverum AB. Deputy CEO of Mölnlycke Health Care, various positions at SKF.	—	Deputy CEO of Elekta AB. Senior management positions at Siemens Healthcare and Gambro AB.	Senior management positions within the Nolato Group.
Attendance	5 out of 5 meetings	5 out of 5 meetings	5 out of 5 meetings	5 out of 5 meetings	5 out of 5 meetings
Remuneration ¹⁾	497,000	190,000	190,000	190,000	231,000
Shareholding ²⁾	3,000 B (3,000 B)	5,000 B (1,000 B)	255,870 B (255,870 B)	0 (0)	294,000 A + 37,950 B (294,000 A + 37,950 B)
Dependence	Independent of the company and major shareholders.	Independent of the company and major shareholders.	Independent of the company but not independent of major shareholders.	Independent of the company and major shareholders.	Independent of the company but not independent of major shareholders.

¹⁾ For further information about remuneration, see Note 10 on page 64.

²⁾ Shareholding in Nolato at 31 December 2016 (31 December 2015) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com

				
Name	Lars-Åke Rydh	Jenny Sjödahl	Björn Jacobsson	Håkan Svensson
Elected	2005	2016	2015 (also member 2000–2013) Deputy 2014	2014 Deputy 2009–2014
Position	Member of the Board and chairman of the Audit Committee.	Board member	Employee representative, LO.	Employee representative, PTK.
Born	1953	1973	1971	1960
Education	Master of Science (Engineering)	Master of Science (Industrial Economics), MBA	Upper secondary school	Upper secondary school, certified member of the Board of PTK.
Other assignments	Chairman of OEM International AB, Danfo AB, OLJA cooperative, Plastprint AB, Schuchardt Maskin AB and Prototypen AB. Board member of Nefab AB, HL Display AB, Söderbergsföretagen AB, Vitrinen AB, Chiffonjén AB and Östrand o Hansen AB.	—	—	—
Background	President and CEO of Nefab.	Senior management positions within ABB.	Employed at Nolato Gota.	Employed at Nolato Cerbo.
Attendance	5 out of 5 meetings	3 out of 5 meetings	4 out of 5 meetings	5 out of 5 meetings
Remuneration¹⁾	252,000	190,000	0	0
Shareholding²⁾	2,000 B (2,000 B)	0	0 (0)	0 (0)
Dependence	Independent of the company and major shareholders.	Independent of the company and major shareholders.	—	—

Deputy employee representatives are Ingegerd Andersson (LO), Arif Mislimi (LO) and Jonny Petersson (PTK).

¹⁾ For further information about remuneration, see Note 10 on page 64.

²⁾ Shareholding in Nolato at 31 December 2016 (31 December 2015) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com

Nolato Group management

					
Name	Christer Wahlquist	Per-Ola Holmström	Johan Iveyberg	Jörgen Karlsson	Johan Arvidsson
Employed	1996	1995	2010	1995	1994
Position	President and CEO since February 2016.	Executive Vice President and CFO since 1995	President of Nolato Medical since 2016 Managing Director of Nolato MediTech since 2010	President of Nolato Telecom since 2009 and Managing Director of Nolato Beijing since 2007	President of Nolato Industrial since 2012 and Managing Director of Nolato Hungary since 2008
Born	1971	1964	1969	1965	1969
Education	Master of Science (Engineering) MBA	Bachelor of Science (Economics)	Master of Science (Engineering)	Polymer Engineering	Master of Science (Engineering)
Background	Marketing manager MD in Group companies	Authorised public accountant	Senior positions with Trelleborg, Akzo Nobel and Perstorp	Marketing manager MD in Group companies	MD in Group companies
Shareholding ¹⁾	15,712 B (15,712 B)	14,084 B (14,084 B)	0 (0)	0 (0)	5,000 B (5,000 B)
Warrants	38,000 (0)	19,000 (0)	19,000 (0)	19,000 (0)	19,000 (0)

¹⁾ Shareholding in Nolato at 31 December 2016 (31 December 2015) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com

Directors' report and financial statements

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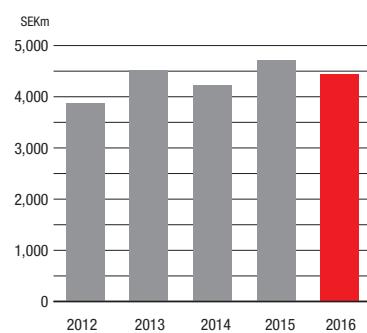
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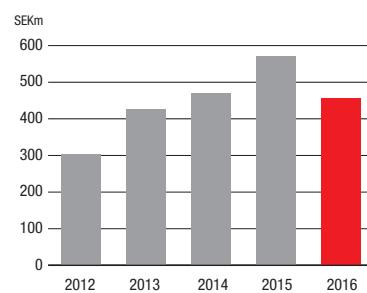
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Directors' report

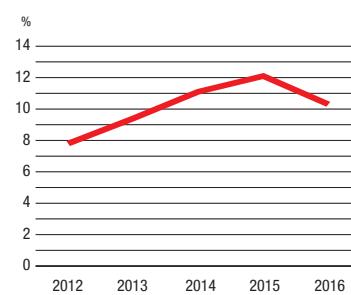
Sales



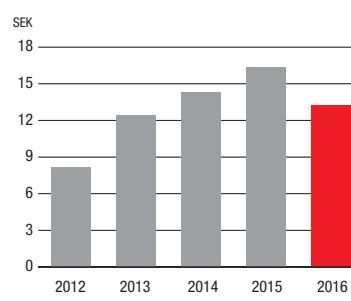
Operating profit (EBITA)



EBITA margin



Adjusted earnings per share



Operations in 2016

The Board of Directors and President and CEO hereby publish the annual accounts and consolidated accounts for Nolato AB (publ), company registration number 556080-4592, for the 2016 financial year.

Nolato is a Swedish publicly listed group with 6,418 employees in wholly owned subsidiaries in Europe, Asia and North America. The companies in the Group develop and manufacture products in polymer materials such as plastic, silicone and TPE for leading customers within medical technology, pharmaceuticals, telecom, automotive and other selected industrial sectors.

The business model is based on close, long-term and innovative collaboration with customers. Nolato endeavours to create added value for both customers and shareholders through leading technology, wide-ranging capabilities and highly efficient production.

Nolato's shares are listed on Nasdaq Stockholm Exchange in the Mid Cap segment, where they are included in the Industrials sector.

Three business areas

Nolato's operational activities are conducted in three customer-focused business areas:

Nolato Medical Development and manufacture of complex product systems and components within medical technology, as well as advanced packaging solutions for pharmaceuticals and dietary supplements.

Nolato Telecom Design, development and manufacture of advanced components and subsystems for mobile phones and related segments such as home electronics, and products and systems for shielding of electronics (EMC).

Nolato Industrial Development and manufacture of products and product systems for customers in the automotive industry, hygiene,

packaging, gardening/forestry, furniture and other selected industrial segments.

The activities of these three business areas are based on the same core elements of corporate responsibility, wide-ranging technical capabilities and advanced production technology. These business areas all enjoy good opportunities to create their own optimal conditions to succeed as a result of their specialisation in and adaptation to their respective customer sectors.

As all three business areas are affected differently by business cycle fluctuations, events and market patterns, the Group benefits from a healthy balance in its operations. Nolato Medical operates on a market with long product life cycles and low business cycle dependency, while Nolato Telecom is the opposite, with short product life spans and high project volatility. And between these two extremes is Nolato Industrial.

The operations of these business areas are presented in more detail on pages 24–37.

Financial summary

Consolidated sales in 2016 totalled SEK 4,447 million (4,726). Adjusted for currency and acquisitions, sales decreased by 8%. Operating profit (EBITA) amounted to SEK 457 million (570), giving an EBITA margin of 10.3% (12.1).

Operating profit (EBIT) totalled SEK 443 million (556) after an expense of SEK 14 million in amortisation of intangible assets arising in connection with acquisitions. The EBIT margin was 10.0% (11.8). For further financial information, see five-year review on page 94.

Consolidated profit after tax was SEK 336 million (420). Earnings per share were SEK 12.77 (15.97). Adjusted earnings per share excluding amortisation of intangible assets arising from acquisitions were SEK 13.19 (16.35). The effective tax rate was 23% (24).

Sales, operating profit and EBITA margin by business area, 2014–2016

SEKm	Sales			Operating profit (EBITA)			EBITA margin (%)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Nolato Medical	1,645	1,464	1,333	216	191	176	13.1	13.0	13.2
Nolato Telecom	1,402	2,017	1,799	131	272	199	9.3	13.5	11.1
Nolato Industrial	1,409	1,251	1,106	134	132	118	9.5	10.6	10.7
Intra-Group adj., Parent Co.	– 9	– 6	– 4	– 24	– 25	– 23	—	—	—
Group total	4,447	4,726	4,234	457	570	470	10.3	12.1	11.1

► Nolato Medical saw sales rise to SEK 1,645 million (1,464). Completed acquisitions contributed SEK 47 million. Adjusted for currency and acquisitions, sales rose by 11%. Operating profit (EBITA) rose to SEK 216 million (191) and the EBITA margin was 13.1% (13.0). Operating profit (EBIT) totalled SEK 203 million (178) after an expense of SEK 13 million in amortisation of intangible assets arising in connection with acquisitions. Volumes increased in both the Medical Devices and Pharma Packaging sectors and most customer segments exhibited positive growth. The year was marked by high project activity and healthy capacity utilisation.

► Nolato Telecom's sales declined to SEK 1,402 million (2,017); adjusted for currency, sales decreased by 30%. Last year, volumes were very strong owing to extremely high demand for customers' handsets on the consumer market. Product changeovers took place as planned during the period. Activity in the EMC (electromagnetic compatibility) area continued to develop well, as have the business area's activities in segments alongside mobile phones. Operating profit (EBITA) amounted to SEK 131 million (272) and the EBITA margin was 9.3% (13.5). Operating profit (EBIT) was SEK 131 million (272). Last year the margin was exceptionally strong due to very high volumes and a favourable product mix.

► Nolato Industrial's sales rose to SEK 1,409 million (1,251). Completed acquisitions contributed SEK 82 million. Adjusted for currency and acquisitions, sales rose by 6%. Volumes in primarily the automotive and hygiene segments showed positive performance. Continued investments in technology and increased market share are having a positive effect. Operating profit (EBITA) totalled SEK 134 million (132), with an EBITA margin of 9.5% (10.6). Operating profit (EBIT) totalled SEK 133 million (131) after an expense of SEK 1 million in amortisation of intangible assets arising in connection with acquisitions. Higher costs associated with new project start-ups and fluctuating volumes and the acquisition had an impact on the margin. For additional comments on financial performance, see page 59 of the directors' report.

Acquisitions

The Group carried out two acquisitions in 2016 – the Swiss company Treff, with operations in medical technology and industry, and the Polish medical technology firm Grizzly Medical. Treff manufactures supply products for medical and self-care diagnostics (in-vitro diagnostics, IVD), as

well as technically advanced precision components for various industrial segments. Treff will contribute healthy profitability, a strengthened customer base and geographical expansion for both Nolato Medical and Nolato Industrial. Grizzly Medical is a relatively small but strategically important acquisition that boosts Nolato's capacity in the low-volume, clean room-based production segment, including assembly and post-processing of medical device components.

Corporate responsibility

Nolato has a long tradition of responsible business, and one of our Basic Principles is that efficient and profitable business operations must be combined with ethics, responsibility and environmental awareness.

It goes without saying that the company should be a good neighbour and a good global citizen, and that we should take responsibility for what we do and always apply sound business ethics.

Over time, the original ideas within Nolato – of basing our operations on professionalism, good organisation and responsibility – have been developed into a carefully thought-out strategy for sustainability. This strategy is based on the conviction that a future-oriented, responsible approach is not only necessary from a responsibility perspective, but also creates opportunities and business benefits.

► We manage sustainability issues in a methodical way and have integrated them into both long-term strategic planning and our day-to-day operations.

► We have set Group sustainable development targets. (See pages 38–43.)

► We have clear guidelines in the form of Nolato's Basic Principles, Code of Conduct and Environmental Policy.

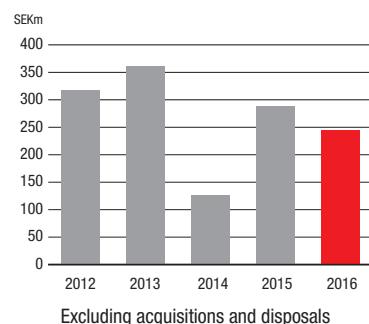
► We have been signatories to the UN Global Compact since 2008 and we comply with the ten principles relating to the environment, human rights and anti-corruption measures. In 2016, Nolato's goals were linked to the UN Sustainable Development Goals.

Sustainable development targets

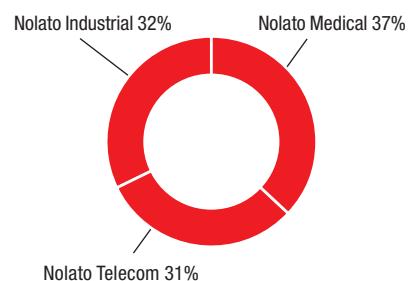
Nolato communicates its sustainable development activities in a separate sustainability report in accordance with the guidelines in the Global Reporting Initiative (GRI G4). The report is also designed to satisfy requirements in the new legislation on compulsory sustainability reporting for major companies in the EU. The Group's performance with regard to carbon emissions is reported according to the Carbon Disclosure Project (CDP).

All units, apart from the two companies acquired in 2016, are certified according to the environmental management standard

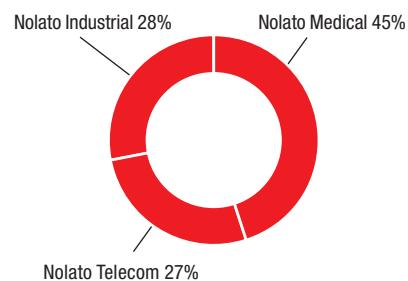
Cash flow after investments



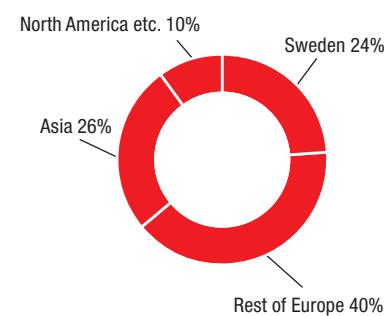
Share of sales

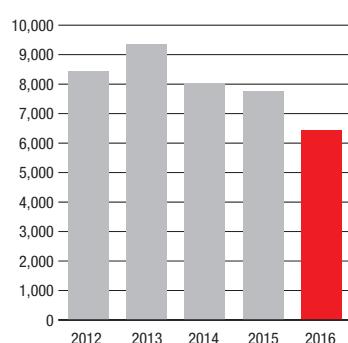
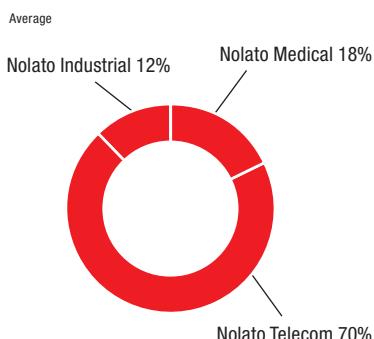
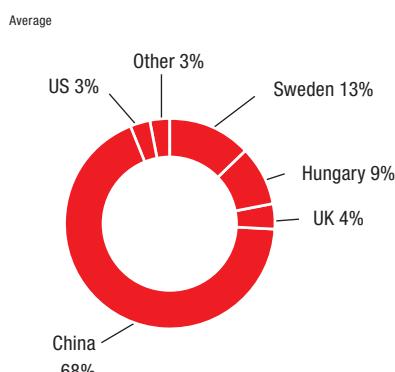


Share of operating profit (EBITA)



Sales by geographic markets



Average no. employees**Employees by business area****Employees by country**

ISO 14001. Work has begun on introducing environmental management systems at the acquired companies.

Energy audits and energy-efficiency enhancements are being implemented throughout the Group and ISO 50001 has been introduced at several plants. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring contributed towards a more efficient use of energy during the year.

The ISO 26000 standard for social responsibility provides a guideline for sustainability work.

Efforts are continuing on the introduction of the OHSAS 18001 health and safety standard, and six units have so far achieved certification.

Employees

The average number of employees at Nolato in 2016 was 6,418 (7,759).

Of the total number of employees in the Group, 49% (50) were women.

All units are wholly owned by Nolato and comply fully with the guidelines in Nolato's Basic Principles and Code of Conduct, which are compiled in The Nolato Spirit booklet. The practical work relating to personnel issues in the Group is decentralised. This means each individual Group company is responsible for managing personnel issues in a way that complies with both Group guidelines and the legislation and culture of the country in question.

All Nolato employees have the right to be represented by trade unions, and to collective agreements. In Sweden and China, the majority of employees are covered by collective agreements. At the units in other countries, there are no unions or collective agreements, and this reflects a normal situation in these countries.

In Beijing, China, where the Group has its largest concentration of employees with around 60% of the employees, an Employee Care Programme was introduced and further developed in 2016. The aim of this is to ensure good conditions for employees both at work and in their free time.

To further strengthen our ability to quickly obtain information about breaches of the Group's Code of Conduct and other serious irregularities, there is a whistleblowing system. This enables members of staff to alert the company to any irregularities without risk of reprisal or pressure. No cases were reported in 2016.

The total figure for the average number of employees includes approximately 3,000 staff in China who are employed through staffing agencies. This form of employment has mainly been chosen to make it easier for the business to recruit a work force for mobile phone projects and consequently

avoid creating its own large recruitment organisation. In accordance with the Group's policy, these employees are covered according to the same principles as Nolato's other employees in China with regard to the setting of wages, benefits, working hours, work environment, social responsibility, etc.

Zero tolerance on ethical issues

Nolato has zero tolerance of bribery, corruption and cartel formation. We therefore work continuously on managing and monitoring the methods used by the units within the Group to conduct business, based on Nolato's Basic Principles and Code of Conduct.

We pay particular attention to ethical issues in our relationships with our partners. Standard business practice and corporate culture must be observed in each individual country, but if business practice does not comply with our ethical rules we must refrain from doing business or take alternative actions. We carry out annual evaluations within this area using UN Global Compact checklists. No events relating to corruption or inadequate business ethics were recorded in 2016.

The guidelines in Nolato's Code of Conduct also apply to suppliers and other Nolato business partners. Fulfilment of these guidelines is checked by means of periodic assessments. In 2016, Group companies conducted 173 (134) evaluations of suppliers' sustainability work. The suppliers satisfied Nolato's requirements at an acceptable or good level. Cooperation was discontinued in one case due to certain deficiencies.

Environmental issues

The Group's operations involve the use of energy, raw materials and chemicals, emissions to air and water, and waste. All units, apart from the two companies acquired in 2016, are certified according to the environmental management standard ISO 14001. Work has begun on introducing environmental management systems at the acquired companies. Other plants are working on updating their management systems to comply with new requirements in ISO 14001:2015. This work will be completed by the end of 2018.

Systematic environmental work is carried out in the Group to reduce environmental impact and improve resource efficiency. This work is described on pages 38–43 and is reported in the separate sustainability report at www.nolato.com/sustainability.

All production units in Sweden are obliged to provide notifications pursuant to the Swedish Environmental Code. The Group's units outside Sweden require permits or are covered by similar requirements in accordance with environmental legislation in the country in question. Sales from operations with permit

requirements and notification obligations make up all of the Group's sales. No renewal of environmental permits or update of notification cases are planned for 2017.

In most cases, regular reports are submitted to the environmental authorities, and the supervisory authorities carry out inspections. No breaches of environmental legislation were registered in 2016. With regard to customer requirements in the area of social responsibility and the environment, evaluations and audits of Nolato's operations are carried out. In 2016, the results of these remained good. Three plants in China and one in Malaysia have been approved as Sony Green Partners.

Operational risks

An important aspect of Nolato's strategic planning is identifying potential risks in the organisation, assessing their likelihood and any consequences and minimising the negative impact that such risks could have on the Group.

Financial risks are managed in accordance with a financial policy established annually by the Board of Directors.

An analysis of potential risks in Nolato's operations and how we manage these risks can be found on pages 56–57. Further information on Nolato's assessment of risks is provided on page 21.

Management systems

Nolato's production units are all certified in accordance with the ISO 9001 quality management system and the ISO 14001 environmental management system, with the exception of the two acquired companies, which will be certified over the next two years.

A number of units are also certified in accordance with ISO standards for the automotive industry (ISO 16949), medical technology (ISO 13585) or pharmaceutical packaging (ISO 15378).

A number of units have integrated the various management systems in order to cover a broader operational area.

A health and safety management system (OHSAS 18001) is in place at several of Nolato's units. Six units are currently certified and work on this is continuing.

Social responsibility standard ISO 26000 provides a guideline for Nolato's Corporate Responsibility work.

Nolato shares

Nolato was registered on the Stockholm Stock Exchange OTC list in 1984. The company's B shares are now listed on Nasdaq Stockholm in the Mid Cap segment, where they are included in the Industrials sector. The company's A shares are not listed.

The share capital totals SEK 132 million, divided into 26,307,408 shares. Of these,

2,759,400 are A shares and 23,548,008 are B shares. Each A share entitles the holder to ten votes, while a B share entitles the holder to one vote. All shares have equal rights to the assets and earnings of the company. At the end of 2016, Nolato had 11,982 (10,487) shareholders. The largest shareholders are the Jorlén family with 10%, the Boström family with 9%, Didner & Gerge Funds with 8%, the Hamrin family with 6%, Lannebo Funds, Swedbank Robur Funds and SEB Investment Management with 4% of the capital each.

Nolato does not own any of its own shares. There are no restrictions as a result of legal provisions or the company's Articles of Association that affect the transferability of the shares.

In 2016, the Group's top management were offered the opportunity to acquire warrants for the purchase of shares at a predetermined price. If they are fully subscribed, the warrants will result in the number of shares increasing by 240,500, which would produce a dilution effect of approximately 1%.

Further information about Nolato's shares can be found on pages 44–45. Up-to-date information about the share price is always available at www.nolato.com.

Corporate governance

Basic information about the company's governance, Board of Directors and management can be found on pages 46–49. Nolato's formal corporate governance report is available at www.nolato.com/corpgov.

Remuneration guidelines

The guidelines for the remuneration of senior executives agreed on at the latest Annual General Meeting are detailed in Note 10 on page 72. This note also explains what happens if these executives resign or are dismissed by the company. These guidelines are also essentially the same as the Board's proposals for guidelines for the remuneration of senior executives proposed to the 2017 Annual General Meeting.

Parent Company

The Parent Company, Nolato AB, is a holding company which carries out joint Group management functions and financial and accounting functions.

Sales totalled SEK 46 million (45). Profit after financial income and expense decreased to SEK 70 million (101), owing mainly to reduced earnings from investments in Group companies.

Proposed appropriation of profits

The profit at the disposal of the Annual General Meeting is as follows:

Retained earnings	SEK 496 million
Profit for the year	SEK 262 million
Total	SEK 758 million

The Board of Directors and the President and CEO propose that these earnings be appropriated as follows:

Div. to shareh. of SEK 10.50 per share	SEK 276 million
To be carried forward	SEK 482 million
Total	SEK 758 million

The proposed dividend is, in the view of the Board of Directors, justifiable with respect to the demands that the type and size of operations and the risks associated with them place on shareholders' equity and the company's capital requirements, liquidity and financial position.

Future performance

Nolato's financial position remains very strong, providing flexibility and opportunities to act, while enabling our customers to feel secure in their choice of Nolato as supplier.

Nolato has an excellent platform for its future operations through a high level of technological expertise and professionalism, modern production units, a clear focus on sustainability and a customer-specific geographic presence in Europe, Asia and North America, as well as a strong financial position.

For 2017, in specific terms, this means continuing to explore acquisition opportunities, preferably in North America, but also bolt-on acquisitions on the technology side to enable us to expand our customer offering. Nolato Telecom will continue to work on broadening its offering to related products with our integrated solutions. Nolato Medical has opportunities for persistent growth through investment in new projects and customer relationships. Nolato Industrial will continue expanding into new markets and growing through acquisitions.

However, Nolato does not provide any earnings forecast because as a supplier, the company conducts operations that are highly dependent on its customers' internal decisions and commercial performance. Factors among customers that we cannot influence in the short term, such as postponed or cancelled projects, higher or lower sales volumes and longer or shorter product life span, are thus of great significance to Nolato's sales and profit.

The positions we have on the market and the investments we have implemented within each business area should enable us to continue to develop Nolato regardless of economic fluctuations. We will continue to grow by working even more closely with our customers to ensure we satisfy their demands and requirements.

Significant risks, risk exposure and risk management

The letter by each risk refers to the further information on Nolato's assessment of risks that is provided on page 21.

Operational risks	Risk exposure	Risk management
A Business cycle risk The risk that an economic downturn could have a significant impact on Nolato's performance and earnings.	Nolato Medical and Nolato Telecom's operations have a fairly low sensitivity to economic and business cycle fluctuations, while Nolato Industrial's business generally follows the Northern European industrial business cycle.	Active monitoring of markets and efficient decision-making hierarchy enable quick decisions to be taken to adapt resources at an early stage ahead of an anticipated economic downturn.
B Subcontractor risk The risk that changes at customers could have a significant negative impact on Nolato's performance and earnings.	As a subcontractor, Nolato is highly dependent on customers' internal decisions and commercial performance. Factors among customers that we cannot influence include postponed or cancelled projects, higher or lower sales volumes and longer or shorter product life spans.	By means of active and close contact with customers we endeavour to identify changes at an early stage and adapt our resources. Within mobile phone operations, which are characterised by rapid changes in project life cycles and volumes, all production takes place in Asia. This provides significant flexibility and good opportunities to manage this risk in a cost-effective way.
C Customer dependence The risk that changes at individual customers could have a significant negative impact on Nolato's performance and earnings.	Dependence on individual customers is lowest in Nolato Industrial, whose market is made up of a large number of customers. Nolato Medical has good risk diversification across a large number of customers, while Nolato Telecom has fewer customers.	We are endeavouring to broaden our customer base and offering within Nolato Telecom.
D Supplier dependence The risk of a supplier being unable to deliver to Nolato on time or at the right quality.	If a significant, strategic supplier does not fulfil its undertakings we could face problems supplying on time and at the right quality to our customers.	For input goods and machinery, this risk is limited by the fact that there are a number of alternative suppliers. In terms of components for system products, the choice of supplier is usually made in consultation with Nolato's customer.
E Raw material price risk The risk of an important raw material increasing in price and having a significant negative effect on various projects. In Nolato, this mainly applies to various plastic raw materials.	Quantities of plastic raw material in our production vary from business area to business area. For Nolato Telecom, with its many thin-walled products, the plastic raw material only accounts for around 10–15 percent of the selling price, while the corresponding figure is around 20–25 percent for Nolato Medical and 25–30 percent for Nolato Industrial.	We endeavour to include price adjustment clauses in supply agreements that cover an extended period of time. Product life span within Nolato Telecom is short, usually less than one year, which limits the risk in this business area.
F Energy cost risk The risk of the cost of energy rising and having a significant negative impact on profitability. Within Nolato this mainly applies to the purchase of electricity.	The Group's production operations are relatively electricity-intensive. In 2016, the Group's energy costs totalled SEK 123 million, of which 85% related to electricity.	The risk of negative effects from rising electricity prices is addressed by the Group entering into fixed price agreements for 20–80% of electricity requirements for the next four to 12 quarters.
G Production risks The risk of significant supply delays and/or quality issues.	As a subcontractor, the products and components that we manufacture are supplied in accordance with customer specifications and quality requirements. Disruptions can mainly occur during the start-up of a project, but also during ongoing production.	In order to counteract disruptions, the Group follows an advanced concept involving competent staff, quality assurance systems, vision monitoring systems and checklists. All production units are certified in accordance with ISO 9001. Most are also certified in accordance with industry-specific standards such as ISO/TS 16949 (automotive) and ISO 13485 (medical technology).
H Property damage and disruptions The risk of a negative impact on earnings and customer confidence as a result of a fire, explosion, natural disaster, damage to machinery, etc.	Major property damage to a building or production equipment can lead to production losses that could impact the Group's profit. Our base technologies are in place at most of the Group's production units, making it possible to relocate production from one affected unit to another unit in the event of disruptions and consequently mitigate the effects of the damage.	All units must follow Nolato's risk management manual to achieve the specified level of risk and thereby reduce the risk of significant damage and create strong security of supply. The risk manual also provides guidelines for the Group's property insurance. External risk engineers inspect the production units based on a rolling schedule to verify that risks are being managed in line with the manual.
I Legal risks The risk of significant disputes with different external stakeholders.	Legal risks can primarily arise in connection with the supply of products. This may concern issues relating to quality or liability and intellectual property rights.	To prevent disputes Nolato works with external lawyers and consultants on legal issues, for example on agreements with customers and suppliers. The Group also has internal policies and regulations relating to which agreements senior executives are authorised to enter into.

<p>J Product liability risk The risk of faults in a product manufactured by Nolato leading to significant financial claims on the Group.</p>	<p>Design liability for products and components usually lies with customers. Nolato's risk is therefore limited solely to manufacturing faults.</p>	<p>The Group follows an advanced concept involving competent staff, quality assurance systems and checklists. In many cases, in-line monitoring takes place using automated vision systems. All production units are certified in accordance with ISO 9001. Most are also certified in accordance with industry-specific standards such as ISO/TS 16949 (automotive) and ISO 13485 (medical technology).</p>
<p>K Sustainable development risks The risk of significant environmental damage, which could lead to costs or have a negative impact on Nolato's reputation. The risk of the Group's costs increasing significantly or of negative publicity owing to events relating to employees, business ethics or other areas related to social responsibility.</p>	<p>Nolato's operations do not involve any significant environmental impact through a risk of emissions to air, water and land. Nolato has large units active in Sweden, Hungary, the UK, Switzerland, the US and China. The majority of our employees are outside Sweden. The concentration in Asia brings a heightened risk in areas such as working conditions and business ethics (corruption).</p>	<p>The production units have the necessary environmental permits and fulfil the requirements of other relevant environmental legislation. All units apart from two recently acquired companies are certified in accordance with ISO 14001. Regular risk assessments are carried out to identify new environmentally related risks and/or costs. All major units are wholly owned by Nolato, which facilitates the Group's management of sustainable development. Nolato has a significant focus on all units creating good working conditions for employees. Nolato has a special group in Beijing that works with issues relating specifically to China. The Beijing operations are certified according to OHSAS 18001. Nolato has zero tolerance of bribery, corruption and cartel formation. Nolato's core values and Code of Conduct are continually communicated to staff. Whistleblowing is applied within the Group. Suppliers are regularly assessed via audits and questionnaires.</p>

Financial risks*	Risk exposure	Risk management
<p>L Customer credit risk The risk of a major customer becoming insolvent and being unable to pay for orders made.</p>	<p>In terms of customers within Nolato Medical and Nolato Industrial, this risk is mitigated by sales taking place in a large number of countries to a large number of customers, which diversifies the risk. Nolato Telecom has fewer customers. If any of the Group's major customers were to suffer financial difficulties, the Group could sustain significant bad debt losses. The Group's maximum exposure of accounts receivable amounted to SEK 819 million at year-end (all receivables from all customers).</p>	<p>The Group's revenues are mostly derived from medium-sized and large global customer groups, which reduces the risk of credit losses but does not eliminate them. Nolato continually monitors the development of overdue receivables and the financial position of large customers.</p>
<p>M Foreign exchange risk The risk of the difference between different currencies having a significant negative impact on Nolato's performance and earnings. This risk consists of transaction exposure, which derives from buying and selling in different currencies, and translation exposure, which derives from the translation of foreign subsidiaries' assets, liabilities and earnings to Swedish kronor.</p>	<p>Estimated net flows in foreign currency amounted to SEK 302 million at year-end, 49% of which was hedged. This means that SEK 155 million of estimated net flows were unhedged and a change in the value of the Swedish krona of +/–5% would have an impact of SEK 8 million on Group profit. The Group has SEK 777 million in foreign net assets, mainly in China, Hungary and the UK. A 5% appreciation in the Swedish krona would have an impact of SEK 39 million on the net assets in the Group.</p>	<p>Nolato carries out short-term currency hedging for part of the Group's estimated net exposure in foreign currencies in order to even out fluctuations in earnings. See the table in Note 4 on page 59.</p>
<p>N Interest rate risk The risk that the Group's net interest expense will significantly increase in the event of changes to market interest rates.</p>	<p>At 31 December, interest-bearing liabilities amounted to SEK 819 million. An increase in the interest rate of one percentage point would result in an increase of SEK 8 million in annual interest expense. At 31 December the Group's financial net liabilities amounted to SEK 408 million.</p>	<p>In order to limit interest rate risk, the portion of those interest-bearing liabilities exceeding SEK 400 million must have a fixed interest term maturity structure as follows: Loans with a maturity of up to one year shall account for 35–65%. Loans with a maturity of over one year shall account for 35–65%.</p>
<p>O Financing and liquidity risk The risk of the Group having problems accessing capital.</p>	<p>Nolato has total loan agreements of SEK 977 million, of which SEK 450 million matures on 21/07/2017, SEK 490 million matures on 27/09/2021 and SEK 37 million between 2017 and 2023.</p>	<p>In order to maintain financial flexibility and meet the Group's capital requirements, loan facilities are continually agreed.</p>

*Financial risk management is described in detail in Note 4 on pages 67–68.

Consolidated income statement

SEKm	Note	2016	2015
Net sales	5	4,447	4,726
Cost of goods sold	6	– 3,733	– 3,904
Gross profit		714	822
Other operating income	7	18	13
Selling expenses		– 115	– 109
Administrative expenses	8	– 170	– 170
Other operating expenses	9	– 4	—
		– 271	– 266
Operating profit	10, 13, 14	443	556
Financial income	11	3	6
Financial expenses	11	– 8	– 7
		– 5	– 1
Profit after financial income and expenses		438	555
Tax	12	– 102	– 135
Profit for the year attributable to Parent Company shareholders		336	420
Earnings per share, basic and diluted (SEK)*		12.77	15.97
Number of shares at 31 December (thousand)		26,307	26,307
Average number of shares (thousand)		26,307	26,307

*The company has a share warrant programme (Series 1) that may result in the dilution of the number of shares.

Consolidated comprehensive income

SEKm	2016	2015
Profit for the year attributable to Parent Company shareholders	336	420
Other comprehensive income		
<i>Items that cannot be transferred to profit for the period</i>		
Revaluations of defined benefit pension schemes	8	1
Tax attributable to items that cannot be reversed to profit for the period	– 2	—
	6	1
<i>Items transferred or that could be transferred to profit for the period</i>		
Translation differences for the year on translation of foreign operations	12	– 7
Changes in the fair value of cash flow hedges for the year	– 2	3
Tax attributable to changes in the fair value of cash flow hedges	—	– 1
	10	– 5
Total other comprehensive income, net	16	– 4
Comprehensive income for the year attributable to Parent Company shareholders	352	416

Comments on the consolidated income statement

Net sales

Consolidated net sales for 2016 totalled SEK 4,447 million (4,726), a decline of 6%. Adjusted for currency and acquisitions, sales decreased by 8%.

Nolato Medical sales rose by 12% to SEK 1,645 million (1,464). Adjusted for currency and acquisitions, sales rose by 11%. Volumes increased in both the Medical Devices and Pharma Packaging sectors and most customer segments experienced positive growth.

Nolato Telecom's sales dropped by 30% to SEK 1,402 million (2,017). Adjusted for currency, sales decreased by 30%. Last year, volumes were very strong owing to extremely high demand for customers' handsets on the consumer market. Product changeovers took place as planned during the period. Activity in the EMC (electromagnetic compatibility) area continued to develop well, as have the business area's activities in segments alongside mobile phones.

Nolato Industrial sales amounted to SEK 1,409 million (1,251), an increase of 13%. Adjusted for currency and acquisitions, sales rose by 6%. Volumes in primarily the automotive and hygiene segments showed positive performance. Continued investments in technology and increased market share are having a positive effect.

Gross profit

Gross profit totalled SEK 714 million (822) and was negatively affected by a decline in sales and a lower margin. The decrease in sales was entirely attributable to Nolato Telecom and it was also primarily this business area that reduced the margin, from 13.5% in 2015 to 9.3%. In 2015 the margin was exceptionally strong due to very high volumes and a favourable product mix. Nolato Medical's margin remained largely unchanged, while Nolato Industrial's margin dropped from 10.6% in 2015 to 9.5% in 2016. Higher costs associated with new project start-ups and fluctuating volumes and the acquisition impacted Nolato Industrial's margin.

The cost of goods sold consists of production costs for materials and manufacturing salaries, as well as other production expenses. As a percentage of sales, the gross margin was 1.3 percentage points lower than in 2015, chiefly because of a change in product mix in Nolato Telecom.

Total depreciation increased and amounted to SEK 193 million (181). This consisted mainly of depreciation of fixed assets in production, which is included in the cost of goods sold in the income statement at SEK 177 million (164). Other depreciation primarily relates to amortisation of intangible assets arising in connection with acquisitions. The increase in depreciation is due to the investments made by the Group over the past few years to expand production capacity, with higher investments than depreciation.

Other operating income

Other operating income has increased due to net positive currency effects.

Selling and administrative expenses

Selling and administrative expenses saw a slight increase compared to 2015 and amounted to SEK 285 million (279). These expenses consist of personnel costs and other costs associated with the sales organisation, and administrative functions. Selling expenses also include costs for amortisation of intangible assets arising from acquisitions, which amounted to SEK 14 million (14). They comprise amortisation of customer relationships that are assigned value in the acquisition analysis in connection with acquisitions.

Operating profit

Operating profit was SEK 443 million (556). The decline is due to reduced earnings for Nolato Telecom, while Nolato Medical and Nolato Industrial saw an improvement in earnings.

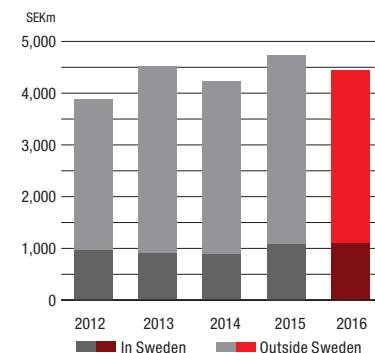
Net financial income/expense

Net financial income/expense in 2016 declined compared with 2015 by a net amount of SEK 4 million, owing to reduced interest income and negative currency effects. Profit after net financial income/expense was SEK 438 million (555).

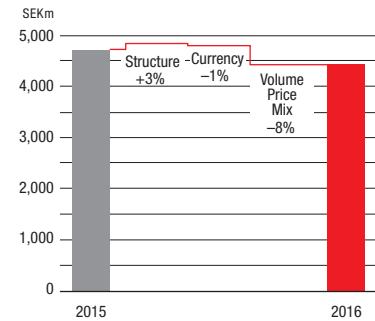
Profit after tax

Profit after tax totalled SEK 336 million (420), with earnings per share of SEK 12.77 (15.97). The effective tax rate was 23% (24). The slightly lower tax rate was mainly due to an increased share of earnings in countries with lower tax rates.

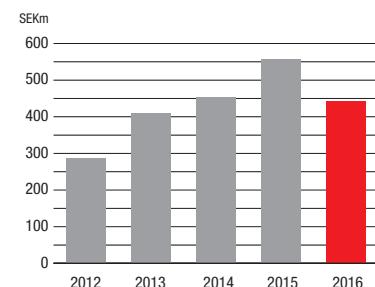
Sales



Changes in sales



Operating profit (EBIT)



Consolidated balance sheet

SEKm	Note	2016	2015
Assets			
Non-current assets			
Intangible non-current assets	15	849	543
Property, plant and equipment	16	1,205	952
Non-current financial assets	17	2	2
Other non-current receivables		1	1
Deferred tax assets	12	46	44
Total non-current assets		2,103	1,542
Current assets			
Inventories	18	393	279
Accounts receivable	17	819	874
Current tax assets		29	13
Other current assets	19	159	115
Other current financial assets	17	10	7
Cash and cash equivalents	17	411	403
Total current assets		1,821	1,691
Total assets		3,924	3,233
Shareholders' equity and liabilities			
Equity attributable to Parent Company shareholders			
Share capital	20	132	132
Other capital contributed		228	228
Other reserves	21	105	95
Retained earnings		1,385	1,304
Total shareholders' equity		1,850	1,759
Non-current liabilities			
Provisions for pensions and similar obligations	23	202	127
Non-current financial liabilities	22	517	—
Deferred tax liabilities	12	88	69
Other provisions	24	85	32
Total non-current liabilities		892	228
Current liabilities			
Accounts payable	22	583	675
Current tax liabilities		10	10
Other current financial liabilities	22	104	155
Other current liabilities	25	485	406
Total current liabilities		1,182	1,246
Total liabilities		2,074	1,474
Total liabilities and shareholders' equity		3,924	3,233

Comments on the consolidated balance sheet

Assets

Non-current assets increased, as net investments in property, plant and equipment were higher than depreciation/amortisation of SEK 193 million for the year. Net investments totalled SEK 219 million, excluding acquisitions. During the year, investments have been made primarily for expansion in Nolato Medical and Nolato Industrial, where production plants have been expanded and machine capacity increased. Other changes in non-current assets consist of translation effects from assets in foreign companies.

Nolato made two acquisitions in 2016; Treff AG in Switzerland and Grizzly Medical in Poland. These acquisitions have increased the non-current assets in the form of their property, plant and equipment, primarily production plants, but also intangible assets in the form of goodwill and customer relationships.

Current assets increased by SEK 130 million. Inventories and other receivables increased. The increase in assets was mainly the result of the assets of the acquired companies. Cash and bank balances remained largely unchanged, amounting to SEK 411 million (403).

Shareholders' equity

Shareholders' equity increased as a result of comprehensive income for 2016 of SEK 352 million, which consists of profit after tax and currency effects from translation differences and the revaluation of defined benefit pension schemes. Dividends in the amount of SEK 263 million were paid, thereby reducing shareholders' equity. The return on shareholders' equity was 19.0% (25.3) and the decline was due to the drop in earnings compared with 2015.

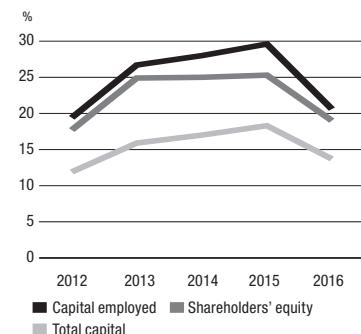
Liabilities

Non-interest-bearing liabilities and provisions rose by SEK 62 million to SEK 1,255 million.

Other provisions, customer advances and other current liabilities increased. The increase in liabilities was mainly due to the liabilities of the acquired companies. The average total working capital requirement in relation to sales was 5.9% (3.2). Combined with increased average capital employed, mainly owing to the acquisitions, the reduced earnings meant that the return on capital employed dropped to 20.6% (29.6).

Interest-bearing liabilities rose to SEK 819 million (281). Interest-bearing liabilities to credit institutions increased to SEK 617 million (154), while interest-bearing pension liabilities rose to SEK 202 million (127). The change was primarily an effect of the financing of the acquisitions, as well as pension liabilities in the Swiss acquisition. Interest-bearing assets amounted to SEK 411 million (403), and accordingly, net financial debt totalled SEK 408 million (+122, net assets). Nolato has loan agreements of SEK 977 million, of which SEK 450 million matures in July 2017, SEK 490 million in September 2021 and other credit lines of SEK 37 million mature between 2017 and 2023. Of these amounts, SEK 360 million was unutilised at the close of 2016. The loan agreements' credit frameworks mainly provide capacity for capital requirements in the event of future acquisitions.

Return



Equity/assets ratio



Financial position SEKm

	31 Dec. 2016	31 Dec. 2015
Interest-bearing liabilities, credit institutions	– 617	– 154
Interest-bearing pension liabilities	– 202	– 127
Total borrowings	– 819	– 281
Cash and cash equivalents	411	403
Net financial liabilities (–)/net financial assets (+)	– 408	122
Working capital	327	196
<i>As a percentage of sales (avg.) (%)</i>	5.9	3.2
Capital employed	2,668	2,039
<i>Return on capital employed (avg.) (%)</i>	20.6	29.6
Shareholders' equity	1,850	1,759
<i>Return on shareholders' equity (avg.) (%)</i>	19.0	25.3

Changes in consolidated shareholders' equity

SEKm	Share capital	Other capital contributed	Hedging reserves	Attributable to Parent Company shareholders	Retained earnings	Total shareh. equity
Opening balance, 1 January 2015	132	228	–2	102	1,107	1,567
Profit for the year	—	—	—	—	420	420
Other comprehensive income for the year	—	—	2	–7	1	–4
Comprehensive income for the year	—	—	2	–7	421	416
Dividend for 2014	—	—	—	—	–224	–224
Closing balance, 31 December 2015	132	228	—	95	1,304	1,759
Opening balance, 1 January 2016	132	228	—	95	1,304	1,759
Profit for the year	—	—	—	—	336	336
Other comprehensive income for the year	—	—	–2	12	6	16
Comprehensive income for the year	—	—	–2	12	342	352
Dividend for 2015	—	—	—	—	–263	–263
Warrants included in incentive programme (Series 1)	—	—	—	—	2	2
Closing balance, 31 December 2016	132	228	–2	107	1,385	1,850

Consolidated cash flow statement

SEKm	Note	2016	2015
	28		
Operating activities			
Operating profit		443	556
<i>Adjustments for items not included in cash flow:</i>			
Depreciation/amortisation and impairment		193	181
Provisions		6	8
Unrealised exchange rate differences		4	-1
Other items		2	—
Pension payments		-5	-5
Interest received		3	5
Interest paid		-7	-8
Realised exchange rate differences		-13	-25
Income tax paid		-119	-159
Cash flow from operating activities before changes in working capital		507	552
Cash flow from changes in working capital			
Changes in inventories		-31	-15
Changes in accounts receivable		134	-115
Changes in accounts payable		-118	106
Other changes in working capital		-26	4
		-41	-20
Cash flow from operating activities		466	532
Investing activities			
Acquisition of property, plant and equipment		-223	-246
Business combinations, excluding cash and cash equivalents	28, 29	-398	—
Sale of property, plant and equipment		2	2
Cash flow from investing activities		-619	-244
Cash flow before financing activities		-153	288
Financing activities			
Borrowings		485	90
Repayment of loans		-65	-4
Dividend paid		-263	-224
Cash flow from financing activities		157	-138
Cash flow for the year		4	150
Cash and cash equivalents, opening balance		403	256
Exchange rate difference in cash and cash equivalents		4	-3
Cash and cash equivalents, closing balance		411	403

Comments on the consolidated cash flow statement

Cash flow from operating activities

Cash flow before investments decreased to SEK 466 million (532). The reduced earnings and additional negative change in working capital had a negative impact on cash flow. The change in working capital was a negative SEK 41 million (-20).

Cash flow from investing activities

Investments affecting cash flow totalled SEK 221 million (244), excluding acquisitions. In 2016, investments for both acquisitions totalled SEK 398 million (0), excluding cash and cash equivalents. Total cash flow-related net investments therefore amounted to SEK 619 million (244). Investments in property, plant and equipment largely comprised machinery and equipment as well as construction in progress, but also to a lesser extent investments in buildings and land in connection with new construction and extensions to factories. Net investments affecting cash flow excluding acquisitions and disposals are divided up between the Group's business areas as SEK 112 million (110) for Nolato Medical, SEK 22 million (20) for Nolato Telecom and SEK 87 million (114) for Nolato Industrial. For Nolato Medical, investments have chiefly consisted of further machinery capacity, primarily

for new customer projects. Nolato Telecom's investments consisted mainly of technology initiatives, expansion of EMC production and investments in the replacement of machinery in China. Nolato Industrial has made investments in further machinery capacity for new projects.

Investments (net)	2016	2015
Buildings and land	8	19
Machinery and equipment	120	179
Construction in progress	93	46
Total investments	221	244

Affecting cash flow, excluding acquisitions and disposals

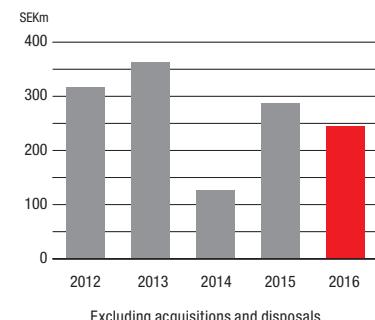
Cash flow after investing activities

Cash flow after investments was SEK 245 million (288), excluding acquisitions. Including acquisitions, cash flow amounted to SEK -153 million (288).

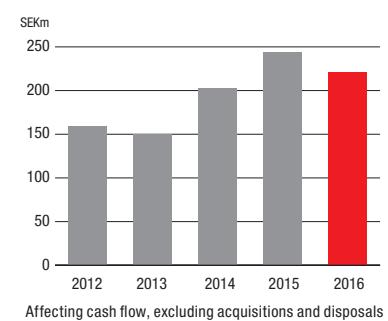
Cash flow from financing activities

Financing activities describe the Group's financing and dividends to shareholders, and totalled a net amount of SEK 157 million (-138). This consists of net borrowings of SEK 420 million (86) and dividends paid totalling SEK -263 million (-224).

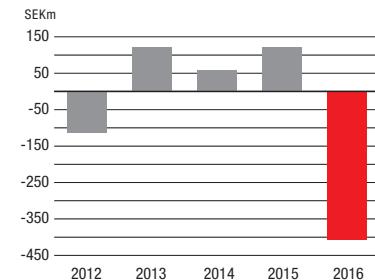
Cash flow after investments



Investments



Net financial liabilities (-)/net financial assets (+)



Notes to the consolidated financial statements

Note 1 General information

Nolato is a high-tech developer and manufacturer of polymer product systems for leading customers in medical technology, telecom, hygiene, automotive products and other selected industrial sectors.

The Parent Company Nolato AB, company registration number 556080-4592, is a limited company with its registered office in Torekov, Sweden. Its head office address is Nolato AB, 269 04 Torekov, Sweden.

Nolato's B shares are listed on Nasdaq Stockholm Exchange in the Mid Cap segment, where they are included in the Industrials sector.

Note 2 Accounting and valuation policies

Compliance with standards and laws

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU, and interpretations from the International Financial Reporting Interpretations Committee (IFRIC). The Swedish Financial Accounting Standards Council's recommendation RFR 1 Supplementary Rules for Consolidated Financial Statements has also been applied.

The Parent Company applies the same accounting policies as the Group, except in those cases specified in the section 'Parent Company's accounting policies'.

Significant accounting policies applied

Apart from those exceptions described in further detail, the following accounting policies have been applied consistently to all periods presented in the Group's financial statements. The accounting policies have been applied consistently by the Group's companies. In addition, comparison figures have been reclassified in those cases where the policies have been changed in order to correspond with the figures presented in this year's financial statements, as described below.

Changes to the Group's accounting policies

None of the changes and interpretations to existing standards that are to be applied for the financial year beginning 1 January 2016 have had any material impact on the Group's financial statements.

New IFRS standards and interpretations which have not yet been applied

IASB and IFRIC have issued new standards and statements which come into force for financial years beginning on 1 January 2017 or later. There are no plans for the early application of new or amended standards for future application. To follow is a description of the IFRS standards that may affect the Group or Parent Company's financial statements. None of the other new standards or interpretations published by IASB are expected to have an impact on the Group or Parent Company's financial statements.

IFRS 9 *Financial Instruments* to be applied for the financial year beginning no earlier than 1 January 2018, will not have any material impact on the Group's reporting of financial instruments.

IFRS 15 *Revenue from Contracts with Customers* enters into force on 1 January, 2018. During the year, Nolato carried out an analysis of the standard and it will not have any material impact on the Group's reporting of revenue, however the Group will be affected by extended disclosure requirements.

IFRS 16 *Leases* replaces IAS 17 as of 1 January, 2019.

There is no information as yet about when the EU will adopt the standard, which is why there is no decision as regards when or how the standard will be applied. An investigation will be initiated in 2017 to look at how IFRS 16 will affect the Group's financial statements.

Basis for preparing the financial statements

The functional currency of the Parent Company is the Swedish krona (SEK), which is also the reporting currency for the Parent Company and the Group. This means that the financial statements are presented in Swedish kronor. All amounts are presented in millions of kronor unless otherwise indicated.

Assets and liabilities are reported at their historical acquisition cost, except for certain financial assets and liabilities, which are measured at fair value. In Nolato, these consist of currency derivatives measured at fair value. Non-current assets and non-current liabilities consist in all significant respects only of amounts which are expected to be recovered or paid after more than 12 months from the balance sheet date. Current assets and current liabilities consist in all significant respects only of amounts which are expected to be recovered or paid within 12 months of the balance sheet date. Offsetting of receivables and liabilities and of income and expenses is done only if this is required or expressly permitted.

Preparing the financial statements in accordance with IFRS requires Group management to make judgements, estimates and assumptions that affect the application of accounting policies and the recognised amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on historical experience and a number of other factors which seem reasonable given current conditions. The actual outcome may deviate from these estimates and assumptions. The estimates and assumptions are reviewed regularly. Changes to estimates are reported during the period when the change is made if the change only affects that period, or during the period when the change is made and future periods if the change affects both the current period and future periods.

Assumptions made by Group management in the application of IFRS standards that have a significant impact on the financial statements, and estimates made that may entail significant adjustments to the financial statements for the following year are described under Note 3, 'Significant estimates and judgements'.

Business combinations and consolidation principles

Subsidiaries are companies in which Nolato AB has a controlling interest. A controlling interest exists if Nolato AB has influence over the investment object, is exposed or entitled to variable return from its exposure and can use its interest in the investment to influence the return. When determining whether a controlling interest exists, account is taken of potential voting shares and whether or not there is *de facto* control.

The consolidated financial statements have been prepared in accordance with IFRS 3 Business Combinations and by applying the acquisition method. This method means that shareholders' equity in the Group includes shareholders' equity in the Parent Company and the portion of shareholders' equity in subsidiaries that has accumulated since the acquisition. The difference between the acquisition cost of shares in a subsidiary and that company's shareholders' equity at the time of acquisition, adjusted in accordance with consolidated accounting policies, has been allocated among the assets and liabilities measured at fair value that were taken over on acquisition. Transaction costs on acquisitions are recognised under profit for the year in accordance with IFRS 3 for the Group. Amounts which cannot be allocated are reported as goodwill. Intra-Group transactions and balance sheet items and unrealised gains/losses on transactions between Group companies are eliminated. The accounting policies for subsidiaries

have been changed, where applicable, to ensure the consistent application of consolidated accounting policies.

Translation of foreign currencies

Items included in the financial statements for the various units in the Group are measured in the currency used in the economic environment in which each company primarily operates. The Swedish krona (SEK), which is the Parent Company's functional currency and reporting currency, is used in the consolidated accounts. For subsidiaries, the local currency of their respective countries is used as the reporting currency, and this is considered to constitute the functional currency.

Transactions in foreign currencies are translated into the functional currency at the rate in effect on the transaction date. Exchange rate gains and losses arising from the payment of such transactions and from the revaluation of monetary assets and liabilities denominated in foreign currencies at the rate on the balance sheet date are recognised in profit for the year.

The earnings and financial position of all Group companies are translated into the Group's reporting currency as follows:

- assets and liabilities are translated at the rate on the balance sheet date
- income and expenses are translated at the average rate of exchange for the financial year
- exchange rate differences arising in the translation of foreign operations are recognised as translation differences for the year under other comprehensive income.

Operating segments

An operating segment is a part of the Group that engages in business activities from which income can be generated and expenses incurred, and for which separate financial information is available. An operating segment's performance is also monitored by the company's highest executive decision-maker to evaluate the performance and make decisions about resources to be allocated to the operating segment. The Group's three operating segments are Nolato Medical, Nolato Telecom and Nolato Industrial. See Note 5 for a more detailed description of the breakdown and presentation of the operating segments.

Revenue recognition

Nolato's revenue is primarily derived from the sale of products that have been developed as part of development projects together with our customers. Assignments that often lead to the development of production tools for future production do not always mean that Nolato will be commissioned to manufacture the products. Revenue from development assignments normally amounts to less than ten percent of the Group's total revenue and is very closely linked with production revenues, as it is often conditional upon such revenues. Accordingly, Nolato does not recognise development assignments separately. When Nolato, either following a development assignment or without an assignment, wins a production order, Nolato delivers the product according to the customer's specification and requirements. Nolato essentially manufactures to order and only has limited storage, and operations are based on short production and turnaround times.

Revenue is recognised when virtually all risks and rights associated with ownership are transferred to the buyer, which normally occurs in connection with delivery having taken place, and when the price has been established. The revenues are recognised at the fair value of what has been received or will be received, minus discounts awarded.

Gains or losses with regard to currency forwards used to hedge highly probable forecast sales transactions (cash flow hedges) are recognised in other comprehensive income and transfers to the income statement as other operating income/expense.

Impairment

At each reporting date, the company evaluates if there is objective proof of impairment for a financial asset or group of assets. Objective proof consists partly of observable circumstances that have arisen and that have a negative impact on the possibility of recovering the acquisition cost, and partly of a significant or prolonged reduction in the fair value of a financial investment classified as an available-for-sale financial asset.

The impairment for accounts receivable is established based on historical experiences of bad debt losses on similar receivables. The company classifies accounts receivable as doubtful when they have fallen due for payment and when they are also deemed to be non-recoverable based on other information.

Assets with an indeterminable useful life, goodwill, are not amortised but impairment-tested at least once a year or when there is an indication of impairment. Goodwill impairment losses are not reversed.

Amortised assets are assessed based on a decline in value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is taken in the amount at which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses and its value in use. In assessing the impairment, assets are grouped at the lowest levels at which there are separately identifiable cash flows (cash-generating units). For cash-generating units, goodwill is impaired first.

In calculating the value in use, future cash flows are discounted using a discount rate which takes into consideration the risk-free interest rate and the risk associated with the specific asset.

Impairment of loans receivable and accounts receivable which are recognised at amortised cost, is reversed if a subsequent increase in the recoverable value can be objectively attributed to an event which occurred after the impairment was effected.

Impairment losses on other assets are reversed over profit for the year if there is an indication that there is no longer impairment and there has been a change in the assumptions which formed the basis for calculating the recoverable amount.

An impairment is only reversed to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount which the asset would have had if no impairment had been carried out, taking into account the depreciation/amortisation which would have applied at that time.

Financial income and expenses

Financial income consists of interest income on funds invested. Profit from the disposal of a financial instrument is recognised once the risks and benefits associated with ownership of the instrument have been transferred to the buyer and the Group no longer has control of the instrument.

Financial expenses mainly consist of interest expenses on loans and borrowing costs recognised in profit for the year.

Recognition of income taxes

Income taxes consist of current tax and deferred tax. Income taxes are recognised in profit for the year, except where the underlying transaction is recognised in other comprehensive income, in which case the related tax effect is recognised in other comprehensive income.

Current tax is tax that is payable or receivable in relation to the current year, with the application of the tax rates that have been decided, or decided in practice, at the balance sheet date. Current tax also includes adjustments for current tax attributable to previous periods.

Deferred tax is calculated using the balance sheet method, taking temporary differences between recognised and tax-related values of assets and liabilities as the starting point. Temporary differences are not taken

into account in consolidated goodwill, or for any difference that arises on initial recognition of assets and liabilities that are not business combinations which, at the time of the transaction, affect neither recognised nor taxable earnings. Temporary differences attributable to investments in subsidiaries that are not expected to be reversed within the foreseeable future are not taken into account either. The measurement of deferred tax is based on how underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated using the application of the tax rates and tax rules that have been decided, or decided in practice, at the balance sheet date.

Deferred tax assets in relation to deductible temporary differences and loss carry-forwards are only recognised to the extent that it is likely that these will be utilised. The value of deferred tax assets is reduced once it is no longer deemed likely that they can be utilised.

Deferred tax assets and tax liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and when taxes are charged by one and the same tax authority, and when the Group intends to pay the current tax assets and liabilities at a net amount. For details regarding the Group's taxes, see Note 12.

Any future income tax arising on dividends is recognised at the same time as the dividend is recognised as a liability.

Earnings per share

Earnings per share are calculated based on the consolidated profit for the year attributable to the Parent Company's shareholders and on the weighted average number of shares outstanding during the year. The Group has a share warrant programme (Series 1) that may result in the dilution of the number of shares.

Intangible non-current assets

Intangible assets acquired in a business acquisition that are recognised separately from goodwill consist of customer relationships.

Goodwill

Goodwill consists of the amount by which the consideration transferred exceeds the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the time of the acquisition. Goodwill from the acquisition of subsidiaries is recognised as an intangible asset. Goodwill is not amortised but impairment-tested annually, and is recognised at acquisition cost less accumulated impairment losses. Any gain or loss from the disposal of a unit includes the remaining carrying amount of the goodwill associated with the unit disposed of. Goodwill is allocated to cash-generating units in impairment tests.

Acquired intangible assets are recognised separately from goodwill if they fit the definition of an asset, are separable or arise from contractual or other legal rights and their fair values can be reliably measured.

Customer relations

The Group's capitalised customer relationships relate to assets acquired through the acquisition of the Cerbo Group, Medical Rubber AB, Nolato Contour Inc. in the US, Nolato Jaycare Ltd in the UK, Nolato Stargard Sp.zo.o in Poland and Nolato Treff AG in Switzerland. Straight-line depreciation is applied over the expected useful life, i.e. 6–10 years.

Capitalised development expenditure

Product development expenditure is normally charged as operating expenses as it occurs, and is included in the cost of goods sold in the income statement. Capitalised development expenditure is amortised on a straight-line basis over the expected useful life from the point when use of the asset can commence. The

amortisation period does not exceed 10 years.

Development expenditure in which knowledge and other research results are applied in order to achieve new or improved products is recognised as an asset in the balance sheet if the product is technically and commercially feasible and the company has sufficient resources to complete the development and subsequently use or sell the product. The carrying amount includes expenditure on materials, directly attributable salary expenditure and indirect expenditure that can be attributed to the asset in a reasonable and consistent manner. Other development expenditure is recognised as an expense in the income statement when it arises.

Property, plant and equipment

Property, plant and equipment are recognised within the Group at acquisition cost after accumulated depreciation according to plan and any impairment. Expenditure which is directly attributable to the purchase of the asset is included in the acquisition cost. Additional expenditure is added to the acquisition cost only if it is likely that the future financial benefits associated with the asset will accrue to the company and the acquisition cost can be calculated reliably. All other additional expenditure is reported as an expense in the period when it arises. An additional expense is added to the acquisition cost if the expense relates to replacing identified components or parts thereof. The expense is also added to the acquisition cost in the event that a new component is created. Any undepreciated carrying amounts of replaced components or parts of components are eliminated and expensed in connection with replacing the component. Repairs are expensed on an ongoing basis.

There is no depreciation of land. Other assets are depreciated on a straight-line basis over their expected useful life, taking into account the estimated residual value, as follows:

Buildings	25 years
Land improvements	20–27 years
Injection moulding machines	8–10 years
Automated assembly equipment	3–5 years
Other machinery	5–10 years
IT	3 years
Other equipm., tools, fixtures and fittings	5–10 years

The residual value, useful life and depreciation method for assets are tested each balance sheet date and adjusted as required. The carrying amount of an asset is impaired immediately to its recoverable value if the asset's carrying amount exceeds its expected recoverable value.

The carrying amount of an item of property, plant and equipment is removed from the balance sheet on scrapping or disposal, or when no future financial benefits are expected from using or scrapping/disposing of the asset. Any gain or loss arising from scrapping or disposing of an asset consists of the difference between the selling price and the carrying amount of the asset, with direct selling expenses deducted. Gains and losses are reported as other operating income/expense.

Leasing

In the consolidated financial statements, leasing is classified as either financial or operating leasing. Financial leasing exists where the financial risks and benefits associated with ownership are transferred in all significant respects to the lessee. If this is not the case, it is a matter of operating leasing. Operating leasing fees are expensed over the term of the lease. Variable fees are expensed in the periods when they arise.

Inventories

Inventories are measured at the lower of the acquisition cost and the net market value. The acquisition cost of inventories is calculated by applying the first in, first out principle (FIFO), and includes expenditure arising

on the acquisition of the inventory assets and on transporting them to their present location and condition. For finished goods and work in progress, the acquisition cost includes a reasonable proportion of indirect costs based on normal capacity.

The net market value is the estimated selling price in the operating activities, after deductions for estimated costs for completion and for realising a sale.

Financial instruments

Recognition in and removal from the balance sheet
 A financial asset or a financial liability is included in the balance sheet when the company becomes a party in accordance with the contractual agreements of the instrument. A receivable is included when the company has delivered and there is a contractual obligation for the counterparty to pay, even if an invoice has not yet been sent. Accounts receivable are included in the balance sheet once the invoice has been sent. Liabilities are included once the counterparty has delivered and there is a contractual obligation to pay, even if an invoice has not yet been received. Accounts payable are included once an invoice has been received.

A financial asset is removed from the balance sheet once the rights in the agreement have been realised, or fallen due, or the company loses control of them. The same applies for part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement is met or is otherwise satisfied. The same applies for part of a financial liability.

A financial asset and a financial liability are offset and recognised at a net amount in the balance sheet only when there is a legal entitlement to offset the items and there is an intention to settle the items at a net amount or to realise the asset and settle the liability simultaneously.

Acquisitions and disposals of financial assets are recognised on the business day that constitutes the day when the company commits to acquire or dispose of the asset.

Classification and measurement

The Group classifies its financial instruments under one of the following categories: Assets available for sale, derivatives, loans receivable and accounts receivable. The classification depends on the purpose for which the instrument was purchased. The classification of instruments is determined at the first reporting date.

Assets available for sale are measured at fair value.

Currency derivatives are measured at fair value and transaction charges are charged as expenses. Financial instruments that are not derivatives are initially recognised at acquisition cost, corresponding to the instrument's fair value plus transaction charges.

Most of the Group's financial assets and liabilities are attributable to deliveries of goods and services, where receivables have a short maturity. The Nolato Group reports these receivables at amortised cost. Current financial liabilities that are not derivatives are recognised at amortised cost.

Recognition of derivative instruments and hedging measures

Currency forwards are used to hedge a highly probable forecast transaction (cash flow hedge), and in this case hedge accounting is applied.

Hedge accounting does not apply to currency hedging in large investments in non-current assets and for large internal long-term loans receivable issued by the Parent Company in a currency other than SEK, which are hedged for future repayment.

Cash flow hedging of forecast sales in foreign currency
 The effective portion of changes in the fair value of derivative instruments that have been identified as cash flow hedges and which meet the conditions for hedge accounting is recognised in other comprehensive in-

come. Accumulated amounts in the hedging reserve are reversed to the profit for the year in those periods when the hedged item affects earnings (for instance, when a forecast sale took place).

When a hedge instrument matures or is sold, or when the hedge no longer meets the conditions for hedge accounting and there are accumulated gains or losses from hedging in other comprehensive income, those gains/losses remain in other comprehensive income and are entered as income at the same time as the forecast transaction is ultimately recognised under profit for the year.

When a forecast transaction is no longer expected to take place, the accumulated profit or loss recognised in other comprehensive income is immediately transferred to profit for the year.

Cash and cash equivalents

Cash and cash equivalents consist of cash assets and immediately available balances at banks and equivalent institutions, as well as short-term liquid investments maturing less than three months from the time of acquisition and which are exposed only to an insignificant risk of fluctuations in value.

Employee benefits

Pension obligations

There are a number of both defined contribution and defined benefit pension schemes within the Group.

In defined contribution schemes, the company pays defined contributions to a separate legal entity and has no obligation to make further contributions. Expenses are charged to the consolidated profit as the benefits are earned.

In defined benefit schemes, remuneration to employees and former employees is payable based on their salary at the time they retired and the number of years earned. The Group bears the risk of ensuring that payments undertaken are made. Nolato's defined benefit schemes regarding PRI in Sweden are unfunded. These PRI obligations are recognised in the balance sheet as provisions.

Pension expenses and pension obligations stemming from defined benefit schemes in Sweden are calculated using the projected unit credit method. This method allocates pension expenses as employees perform services for the company, which increases their entitlement to future payment. Independent actuaries perform the calculation annually. The company's undertakings are measured at the present value of expected future payments using a discount rate equal to the interest rate of top-rated corporate bonds or housing bonds/government bonds with a maturity equal to that of such undertakings. The most important actuarial assumptions are provided in Note 23.

Actuarial gains and losses may arise in determining the present value of obligations. These arise either when the actual outcome deviates from the previous assumption, or when assumptions change. Interest on pension liabilities is recognised in net financial income/expense. Other components are recognised in operating profit.

Commitments regarding retirement pensions and family pensions for salaried employees in Sweden are secured through a policy with Alecta. According to a statement issued by the Swedish Financial Reporting Board, UFR 10, this is a multiple-employer defined benefit scheme. For the 2016 financial year, the company had no access to any information that would enable it to recognise this scheme as a defined benefit scheme. The ITP pension scheme (supplementary pensions for salaried employees), which is insured by Alecta, is thus recognised as a defined contribution scheme.

Share-based remuneration

The Group has an incentive programme consisting of warrants. These are offered to the management of the Parent Company Nolato AB and management in its subsidiaries, with a third per year of the total programme

over a period of three years ('2016/2021 Incentive Programmes'). The transfer of warrants to management is carried out at the warrant's market value (i.e. the option premium), calculated according to the Black & Scholes model.

The issue includes up to 798,000 warrants in three different series: 2016/2019, 2017/2020 and 2018/2021, with 266,000 options in each series, entitling holders to subscribe for an equal number of B shares. Each warrant therefore entitles the holder to subscribe to one (1) new B share. If all the options are exercised, it will mean an increase in the share capital of a maximum of SEK 3,990,000.

The maximum dilution effect of 2016/2021 Incentive Programmes is expected to amount to a total of approximately 3% of share capital and 1.6% of votes, calculated based on the number of existing shares, assuming full subscription and full exercise of all warrants.

Bonus schemes

The provision for variable remuneration is based on the bonus policy established by the Board. The liability is included in the balance sheet when a reliable measurement can be carried out and when services have been rendered by the employee.

Severance pay

Severance pay is awarded when an employee's position is terminated prior to the normal retirement date. The Group reports the severance pay as a liability when it is demonstrably obliged to terminate employment according to a detailed formal plan without the possibility of rehire, and the employee does not carry out any services which bring financial benefits for the company. Benefits which fall due after more than 12 months from the balance sheet date are discounted to present value.

Provisions

A provision differs from other liabilities in that there is uncertainty in relation to the payment date or the size of the amount in terms of settling the provision. A provision is recognised in the balance sheet when there is an existing legal or informal obligation as a result of an event that has occurred, and it is likely that an outward flow of financial resources will be required to settle the obligation and a reliable estimation of the amount can be made.

Restructuring

A provision for restructuring is recognised when there is an established detailed and formal restructuring plan, and the restructuring process has either begun or been publicly announced. No provision is made for future operating expenses.

Contingent liabilities

A contingent liability is recognised when there is a possible obligation deriving from events that have occurred and the occurrence of which is confirmed only by one or more uncertain future events, or when there is an obligation that is not recognised as a liability or provision on the grounds that it is not likely that an outward flow of resources will be required.

Cash flow statement

The cash flow statement was prepared using the indirect method. The recognised cash flow only includes transactions which involve payments made or payments received. Changes for the year in operating receivables and operating liabilities have been adjusted for effects of unrealised currency exchange rate fluctuations. Acquisitions and disposals are recognised in investing activities. The assets and liabilities attributable to the companies acquired or disposed of at the time of the change are not included in the statement of changes in working capital or in the change in balance sheet items recognised under financing activities.

Note 3 Critical accounting estimates and judgements

Group management and the Board of Directors make estimates and assumptions about the future. These estimates and assumptions affect recognised assets, liabilities, income and expenses, as well as other information submitted, for instance contingent liabilities. These estimates are based on historical experience and the various assumptions that are deemed to be reasonable in the prevailing circumstances. Conclusions drawn in this way form the basis for decisions relating to the carrying amounts of assets and liabilities in those cases where these cannot be established by means of other information. Actual outcomes may differ from these judgements if other assumptions are made or other circumstances arise.

The areas which include such estimates and judgements that may have a significant impact on the Group's profit and financial position include:

Calculations regarding employee benefits

The value of pension obligations for defined benefit pension schemes is based on actuarial calculations on the basis of assumptions about discount rates, future salary increases, inflation and demographic circumstances. At the end of the year, the pension liability amounted to SEK 202 million (127).

Impairment testing of goodwill and other assets

Goodwill impairment testing is carried out annually in connection with the year-end report or as soon as changes indicate that impairment will arise, for example a change in the business climate or a decision on the disposal or closure of operations. An impairment is carried out if the calculated value in use is less than the carrying amount. An account of impairment testing for the year can be found under Note 15.

Other property, plant and equipment and intangible non-current assets are recognised at acquisition cost less accumulated depreciation and any impairment. Depreciation is carried out over the calculated useful life to an assessed residual value. The carrying amount of the Group's non-current assets is tested as soon as changed circumstances show that there is impairment. The value in use is measured as the anticipated future discounted cash flow primarily from the cash-generating unit to which the asset belongs, but also in specific cases in relation to individual assets. A test of the carrying amount of an asset is also carried out in connection with a decision being made on disposal. The asset is included at the lower of the carrying amount and the fair value after deductions for selling expenses.

Note 4 Financial risk management

Operations are conducted on the basis of a financial policy established by the Board, which specifies rules and guidelines for how the various financial risks shall be dealt with. The following significant risks are identified in the financial policy: Foreign exchange risk, interest rate risk, financing risk, and credit and liquidity risk. Currency and fixed income derivatives are used as hedging instruments in accordance with the Board's guidelines.

As a borrower and through its extensive operations outside Sweden, the Nolato Group is exposed to various financial risks. Nolato's financial policy specifies guidelines for how these risks should be managed within the Group. This policy outlines the aim, organisation and allocation of responsibilities of the Group's financial operations, and is designed to manage the described

risks. The CFO initiates and, if necessary, proposes updates to the financial policy, and issues internal instructions in order to ensure compliance with the policy within operating activities. The Board then evaluates and adopts the proposed changes to the financial policy on an annual basis or as necessary.

The Group's financial management is centralised within the Group's financial department, and acts as a staff service body. The Group staff is responsible for the Group companies' external banking relationships, liquidity management, net financial income/expense and interest-bearing liabilities and assets, as well as for the Group-wide payment system, in the form of the internal bank. This centralisation involves significant economies of scale, a lower financing cost and better internal control and management of the Group's financial risks. The financial policy allows scope for utilising foreign exchange and fixed income instruments. During the year, trading was only carried out in currency derivatives.

Market risk

Market risk relates to the risk arising through commercial flows in foreign currencies emerging in the operations (transaction exposure), financing of working capital (interest rate risk) and foreign investments (translation risk).

Foreign exchange risk

Transaction exposure

Transaction exposure derives from the Group's sales and purchases in various currencies. This foreign exchange risk consists of both the risk of fluctuations in the value of financial instruments, i.e. accounts receivable and accounts payable, and the foreign exchange risk in anticipated and contracted payment flows.

In 2016, Nolato's sales to countries outside Sweden accounted for 76% (77) of total sales. The largest flow currencies for the Swedish units were EUR and USD, with EUR being a net outward flow and USD being a net inward flow. The Chinese operations had a net exposure largely in CNY/USD.

Nolato carries out short-term currency hedging for part of the Group's net exposure in foreign currencies. The aim of hedging the currency exposure is to even out fluctuations in earnings. According to this policy, Nolato shall hedge the net flow of the forecast inward and outward flow of currencies over a rolling 12-month period. In the event that the net flow in an individual currency is less than SEK 10 million, there is no hedging requirement. The hedging levels for the flows in each currency shall be within the following ranges:

Range	Hedged flow
1–3 months in the future	60–80%
4–6 months in the future	40–60%
7–9 months in the future	20–40%
10–12 months in the future	0–20%

Individual investments in machinery are hedged at 100% in the event that the currency flow has a countervalue exceeding SEK 1.5 million. The consolidated income statement includes exchange rate differences of SEK 17 million (10) in operating profit.

Foreign exchange risks in financial flows relating to loans and investments in foreign currencies can be avoided by the Group's companies borrowing in local currencies or hedging these flows. According to this policy, any such hedging or risk-taking is decided on a case-by-case basis. Any hedging costs and any differences in interest rate levels between countries are taken into consideration in decisions on any possible risk-taking in relation to financial flows. During the year, there were exchange rate differences of SEK –2 million (2) in net financial income/expense.

At the end of 2016, the Group had the following currency hedges in relation to anticipated payment flows in CNY, EUR, GBP and USD for 2017. The derivatives used are forwards and currency swaps. The volume and scope of the contracts are stated below in nominal terms.

Currency forward contracts

Currency forward contracts entered into but unutilised are detailed in the table below. The fair value at 31 December 2016 was SEK 6 million (6). The fair value of contracts identified as cash flow hedges that meet the conditions for hedge accounting was SEK –3 million (–1).

Currency forward contracts (cash flow & loan hedging)

SEKm	Nom. value in contract	Average rate (SEK)	Fair value	Reported in profit/loss	Reported in other comprehensive income
CNY (net sales)	—	—	—	– 4	—
EUR (net purch.)	35	9.68	– 1	—	– 1
GBP (net sales)	– 84	11.43	2	1	—
USD (net sales)	– 279	9.07	5	6	– 1
Total	– 328		6	3	– 2

Gains and losses in other comprehensive income in relation to currency forward contracts at 31 December 2016 will be transferred to the income statement at various dates within one year of the balance sheet date.

The Group enters into derivative contracts under International Swaps and Derivatives Association (ISDA) master netting agreements. These agreements mean that when a counterparty is unable to settle its commitments under all transactions, the agreement is discontinued and all outstanding balances must be settled at a net amount. The ISDA agreements do not fulfil the offsetting criteria in the statement of financial position. This is because offsetting under ISDA agreements is only permitted if the counterparty or the Group is unable to settle its commitments. Moreover, it is not the intention of either the counterparty or the Group to settle transactions on a net basis or at the same time.

Notes 17 and 22 list the financial instruments covered by a legally binding framework agreement on netting or a similar agreement.

Net exposure in sales and purchasing in foreign currency (cash flow hedging)

SEKm	12-month estimated net flows	Total hedging	Percentage	Average rate
EUR	75	35	47%	9.68
USD	227	112	49%	8.79
Total	302	147	49%	

The contracts are included at fair value in the balance sheet, and the change in value is recognised in other comprehensive income. When the contracts are realised, the accumulated change in value is booked to the income statement. In 2016, the effect of the currency derivatives on operating profit was SEK –1 million (2).

Transaction exposure at 31 December 2016 (cash flow hedges)

SEKm	12-month unhedged estimated net flows	Change in currency	Effect on earnings
EUR	40	+/- 5%	2
USD	115	+/- 5%	6
Total	155		8

At the end of the year, the Group had SEK 155 million in unhedged assessed currency flows, including effects from currency hedges. A change in the value of the Swedish krona of +/- 5% would have an impact of SEK 8 million on profit.

Translation exposure

Foreign exchange risks also exist in the translation of foreign subsidiaries' assets, liabilities and profit into the Parent Company's functional currency. This is known as translation exposure. Nolato's policy is that net investments in shareholders' equity in foreign currency shall not be currency-hedged. Translation differences reported in other comprehensive income are detailed in Note 21, 'Other reserves'.

Translation exposure of net assets

SEKm	Net Swedish krona assets	5% stronger
Nolato Romania, RON	– 4	—
Nolato Holding USA, USD	39	– 2
Nolato Holdings UK, GBP	108	– 5
Nolato Beijing Automotive, CNY	—	—
Nolato Beijing Medical, CNY	– 13	1
Nolato Beijing Mobile, CNY	318	– 16
Nolato Lövepac Converting, CNY	24	– 2
Nolato Lövepac Converting India, INR	– 23	1
Nolato EMC Prod. Center, MYR	– 1	—
Nolato Hungary, EUR	328	– 16
Nolato Stargard, PLN	—	—
Cerbo Norway, NOK	1	—
Cerbo France, EUR	—	—
Total	777	– 39

The Group has SEK 777 million in foreign net assets, mainly in China, Hungary and the UK. A five percentage point appreciation of the Swedish krona would have an impact of SEK –39 million on the net assets in the Group. The Group has no exposure in Nolato Treff AG's net assets, as any translation effects are evened out by loans in CHF in the Parent Company.

Interest rate risk

Interest rate risk is the risk that the Group's net interest income/expense will be weakened in the event of changes to market interest rates. At 31 December, interest-bearing liabilities with credit institutions amounted to SEK 617 million (154). In order to limit the Nolato Group's interest rate risk, the portion of those interest-bearing liabilities exceeding SEK 400 million must have a fixed interest maturity structure as follows:

- Up to one year: 35–65%
- More than one year: 35–65%

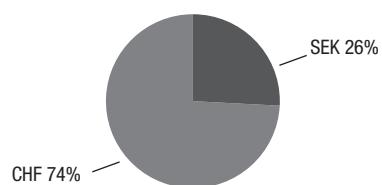
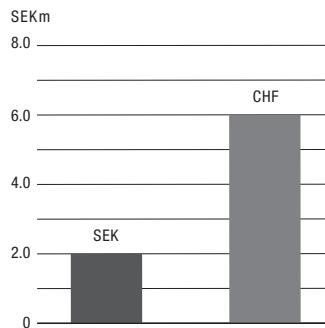
The target for investing excess liquidity is to achieve the best possible return with regard to credit risk and the liquidity of the investments. The policy stipulates that investments may only be carried out in interest-bearing securities or bank deposits. The term of the investments may not exceed three months.

Liquidity risk

Liquidity risk, also known as financing risk, relates to the risk of the Group having problems accessing capital. In order to maintain financial flexibility and meet the Group's capital requirements, contractual credit facilities are in place with various contract lengths. This both enables the financing of fluctuations and organic growth, and provides the Group with capacity for large investments and acquisitions.

Nolato has total loan agreements of SEK 977 million, of which SEK 450 million matures on 21/07/2017, SEK 490 million matures on 27/09/2021 and SEK 37 million between 2017 and 2023.

In addition to credit lines granted, the Group has SEK 108 million in overdraft facilities.

Breakdown of interest-bearing liabilities by currency**Interest rate effect on interest-bearing liabilities at year-end**

An increase in the interest rate of one percentage point based on the interest-bearing liabilities at the end of the year would result in additional interest expenses within the Group of SEK 8 million.

Interest-bearing net debt at 31 December

	Outstanding amount (SEKm)	Future interest expense during the term outst.	Remaining standing (mon)	Term out-fixed interest period (mon)	Average interest (%)
Interest-bearing liabilities					
Bank loans, SEK	– 90	—	1	1	0.0
Bank loans, CHF	– 527	20	45	45	0.7
Pension liability, SEK	– 122				2.9
Pension liability, CHF	– 80				1.6
Total	– 819	20			1.0
Interest-bearing assets					
Cash and cash equivalents	411				0.9
Total net financial liabilities	– 408				

As part of the financing of the Group's subsidiaries, the Parent Company has issued internal loans in GBP to the UK and in USD to the US and Malaysia. The repayment of these loans has been hedged according to the table below.

Subsidiaries	Currency swap	Selling price	Maturity date
Nolato Holding USA Inc., US	USD 20 million	9.1805	29 Dec. 2017
Nolato Holdings UK Ltd, UK	GBP 7 million	11.4327	29 Dec. 2017
Nolato EMC, Malaysia	USD 2 million	9.1815	29 Dec. 2017

As part of the financing of the Group's Romanian subsidiary, the Parent Company has hedged an internal loan between Hungary and Romania using a currency swap of RON 12 million/EUR 3 million at the rate of 4.5998, maturing on 29 December 2017.

At 31 December the Group's financial liabilities stood at SEK 1,406 million (957). The maturity structure for borrowings in relation to interest-bearing liabilities is shown in the table above. Non-interest-bearing liabilities are attributable primarily to accounts payable, with the term outstanding shown in the table below.

Maturity	< 1 month	Within 1–3 months	Within 4–12 months	> 1 year	Total
Accounts payable	422	133	25	3	583

Credit risk

Credit risk refers to an exposure to loss in the event that a counterparty to a financial instrument is unable to fulfil its commitments. Nolato is exposed to credit risk through its operational activities and some of its financial activities.

The Group's maximum credit risk exposure is SEK 829 million (881), consisting essentially of SEK 819 million (874) of accounts receivable.

Accounts receivable are continually analysed at operating level within the Group. Accounts receivable are subject to credit checks and approval procedures exist in all Group companies.

In accordance with the Group's financial policy on credit risk for financial activities, the Group only deals with well-established financial institutions. Transactions are undertaken within set limits and credit exposure per counterparty is continually analysed.

Note 5 Operating segments

Information on operating segments

The Group's operations are monitored by the highest executive decision-makers on the basis of the three operational business areas: Nolato Medical, Nolato Telecom and Nolato Industrial.

Nolato Medical develops and manufactures complex product systems and components within medical technology, as well as advanced packaging solutions for pharmaceuticals and dietary supplements. The market consists of large, global customers, featuring demanding development work, long product life spans and stringent requirements in terms of quality, traceability and safety. Nolato Medical has a strong position in the Nordic region and a growing position in the rest of Europe, China and the US. Development and production are carried out in Sweden, Hungary, the US, the UK, Switzerland, Poland and China. A more detailed presentation of the business area can be found on pages 26–29.

Nolato Telecom designs, develops and manufactures advanced components and subsystems for mobile phones, and products and systems for shielding of electronics (*EMC*). The market consists of a few large, global companies with high technological demands, extremely short development times and quick production start-ups. Nolato Telecom enjoys a strong position with selected customers. In 2016, development and production were conducted in China, Malaysia and Sweden. A more detailed presentation of the business area can be found on pages 30–33.

Nolato Industrial develops and manufactures components and product systems in plastic and TPE for customers in the automotive industry, hygiene, packaging, gardening/forestry, domestic appliances and other selected industrial segments.

The market is fragmented and diversified, with a large number of customers and a large number of suppliers. Nolato Industrial has a strong position in the Nordic region and parts of Central Europe. Development and production are carried out in Sweden, Hungary, Romania, Switzerland and China. A more detailed presentation of the business area can be found on pages 34–37.

Directly attributable items and items which could be distributed among the segments in a reasonable and reliable manner have been included in the segments' profit, assets and liabilities. The recognised items in the operating segments are measured in accordance with the earnings, assets and liabilities monitored by Group management.

Internal pricing between the Group's various segments is set according to the arm's length principle, i.e. between parties which are independent of each other, well-informed and have an interest in the transactions being carried out.

The assets in each business area consist of all operating assets used by the operating segment, primarily intangible non-current assets arising through business combinations, property, plant and equipment, inventories and accounts receivable. Liabilities assigned to operating segments include all operating liabilities, mainly accounts payable and accrued expenses.

Unallocated items in the balance sheet consist primarily of non-current financial assets, interest-bearing receivables and liabilities, provisions and deferred tax assets/liabilities.

Unallocated items in the income statement are attributable to Parent Company costs, financial income, financial expenses and tax expenses.

The segments' investments in non-current assets include all investments other than investments in expendable equipment and low value equipment. All segments are established in accordance with Group accounting policies.

	Nolato Medical		Nolato Telecom		Nolato Industrial		Elimination		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
External sales	1,645	1,460	1,395	2,015	1,407	1,251	—	—	4,447	4,726
Internal sales	—	4	7	2	2	—	-9	-6	—	—
Net sales	1,645	1,464	1,402	2,017	1,409	1,251	-9	-6	4,447	4,726
Profit										
Operating profit (EBITA)	216	191	131	272	134	132	-24	-25	457	570
Amort. of intang. assets arising from acq.	-13	-13	—	—	-1	-1	—	—	-14	-14
Operating profit	203	178	131	272	133	131	-24	-25	443	556
Financial income									3	6
Financial expenses									-8	-7
Tax expenses for the year									-102	-135
Profit for the year									336	420
Receivables and liabilities										
Segments' assets	1,622	1,316	724	835	1,416	900	-300	-270	3,462	2,781
Unallocated assets									462	452
Total assets	1,622	1,316	724	835	1,416	900	-300	-270	3,924	3,233
Segments' liabilities	480	378	570	721	342	261	-300	-268	1,092	1,092
Unallocated liabilities									982	382
Total liabilities	480	378	570	721	342	261	-300	-268	2,074	1,474
Other information										
Investments (capitalised)	295	101	18	23	431	101	—	—	744	225
Depreciation/amortisation	92	86	36	42	65	53	—	—	193	181
Significant items, other than depr./amort. with no offsetting payments, impairment and provisions	3	10	4	-2	-5	13	—	—	2	21

Cash flow from operations, allocated by segment				2016	2015			
	Nolato Medical	Nolato Telecom	Nolato Industrial	Total	Nolato Medical	Nolato Telecom	Nolato Industrial	Total
Cash flow from operations before changes in working capital	295	167	198	660	264	314	184	762
Changes in working capital	10	-24	-28	-42	-24	30	-25	-19
Cash flow from operating activities	305	143	170	618	240	344	159	743
Unallocated items ¹⁾				-152				-211
Total cash flow from operations				466				532

Cash flow from investing activities, allocated by segment				2016	2015			
	Nolato Medical	Nolato Telecom	Nolato Industrial	Total	Nolato Medical	Nolato Telecom	Nolato Industrial	Total
Acquisition of non-current assets ²⁾	-114	-22	-87	-223	-111	-21	-114	-246
Business combinations, excl. cash and cash equivalents	-143	—	-255	-398	—	—	—	—
Sale of non-current assets	2	—	—	2	1	1	—	2
Cash flow from investing activities	-255	-22	-342	-619	-110	-20	-114	-244

¹⁾ For 2016, the Group's change in working capital was SEK -41 million and, allocated by business area, according to the above, was SEK -42 million. The difference of SEK 1 million is included in the amount of SEK -152 million. Other unallocated items consist chiefly of operating loss of SEK -24 million (with the Parent Company accounting for the majority), income tax paid at SEK -119 million and other items such as pension payments, other provisions paid, interest received/paid, including certain parts of the items not affecting cash flow.

²⁾ Paid investments for the year in non-current assets, i.e. after adjustment for outstanding supplier invoices on the balance sheet date of SEK -2 million (-21).

Information about geographic markets

In the Nordic region, the Group manufactures and sells products from all three business areas. Elsewhere in Europe, the Group has manufacturing and sales for the Nolato Medical and Nolato Industrial business areas. In Asia, the Group has manufacturing and sales in all three business areas, and in North America in the Nolato Medical business area.

	Sweden	Other Nordic countries	Rest of Europe	North America	Asia (mainly China)	Group		
	2016	2015	2016	2015	2016	2015	2016	2015
External sales	1,084	1,088	208	187	1,589	1,305	426	422
Assets	1,451	1,321	—	—	1,431	641	247	222
Average number of employees	834	773	—	—	952	829	193	181
Investments (capitalised)	125	134	—	—	573	68	17	10

Note 6 Research and development

	2016	2015
Development expenditure for customer-specific products	-392	-347

The Group's development expenditure relates to developing customer-specific products in close collaboration with the customer. Product development costs are charged to the income statement in the cost of goods sold when they arise.

Note 8 Information on remuneration to auditors

The company's auditing firm has received remuneration:	2016	2015
SEK thousand		
EY		
Auditing	-3,078	-2,507
Taxation assignments	-168	-200
Other assignments	-937	—
Total	-4,183	-2,707

Note 7 Other operating income

	2016	2015
Effect of exchange rate on receivables/liabilities, net	17	10
Other	1	3
Total	18	13

Auditing relates to reviewing the annual accounts and accounting records, as well as the administration of the Board of Directors and the President and CEO, other duties required of the company's auditor and providing advice or other assistance resulting from observations in relation to such review or carrying out such other duties.

Remuneration to other auditing firms for auditing assignments has amounted to SEK 452,000.

Note 9 Other operating expenses

	2016	2015
Acquisition expenses	-4	—

Note 10 Personnel

Average number of employees

	2016		2015	
	Number	Of which men	Number	Of which men
Parent Company				
Nolato AB, Torekov, Sweden	11	82%	10	80%
Group companies				
Cerbo France Sarl, France	1	0%	1	0%
Lövepac Converting Ltd, China	288	44%	465	44%
Lövepac Converting Private Ltd, India	2	100%	—	—
Nolato Beijing Ltd, China	4,029	47%	5,432	47%
Nolato Cerbo AB, Trollhättan, Sweden	127	65%	110	58%
Nolato Contour, Inc., US	193	59%	181	51%
Nolato EMC Production Center SDN BHD, Malaysia	93	57%	51	47%
Nolato Gota AB, Götene, Sweden	159	75%	139	65%
Nolato Hertila AB, Åstorp, Sweden	28	64%	25	60%
Nolato Hungary Kft, Hungary	574	45%	540	41%
Nolato Jaycare Ltd, UK	255	76%	257	80%
Nolato Lövepac AB, Skånes Fagerhult, Sweden	39	62%	38	63%
Nolato Medical Device Co. Ltd, China	27	56%	28	64%
Nolato MediTech AB, Hörby, Sweden	192	67%	183	58%
Nolato MediTor AB, Torekov, Sweden	52	50%	52	54%
Nolato Plastteknik AB, Gothenburg, Sweden	111	70%	109	68%
Nolato Polymer AB, Torekov, Sweden	56	80%	56	88%
Nolato Romania Srl, Romania	36	33%	31	35%
Nolato Silikonteknik AB, Hallsberg, Sweden	59	66%	51	69%
Nolato Stargard Sp.zo.o., Poland*	34	21%	—	—
Nolato Treff AG, Switzerland*	52	69%	—	—
Total	6,418	51%	7,759	50%

*The number of employees has been weighted to factor in companies acquired during the year, and they are only included for the period in which they have been part of the Group.

Employee benefits expense

	2016	2015
Salaries and remuneration, etc.	– 993	– 978
Pension expenses, Note 23	– 96	– 90
Social security contributions	– 194	– 182
Total	– 1,283	– 1,250

There are 149 (132) senior executives within the Group. Expensed remuneration and benefits for the senior executives during the year totalled SEK 128 million (122), of which SEK 10 million (15) relates to bonuses.

Gender distribution of senior executives

	2016		2015	
	Men	Women	Men	Women
Board members	42	3	44	1
Managing directors	18	—	16	—
Other senior executives	58	28	49	22
Total	118	31	109	23

Remuneration to the Board and senior executives

Remuneration and other benefits in 2016

SEK thousand	Base salary/Directors' fee ¹⁾	Bonus ²⁾	Other benefits ³⁾	Pension premiums	Other remuneration ⁴⁾	Total
Chairman of the Board, Fredrik Arp ⁵⁾	– 497	—	—	—	—	– 497
Board member, Dag Andersson	– 190	—	—	—	—	– 190
Board member, Sven Boström-Svensson	– 190	—	—	—	—	– 190
Board member, Åsa Hedin ⁵⁾	– 190	—	—	—	—	– 190
Board member, Henrik Jorlén	– 231	—	—	—	—	– 231
Board member, Lars-Åke Rydh ⁵⁾	– 252	—	—	—	—	– 252
Board member, Jenny Sjödahl	– 190	—	—	—	—	– 190
President and CEO, Hans Porat (01/01/2016 – 04/02/2016)	– 1,429	—	– 50	– 1,124	– 842	– 3,445
President and CEO, Christer Wahlquist (as of 05/02/2016) ⁶⁾	– 3,259	– 148	– 147	– 812	– 61	– 4,427
Other senior executives (four people)	– 9,627	– 483	– 352	– 2,169	– 134	– 12,765
Total	– 16,055	– 631	– 549	– 4,105	– 1,037	– 22,377

Remuneration and other benefits in 2015

SEK thousand	Base salary/Directors' fee ¹⁾	Bonus ²⁾	Other benefits ³⁾	Pension premiums	Other remuneration ⁴⁾	Total
Chairman of the Board, Fredrik Arp ⁵⁾	– 480	—	—	—	—	– 480
Board member, Dag Andersson	– 185	—	—	—	—	– 185
Board member, Sven Boström-Svensson	– 185	—	—	—	—	– 185
Board member, Åsa Hedin ⁵⁾	– 185	—	—	—	—	– 185
Board member, Henrik Jorlén	– 225	—	—	—	—	– 225
Board member, Lars-Åke Rydh ⁵⁾	– 245	—	—	—	—	– 245
President and CEO, Hans Porat	– 5,052	– 2,526	– 144	– 4,075	– 448	– 12,245
Other senior executives (four people)	– 10,008	– 3,117	– 407	– 2,288	– 869	– 16,689
Total	– 16,565	– 5,643	– 551	– 6,363	– 1,317	– 30,439

¹⁾ Including remuneration for committee work.

²⁾ Bonus pertains to expensed remuneration for the financial year, payable in the following year.

³⁾ 'Other benefits' primarily pertains to company cars.

⁴⁾ 'Other remuneration' relates to the President and CEO and other senior executives regarding previous holiday entitlements paid, and other remuneration.

⁵⁾ Fredrik Arp, Lars-Åke Rydh and Åsa Hedin have invoiced their directors' fees. Fees received have been compensated for social security contributions.

⁶⁾ Relates to remuneration received during period as CEO. Other remuneration during period as President of Nolato Medical is included under the heading 'Other senior executives'.

Principles for remuneration and benefits

A director's fee is paid to the Chairman and members of the Board as decided by the Annual General Meeting. No director's fee is paid to employees of the Group or to employee representatives. Remuneration for the President and CEO and other senior executives is made up of a base salary, variable remuneration, other benefits and a pension. Other senior executives are individuals who, together with the President and CEO, constitute Group management.

In 2016, Group management comprised four individuals, in addition to the President and CEO. They are Executive Vice President and CFO Per-Ola Holmström, President of Nolato Medical Johan Iiveberg (since 19/05/2016), President of Nolato Telecom Jörgen Karlsson and President of Nolato Industrial Johan Arvidsson. For further information, see page 50.

Preparatory and decision-making procedure

The Board of Directors has appointed a Remuneration Committee, consisting of the Chairman of the Board and one other Board member. The committee has proposed, and the Board of Directors has approved, the current principles for variable remuneration. The committee has made decisions on all remuneration and benefits for the President and CEO, which have been presented to and approved by the Board. The committee has approved the remuneration of Group management.

Bonuses

Bonuses paid to the President and CEO and other senior executives are based on the outcome of profit and return

on capital employed. The maximum outcome is 50% of base salary for the CEO and 40% for other senior executives. At the same time, the relevant profit centre must report positive earnings. In 2016, the outcome for the President and CEO was 5% of base salary (50) and for senior executives it was 1–17% of base salary (25–40).

Participants in the Series 1 Incentive Programme are offered the opportunity to receive a bonus payment corresponding to half of the participant's option premium and the income tax charged on such bonus payment, provided that the participant's employment at the company does not cease before three years have elapsed from 1 November 2016.

Incentive programmes

At an extraordinary general meeting on 5 December 2016, an issue was approved of a maximum of 798,000 warrants in three different series: 2016/2019 (Series 1), 2017/2020 (Series 2) and 2018/2021 (Series 3), with 266,000 warrants in each series giving the right to subscribe for as many B shares. Each warrant thus entitles the holder to subscribe for one (1) new B share. The price per warrant was set at SEK 7.40. The programme was offered to twenty individuals within Nolato's management. The issue price for a B share in Series 1 is SEK 296.30. The maximum dilution effect of all of the incentive programmes' three series is expected to amount to a total of approximately 3% of share capital and 1.6% of votes (calculated based on the number of existing shares), assuming full subscription and full exercise of all warrants.

Pensions

The retirement age for the President and CEO and other senior executives is 65. The President and CEO's pension premium amounted to 25% of pensionable salary, and follows a defined contribution pension scheme. Variable remuneration does not qualify as pensionable income. Outgoing President and CEO Hans Porat had a defined contribution pension scheme. In addition, a pension premium at a fixed amount of SEK 500,000 was paid per quarter, in accordance with an agreement that expired on 31 March 2017. Variable remuneration does not qualify as pensionable income. For 2016, the pension premium was 79% (81).

Other senior executives have defined contribution pension schemes. For 2016, the average pension premium was 23% of base salary (23). Variable remuneration does not qualify as pensionable income.

Severance pay

The President and CEO and other senior executives shall provide a notice period of six months. In the event of termination by the company, a notice period of 12–24 months applies. Any other income that is received during the notice period shall be deducted from the salary and other remuneration payable during the notice period. Both the President and CEO and other senior executives collect base salary and other benefits during the notice period. There is no remuneration after the notice period.

Note 11 Financial income and expenses

	2016	2015
Interest income	3	5
Interest expenses	– 5	– 5
Net gains/losses		
Foreign exchange gains and losses, net	– 2	2
Other financial expenses	– 1	– 3
Net financial income/expense	– 5	– 1

Recognised as:

	2016	2015
Financial income	3	6
Financial expenses	– 8	– 7
Net financial income/expense	– 5	– 1

Total net financial income/expense per category of financial instruments

Financial assets/liabilities measured at fair value in income statement

	Interest income	Interest expenses	Foreign exchange gains/losses, net	Interest income	Interest expenses	Foreign exchange gains/losses, net
Derivatives used to hedge intra-Group loans	—	—	3	—	—	10
Bank deposits	3	—	—	5	—	—
PRI pension liability	—	– 4	—	—	– 4	—
Borrowings	—	– 1	—	—	– 1	—
Other financial assets/liabilities	—	– 1	– 5	—	– 3	– 8
Total	3	– 6	– 2	5	– 8	2

All interest income is attributable to financial assets, which are measured at accumulated acquisition value.

Note 12 Tax

Recognised in the income statement

	2016	2015
Current tax expenses		
Tax expenses for the period	– 98	– 126
Adjustment for tax attributable to previous years	1	—
	– 97	– 126
Deferred tax income/expense		
Deferred tax in relation to temporary differences	– 5	– 9
	– 5	– 9
Total recognised tax expense	– 102	– 135

Reconciliation of effective tax

	2016	2015
Profit before tax	438	555
Tax according to applicable Parent Company tax rate	– 96	– 122
Effect of other tax rates for foreign Group companies	– 3	– 10
Non-deductible expenses	– 6	– 6
Non-taxable income	5	5
Tax attributable to previous years	1	—
Effect of non-capitalised deficits arising during the year	– 3	– 2
Recognised effective tax	– 102	– 135

Swedish corporation tax amounted to 22.0% (22.0) and the effective tax rate was 23.3% (24.3).

Recognised in the balance sheet

	Deferred tax assets		Deferred tax liabilities		Net	
	2016	2015	2016	2015	2016	2015
Intangible non-current assets	—	—	25	14	— 25	— 14
Property, plant and equipment	28	25	75	59	— 47	— 34
Inventories	10	9	—	—	10	9
Accounts receivable	1	1	—	—	1	1
Provisions for pensions	25	13	1	1	24	12
Tax allocation reserves	—	—	36	29	— 36	— 29
Other	33	37	5	7	28	30
Loss carry-forwards	3	—	—	—	3	—
Tax assets/liabilities	100	85	142	110	— 42	— 25
Offsetting	— 54	— 41	— 54	— 41	—	—
Tax assets/liabilities, net	46	44	88	69	— 42	— 25

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the Group in relation to a loss carry-forward totalling SEK 29 million (27). The loss carry-forward relates to the operation in India, and it is unlikely that it will be possible to use it against future taxable gains. Loss carry-forwards in India can be used on a rolling basis for a maximum of eight years from the year in which the respective loss arose.

Change in deferred tax in temporary differences and loss carry-forwards

	Balance at 1 Jan. 2015	Recognised in profit for the year	Recognised in other comprehensive income	Acquisitions of businesses	Disposal of businesses	Balance at 31 Dec. 2015
Intangible non-current assets	— 15	1	—	—	—	— 14
Property, plant and equipment	— 21	— 13	—	—	—	— 34
Inventories	9	—	—	—	—	9
Accounts receivable	4	— 3	—	—	—	1
Provisions for pensions	12	—	—	—	—	12
Tax allocation reserves	— 36	7	—	—	—	— 29
Other	31	—	— 1	—	—	30
Loss carry-forwards	—	—	—	—	—	—
Total	— 16	— 8	— 1	—	—	— 25

	Balance at 1 Jan. 2016	Recognised in profit for the year	Recognised in other comprehensive income	Acquisitions of businesses	Disposal of businesses	Balance at 31 Dec. 2016
Intangible non-current assets	— 14	— 1	—	— 10	—	— 25
Property, plant and equipment	— 34	— 2	—	— 11	—	— 47
Inventories	9	1	—	—	—	10
Accounts receivable	1	—	—	—	—	1
Provisions for pensions	12	1	— 2	13	—	24
Tax allocation reserves	— 29	— 7	—	—	—	— 36
Other	30	—	—	— 2	—	28
Loss carry-forwards	—	3	—	—	—	3
Total	— 25	— 5	— 2	— 10	—	— 42

Tax attributable to other comprehensive income

	2016	2015
Deferred tax attributable to provisions for pensions (PRI)	— 2	—
Deferred tax on currency forwards	—	— 1
Total	— 2	— 1

Note 13 Depreciation/amortisation

Depreciation/amortisation is included in operating expenses as follows:

	2016	2015
Customer relations	– 14	– 14
Buildings and land	– 22	– 20
Machinery and other technical facilities	– 138	– 130
Equipment, tools, fixtures and fittings	– 19	– 16
Other	—	– 1
Total	– 193	– 181

Depreciation/amortisation has been allocated as follows:

	2016	2015
Cost of goods sold	– 177	– 164
Selling expenses	– 16	– 16
Administrative expenses	—	– 1
Total	– 193	– 181

Note 14 Expenses allocated by type of cost

	2016	2015
Material costs	– 1,520	– 1,762
Employee benefits expense	– 1,283	– 1,250
Energy costs	– 123	– 128
Other costs	– 903	– 862
Depreciation/amortisation	– 193	– 181
Total	– 4,022	– 4,183

Note 15 Intangible non-current assets

	Software	Tenancy rights	Customer rel. ¹⁾	Cap. dev. exp.	Goodwill ^{II)}	Total
ACQUISITION COST						
At 1 January 2015	12	5	137	3	510	667
Reclassifications	1	—	—	—	—	1
Translation differences	—	—	2	—	7	9
At 1 January 2016	13	5	139	3	517	677
Acquisitions	—	—	63	—	259	322
Translation differences	—	1	– 3	—	– 1	– 3
At 31 December 2016	13	6	199	3	775	996
ACCUMULATED DEPRECIATION/AMORTISATION						
At 1 January 2015	– 11	– 4	– 100	– 3	—	– 118
Depreciation/amortisation for the year	– 1	—	– 14	—	—	– 15
Translation differences	—	—	– 1	—	—	– 1
At 1 January 2016	– 12	– 4	– 115	– 3	—	– 134
Depreciation/amortisation for the year	—	—	– 14	—	—	– 14
Translation differences	—	– 1	2	—	—	1
At 31 December 2016	– 12	– 5	– 127	– 3	—	– 147
Book value at 31 December 2015	1	1	24	—	517	543
Book value at 31 December 2016	1	1	72	—	775	849

¹⁾ Consists of acquired surplus values. Amortisation of customer relationships is included in Group selling expenses.

Goodwill impairment testing

Goodwill is impairment-tested annually and when there is an indication of impairment. The test is performed at the lowest cash-generating unit level, or groups of cash-generating units on which these assets can be verified. In most cases, this means the acquisition level. However, following integration, they can be transferred to part of another unit. For Nolato Medical, impairment testing has been performed at the segment level, and by legal company for Nolato Industrial. An impairment is recognised if the carrying amount exceeds the recoverable amount. The recoverable amount is established based on calculations of useful life. A discounted cash flow model is used to estimate useful life. The estimate includes an important source of uncertainty because the estimates and assumptions used in the discounted cash flow model contain uncertainty about future events and market circumstances, so the actual outcome can differ significantly. The estimates and assumptions have, however, been reviewed by management and coincide with internal forecasts and future outlook for the operations.

The discounted cash flow model includes forecasting future cash flow from operations including estimates regarding income volumes, production costs and requirements in terms of capital employed. Several assumptions are made, the most significant being the growth rate of income, the discount rate and operating margin.

Forecasts of future operating cash flows are based on the following:

- budgets and strategic plans for a three-year period corresponding to management's estimates, as adopted by the board of each legal company, of future revenues and operating expenses, with the help of the outcome of previous years, general market conditions, industry trends and forecasts and other available information.
- after this, a final value is calculated based on a growth factor that corresponds to expected inflation in the country where the asset is used.

Impairment-tested operations in the Group are mainly in Sweden, the UK and the US. These countries are deemed to have largely similar expected inflation, which is consistent with the goals of central banks and similar institutions. It is assumed that relevant markets will grow in line with general inflation.

Forecasts of future cash flow from operations are adjusted to present value with a suitable discount rate. As a starting point, the discount rate takes the Nolato Group's marginal borrowing rate adjusted for the risk premium in the country concerned, if applicable, and the systematic risk in the cash-generating unit at the time of measurement. Management bases the discount rate on the inherent risk in the business in question and in similar industries. The forecasts comply with historical experience and/or external sources of information.

Goodwill is allocated to Group segments as follows:

	2016	2015
Nolato Medical	502	414
Nolato Industrial		
Nolato Gota AB	41	41
Nolato Hertila AB	62	62
Nolato Treff AG	170	—
Total	775	517

Assumptions for establishing the discount rate

	2016	2015	Nolato Medical		Nolato Industrial	
			Nolato Gota AB	Nolato Hertila AB	Nolato Gota AB	Nolato Hertila AB
Risk-free rate, %	0.4	1.1	0.5	0.5	0.9	0.9
Tax rate, %	20.4	24.6	22.0	22.0	22.0	22.0
Forecast period	3 years	3 years	3 years	3 years	3 years	3 years
Growth after forecast period, %	2.0	2.0	2.0	2.0	2.0	2.0
Applied discount rate before tax, %	8.3	8.3	9.2	9.2	8.8	8.8

In the impairment test in each segment, the discount rate has essentially been constructed segment by segment. The various legal companies in each segment are relatively similar in size, have the same type of customer segments with similar behaviour, and similar types of products. Thus, the risk level for the legal companies as well has been deemed to be more or less the same, and the assumptions given for Nolato Industrial are essentially applicable to the companies included in the segment. Impairment-tested operations in the Group are mainly in Sweden, the UK and the US. Therefore, test assumptions have been relatively homogeneous, with adjustments for country-specific parameters.

Using these assumptions, the recoverable amount exceeds the carrying amount of all cash-generating units, and there is no impairment. Sensitivity analyses have been performed to evaluate whether reasonable unfavourable changes for the most relevant parameters would lead to impairment. The analyses focused on a deterioration in the average growth rate, reduced profitability and an increase in the discount rate. These analyses did not give rise to any impairment indications.

Note 16 Property, plant and equipment

	Buildings and land	Machinery and other technical facilities	Equipment, tools, fixtures and fittings	Construction in progress and advance payments	Total
ACQUISITION COST					
At 1 January 2015	494	2,023	217	95	2,829
Investments	19	85	13	116	233
Contributions received ¹⁾	—	—3	—	—5	—8
Sales/disposals	—	—65	—4	—	—69
Reclassifications	29	81	7	—118	—1
Translation differences	—4	18	—	—1	13
At 1 January 2016	538	2,139	233	87	2,997
Investments	8	108	12	93	221
In new companies on acquisition	76	103	16	6	201
Sales/disposals	—	—29	—8	—	—37
Reclassifications	2	97	6	—105	—
Translation differences	10	22	2	1	35
At 31 December 2016	634	2,440	261	82	3,417
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	—237	—1,529	—169	—	—1,935
Depreciation/amortisation for the year	—20	—130	—16	—	—166
Sales/disposals	—	64	4	—	68
Translation differences	3	—15	—	—	—12
At 1 January 2016	—254	—1,610	—181	—	—2,045
Depreciation/amortisation for the year	—22	—138	—19	—	—179
Sales/disposals	—	28	7	—	35
Translation differences	—2	—20	—1	—	—23
At 31 December 2016	—278	—1,740	—194	—	—2,212
Book value at 31 December 2015	284	529	52	87	952
Book value at 31 December 2016	356	700	67	82	1,205

¹⁾ SEK 5 million has been received by Nolato Cerbo AB from a customer regarding investment in mould development.

SEK 3 million has been received by Nolato Mobile (Beijing) Ltd from the state department of the environment regarding environmental investment.

Note 17 Financial assets

	2016	2015
Accounts receivable	826	881
Deduction: Provision for decline in value of accounts receivable	- 7	- 7
Carrying amount	819	874

The average period of credit in 2016 was 69 days (63). Accounts receivable as a percentage of sales amounted to 18.4% (18.5%). During the year, the Group reversed SEK 7 million (22) of provisions for decline in value of accounts receivable as at 1 January. Provisions for the year totalled SEK 7 million (7). The credit quality of accounts receivable not due and not impaired, and of other financial receivables is deemed to be good.

Total accounts receivable

	Total	Not due	Due ≤ 15 days	Due 16–60 days	Due > 60 days
2016	826	706	75	34	11
2015	881	804	60	11	6

Accounts receivable, including provisions for decline in value

	Total	Not due	Due ≤ 15 days	Due 16–60 days	Due > 60 days
2016	819	705	73	34	7
2015	874	799	60	11	4

Other financial assets per category in 2016

	Loans receivable and accounts receivable	Assets available for sale	Derivatives identified for hedge accounting	Derivatives not identified for hedge accounting	2016 Total
Non-current financial assets	—	2	—	—	2
Accounts receivable	819	—	—	—	819
Other current financial assets (see Note 4)	—	—	1	9	10
Cash and cash equivalents	411	—	—	—	411
Carrying amount	1,230	2	1	9	1,242
Fair value	1,230	2	1	9	1,242

Other financial assets per category in 2015

	Loans receivable and accounts receivable	Assets available for sale	Derivatives identified for hedge accounting	Derivatives not identified for hedge accounting	2015 Total
Non-current financial assets	—	2	—	—	2
Accounts receivable	874	—	—	—	874
Other current financial assets (see Note 4)	—	—	1	6	7
Cash and cash equivalents	403	—	—	—	403
Carrying amount	1,277	2	1	6	1,286
Fair value	1,277	2	1	6	1,286

The fair value of the currency forward contracts (derivatives) is set according to Level 2. Level 1: In accordance with prices listed on an active market for the same instrument. Level 2: Based on directly or indirectly observable market data which is not included in level 1. Level 3: Based on input data which is not observable in the market.

The carrying amount of accounts receivable is deemed to coincide with the fair value because of the short maturity of these receivables.

Note 18 Inventories

	2016	2015
Raw materials and supplies	184	128
Products in manufacturing	44	40
Finished goods and goods for resale	165	111
Total	393	279

During the year, the Group impaired inventories by SEK 54 million (45). Impairment losses for the year are included in *Cost of goods sold* in the income statement.

During the year, reversed impairment losses recognised in *Cost of goods sold* totalled SEK 44 million (41). The reversal of previously impaired stocks is due to the fact that these items could be sold or were no longer deemed obsolete.

Note 19 Other current assets

	2016	2015
Other receivables	126	91
Prepaid expenses and accrued income	33	24
Closing balance	159	115

Note 20 Shareholders' equity

Capital management

The Group aims to have a sound capital structure and financial stability. 'Capital' is defined as the Group's total reported shareholders' equity, i.e.:

	2016	2015
Share capital	132	132
Other capital contributed	228	228
Translation reserve	107	95
Hedging reserve	- 2	—
Retained earnings, incl. profit for the year*	1,385	1,304
Total capital attributable to Parent Company shareholders	1,850	1,759

*The Group has a share warrant programme (Series 1) that may result in the dilution of the number of shares by 240,500 by the year 2019. Retained earnings include premiums for Series 1 warrants in the amount of SEK 2 million.

The Board aims to maintain a good balance between a high return which can be achieved through higher borrowing and the advantages and security offered by a sound capital structure. The Board sets the Group's financial targets each year on the basis of this. These targets should be seen as average figures over the course of a business cycle. The extent to which these targets were achieved for 2016 is shown below.

	2016	2015
	Financial targets	Outcome
EBITA margin	>10%	10.3%
Cash conversion	>75%	55.0%
Equity/assets ratio	>35%	47.0%

The Board's dividend proposal shall take into consideration Nolato's long-term development potential, financial position and investment needs. The Board's dividend policy means that the Board shall intend to propose a dividend which corresponds on average to at least 50% of profit after tax. For 2016, the Board proposes a dividend of SEK 10.50 per share (10.00), corresponding to SEK 276 million (263). The pay-out ratio is 82% (63).

Note 21 Other reserves

	Hedging reserves	Transl. reserves	Total
Opening balance, 1 January 2015	–2	102	100
<i>Cash flow hedges:</i>			
Gain from fair value measurement during the year	3	—	3
Tax from fair value measurement	–1	—	–1
Translation differences	—	–7	–7
Closing balance, 31 December 2015	—	95	95
 Opening balance, 1 January 2016			
<i>Cash flow hedges:</i>			
Gain from fair value measurement during the year	–3	—	–3
Tax from fair value measurement	—	—	—
Transfers to the income statement	1	—	1
Tax on transfers to the income statement	—	—	—
Translation differences	—	12	12
Closing balance, 31 December 2016	–2	107	105

Hedging reserve

The hedging reserve includes the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedged transactions which have not yet occurred. Transfers to the income statement of cash flow hedges have been recognised as other operating income/expenses.

Translation reserve

The translation reserve includes all exchange rate differences arising on converting financial statements from foreign operations which have produced their financial statements in a currency other than that in which the Group's financial statements are produced. The Parent Company and the Group present their financial statements in Swedish kronor.

Note 22 Financial liabilities

	Year of maturity	Carrying amount	2016 Fair value	Carrying amount	2015 Fair value
<i>Non-current financial liabilities</i>					
Bank loan in CHF (fixed rate)	2021	490	490	—	—
Bank loan in CHF (fixed rate)	2022	17	17	—	—
Bank loan in CHF (fixed rate)	2023	10	10	—	—
Subtotal of non-current financial liabilities		517	517	—	—
<i>Current financial liabilities</i>					
Accounts payable	2016–2017	583	583	675	675
Bank loan in SEK (variable rate)	< 3 months	90	90	154	154
Bank loan in CHF (fixed rate)	< 3 months	10	10	—	—
Derivatives identified for hedge accounting (see Note 4)		4	4	1	1
Subtotal of current financial liabilities		687	687	830	830
Total		1,204	1,204	830	830

Interest-bearing liabilities

At the end of the year, the Group's interest-bearing liabilities excluding pension liability amounted to SEK 617 million (154). The average interest rate was 0.7% (0.4). The average remaining fixed-interest term is 45 months (1).

Terms and repayment periods

Total credit lines granted in the Group amount to SEK 977 million (900). Of this amount, SEK 450 million matures on 21/07/2017 and SEK 490 million on 27/09/2021. Credit facilities totalling SEK 940 million are conditional upon normal covenants. These include requirements in terms of financial key ratios for the Group, including net debt in relation to operating profit before depreciation/amortisation (EBITDA). At 31 December, all loan conditions were met. Other credit lines of SEK 37 million mature between 2017 and 2023, according to the table above. Pledged assets for other credit facilities amount to SEK 80 million (0) and concern property mortgages in the Group's subsidiary in Switzerland. In addition to credit lines granted, the Group has SEK 108 million in overdraft facilities. All loan agreements can be terminated by the other party in the event of any significant change in ownership control of the company.

Derivatives

The fair value of the currency forward contracts (derivatives) is set according to Level 2. Level 1: In accordance with prices listed on an active market for the same instrument. Level 2: Based on directly or indirectly observable market data which is not included in Level 1. Level 3: Based on input data which is not observable in the market.

Operating leases

Operating lease agreements consist mainly of rental contracts for production premises. Expensed leasing fees for the year totalled SEK 58 million (60). The variable fees included in these do not add up to any significant amount. The operating lease agreements are not restricted by index clauses or such terms that provide entitlement to extend or acquire the leased items. However, there are restrictions on the right of disposal.

Lease payments for lease agreements in which the company is the lessee

	Operating leases	
	2016	2015
<i>Non-cancellable lease agreements total:</i>		
Within 1 year	54	43
Between 1 and 5 years	63	63
Over 5 years	5	9
Total	122	115

Note 23 Provisions for pensions and similar obligations

	2016	2015
Net present value of defined benefit pension schemes	121	126
Net present value of pension scheme in Switzerland	80	—
Other pension schemes	1	1
Total	202	127

Defined benefit pension schemes

In Sweden there is a defined benefit pension scheme (PRI) in which employees are entitled to remuneration after leaving their position based on their final salary and vesting period. In Switzerland, after the acquisition during the year, the Group has a defined benefit funded pension scheme in a Swiss pension fund. The fair value of the pension assets is established in accordance with Level 1: according to prices listed on an active market for the same instrument.

Fair value of the defined benefit pension schemes:

	2016	2015
Balance at 1 January	126	127
Balance 03/10/2016 after acquisition in Switzerland	80	—
Benefits vested during the period	2	2
Interest expenses	4	3
Benefits redeemed	—	—
Pension payments	— 5	— 5
Actuarial gain (−)/loss (+)	— 6	— 1
Total	201	126

Amounts recognised in the balance sheet for the pension scheme in Switzerland:

	2016
Net present value of pension commitments, funded pension scheme	318
Fair value of pension assets	— 238
Net debt, funded pension scheme*	80

* The net present value of expected net debt for 2017 is SEK 81 million (balance sheet date rate at 31 Dec. 2016).

Categories of pension assets for pension scheme in Switzerland (Level 1):

	2016
Cash and cash equivalents	4.7%
Shares	28.3%
Bonds	45.4%
Property funds	16.7%
Other investments	4.9%

The amounts recognised in the income statement during the year for pension schemes are as follows:

	2016	2015
Expenses related to service during the financial year	2	2
Interest expense	4	3
Expense for special employer's contribution	2	1
Total expense for defined benefit pension schemes	8	6
Expense for defined contribution schemes	80	75
Expense for special employer's contribution	8	9
Total pension expense	96	90

Expenses for defined benefit pension schemes are allocated in the income statement as follows:

	2016	2015
<i>Amounts charged to operating profit:</i>		
Cost of goods sold	3	2
Administrative expenses	1	1
<i>Amounts charged to financial expenses:</i>		
Interest expenses	4	3
Total	8	6

Expenses for defined benefit pension schemes are allocated in other comprehensive income as follows:

	2016	2015
Actuarial gains (+)/losses (−)	6	1
Special employer's contribution	2	—
Deferred income tax	— 2	—
Total	6	1

Key actuarial assumptions on the balance sheet date for defined benefit pension schemes (weighted average):

%	2016	2015
Discount rate	2.35	2.85
Future annual salary increases	2.75	3.20
Future annual pension increases	1.50	1.90
Employee turnover	5.00	5.00
Lifespan	DUS 14	PRI

Key actuarial assumptions on the balance sheet date for pension scheme in Switzerland:

%	2016
Discount rate	0.40
Interest on pension credits	1.00
Inflation	0.50
Future annual salary increases	1.00
Future annual pension increases	0.00
Duration regarding pension commitments (years)	18.8

Sensitivity analysis:

	Sweden	Switzerland
	2016	2016
Discount rate +0.5% (net present value of pension commitment in balance sheet)	— 9	— 24
Discount rate −0.5% (net present value of pension commitment in balance sheet)	10	28

Pension commitments within Alecta

Commitments regarding retirement pensions and family pensions for salaried employees in Sweden are secured through a policy with Alecta. According to a statement issued by the Swedish Financial Reporting Board, UFR 10, this is a multiple-employer defined benefit scheme. For the 2016 financial year, the company had no access to any information that would enable it to recognise this scheme as a defined benefit scheme. The ITP pension scheme (supplementary pensions for salaried employees), which is insured by Alecta, is thus recognised as a defined contribution scheme. Charges for the year for pension insurance policies held with Alecta totalled SEK 5 million (5). Alecta's surplus can be allocated to policyholders and/or insured parties. At 31 December 2016, Alecta's surplus, in the form of the collective funding ratio, amounted to 149% (153). The collective funding ratio is determined by the fair value of Alecta's assets as a percentage of the pension commitments calculated according to Alecta's actuarial calculation assumptions, which do not comply with IAS 19.

Note 24 Other provisions

	2016	2015
Amount at 1 January	32	29
Provisions for the year	2	3
Translation differences	– 1	—
Provisions from acquisitions	54	—
Amounts claimed	– 2	—
Amount at 31 December	85	32

The amount at year-end relates to a provision for restoration of rental property of SEK 10 million, a provision for special employer's contribution in accordance with IAS 19 for PRI pension liability of SEK 8 million, a provision for special employer's contribution regarding endowment insurance of SEK 13 million and a provision relating to the acquisition of the business in Switzerland with regard to product guarantees and customer claims.

Note 25 Other current liabilities

	2016	2015
Customer advances	61	21
Other current liabilities	66	35
<i>Accrued expenses and deferred income</i>		
Salary liabilities	102	89
Social security contributions	41	34
Deliveries of goods received, not invoiced	76	66
Energy costs	20	16
Rents	9	7
Claims	11	27
Maintenance	25	25
Tools	14	22
Other items	60	64
Subtotal of accrued expenses and deferred income	358	350
Total	485	406

Note 26 Pledged assets and contingent liabilities

	2016	2015
Pledged assets		
Property mortgages in Switzerland	80	—
Contingent liabilities		
Guarantee commitments, FPG/PRI	2	2

Note 27 Related parties

The Group's transactions with senior executives in the form of salaries and other remuneration, benefits, pensions and severance pay agreements with the Board and the President and CEO are detailed in Note 10.

There are no significant known transactions with related parties.

Note 28 Cash flow

	2016	2015
<i>The following subcomponents are included in cash and cash equivalents:</i>		
Cash and bank balances	336	366
Credit balance on Group account in Parent Company	75	37
Total cash and cash equivalents reported in the cash flow statement	411	403

Unutilised credit

At the balance sheet date, unutilised credit within the Group stood at SEK 468 million (746).

Acquisition of businesses, excl. cash and cash equivalents

In 2016, Nolato acquired the Swiss firm Treff AG and a small Polish company – Grizzly Medical, the name of which was changed to Nolato Stargard (see Note 29). The purchase price transferred for the Polish company was SEK 16 million and cash and cash equivalents acquired totalled SEK 0 million.

Note 29 Acquisitions

Acquisition of Treff AG

Description of the company

Nolato has acquired the Swiss company Treff AG. The company provides a strengthened customer base and geographical expansion for both Nolato Medical and Nolato Industrial.

Treff manufacturers supply products for medical and self-care diagnostics (in-vitro diagnostics, IVD), as well as technically advanced precision components for various industrial segments.

Description of the acquisition

Nolato acquired 100 percent of the shares in Treff AG, and obtained controlling influence. The company was acquired on 3 October and was consolidated by Nolato as of 3 October. The acquisition was reported using the acquisition method, with the total purchase price being allocated among the assets acquired and liabilities assumed based on their fair values. Fair value was determined using generally accepted principles and methods. The purchase price comprises a cash payment. Around two-thirds of Treff's operations will be reported within Nolato Industrial, and one-third within Nolato Medical. Had the acquisition taken place on 1 January 2016, it would have contributed SEK 509 million to the Nolato Group's revenue. The acquisition analysis of the company is, in its entirety, still preliminary and may be changed according to IFRS regulations.

Acquisition value, goodwill and cash flow effects (preliminary)

Acquisition value

Consideration transferred	485
Less fair value of acquired net assets (according to spec. below)	– 234
Goodwill	251

Goodwill arising in connection with the transaction consists of synergies that are expected to be achieved primarily as a result of increased sales volumes for the Nolato Group's customers in Europe and for customers of the acquired company from other companies in the Nolato Group. But also partly by means of lower costs through better purchasing terms from external suppliers, and other involvement at different levels in the Nolato Medical and Nolato Industrial business areas.

	Balance sheet at time of acquisition	Adjustment to fair value	Fair value
Intangible non-current assets	—	59	59
Property, plant and equipment	131	63	194
Current assets	149	—	149
Cash and cash equivalents	103	—	103
Provisions	—72	—59	—131
Non-current liabilities to credit institutions	—27	—	—27
Deferred tax liabilities	—	—12	—12
Current liabilities	—101	—	—101
Net assets acquired	183	51	234

Intangible non-current assets in the form of customer relationships are estimated to amount to SEK 59 million and will be amortised for accounting purposes over a period of 10 years.

Cash flow effects

Cash paid acquisition value	485
Less acquired cash and cash equivalents	—103
Net cash flow from acquisition	382

Acquisition of Grizzly Medical Sp.zo.o.

Description of the company

Nolato has acquired the Polish company Grizzly Medical, which strengthens our capacity for low volume production within Medical. For more detailed information, please refer to page 23.

Description of the acquisition

In a newly formed company, Nolato has made a small asset acquisition of net assets in Grizzly Medical Sp.zo.o. The asset acquisition took place on 1 September and was consolidated by Nolato as of 1 September. The purchase price for the asset acquisition, excluding cash and cash equivalents, amounts to SEK 16 million. Goodwill totals SEK 8 million and customer relationships amount to SEK 4 million. Had the acquisition taken place on 1 January 2016, it would have contributed SEK 27 million to the Nolato Group's revenue. The acquisition analysis of the company is, in its entirety, still preliminary and may be changed according to IFRS regulations.

Note 30 Events after the end of the financial year

No significant events have occurred since the balance sheet date.

Parent Company income statement

SEKm	Note	2016	2015*
Net sales*	2	46	45
Selling expenses*		– 5	– 1
Administrative expenses*	3	– 44	– 55
Other operating income	4	2	—
Other operating expenses*	5	– 27	– 39
		– 74	– 95
Operating profit	2, 6, 12	– 28	– 50
Profit from investments in Group companies	7	92	146
Financial income	8	20	21
Financial expenses	9	– 14	– 16
		98	151
Profit after financial income and expenses	70	101	
Appropriations	10	241	262
Tax	11	– 49	– 53
Profit for the year	262	310	

* In the Parent Company, the principle regarding recognition of net sales, selling expenses, administrative and other operating expenses has changed, which has resulted in a restatement of prior years. Further information can be found under Note 24.

Parent Company comprehensive income

SEKm	2016	2015
Profit for the year	262	310
Comprehensive income for the year	262	310

Parent Company balance sheet

SEKm	Note	2016	2015
Assets			
Non-current assets			
Property, plant and equipment		1	1
Investments in Group companies	13	1,218	733
Receivables from Group companies	16	433	416
Other non-current receivables		2	2
Deferred tax assets	11	13	7
Total non-current financial assets		1,666	1,158
Total non-current assets		1,667	1,159
Current assets			
Receivables from Group companies		474	515
Other receivables		16	—
Prepaid expenses and accrued income		8	5
Total current assets		498	520
Cash and bank balances		75	37
Total assets		2,240	1,716
Shareholders' equity and liabilities			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital (26,307,408 shares)	14	132	132
Statutory reserve		228	228
Total restricted equity		360	360
<i>Unrestricted equity</i>			
Translation reserve		– 3	– 3
Retained earnings		499	452
Profit for the year		262	310
Total unrestricted equity		758	759
Total shareholders' equity		1,118	1,119
Untaxed reserves	19	163	129
Other provisions	17	13	11
Non-current liabilities			
Liabilities to credit institutions	15	490	—
Liabilities to Group companies	16	55	55
Total non-current liabilities		545	55
Current liabilities			
Liabilities to credit institutions	15	90	140
Accounts payable		7	4
Liabilities to Group companies		289	235
Current tax liabilities		—	8
Other liabilities		6	1
Accrued expenses and deferred income	18	9	14
Total current liabilities		401	402
Total liabilities and shareholders' equity		2,240	1,716

Parent Company changes in shareholders' equity

SEKm	Restricted equity		Unrestricted equity		
	Share capital	Statutory reserve	Transl. reserve	Retained earnings	Total sh. equity
Opening balance, 1 Jan. 2015	132	228		–3	676
Profit for the year	—	—	—	310	310
Other comprehensive income for the year	—	—	—	—	—
Comprehensive income for the year	—	—		310	310
Dividend for 2014	—	—	—	–224	–224
Closing balance, 31 Dec. 2015	132	228		–3	762
					1,033
Opening balance, 1 Jan. 2016	132	228		–3	762
Profit for the year	—	—	—	262	262
Other comprehensive income for the year	—	—	—	—	—
Comprehensive income for the year	—	—		262	262
Dividend for 2015	—	—	—	–263	–263
Closing balance, 31 Dec. 2016	132	228		–3	761
					1,119

Parent Company cash flow statement

SEKm	Note	2016	2015
	22		
Operating activities			
Operating profit		–28	–50
Adjustments for items not included in cash flow		2	3
Dividends from subsidiaries		68	18
Interest received		20	20
Interest paid		–3	–3
Other financial income		—	1
Realised exchange rate differences		–13	–25
Income tax paid		–77	–71
Cash flow from operating activities before changes in working capital		–31	–107
Changes in working capital			
Changes in operating receivables and operating liabilities		168	–51
Cash flow from operating activities		137	–158
Investing activities			
Acquisition of non-current financial assets		–489	—
Shareholders' contribution		–1	—
Cash flow from investing activities		–490	—
Cash flow before financing activities		–353	–158
Financing activities			
Borrowings		490	90
Repayment of loans		–50	—
Change in long-term intra-Group transactions		–16	43
Dividend paid		–263	–224
Group contributions received		235	275
Group contributions paid		–5	–6
Cash flow from financing activities		391	178
Cash flow for the year		38	20
Cash and cash equivalents, opening balance		37	17
Cash and cash equivalents, closing balance		75	37

Notes to the Parent Company financial statements

Note 1 Accounting and valuation policies

The Parent Company's annual accounts have been drawn up in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The Swedish Financial Reporting Board's statements relating to listed companies have also been applied. RFR 2 involves the Parent Company, in the annual accounts for the legal entity, applying all IFRS standards and statements adopted by the EU as far as possible within the framework of the Swedish Annual Accounts Act and the Swedish Law on Safeguarding Pension Obligations, and in view of the relationship between accounting and taxation. The recommendation details which exceptions from and additions to IFRS shall apply.

The accounting policies of the Parent Company otherwise comply with the accounting policies of the Group, with the following exceptions:

Investments in Group companies

Investments in subsidiaries are recognised in the Parent Company in accordance with the cost method. Transaction charges attributable to the acquisition of shares in subsidiaries are included in the acquisition cost of investments in Group companies in the balance sheet. Impairment testing occurs annually by comparing the Parent Company's recorded acquisition costs with the subsidiaries' net worth, including their long-term earning capacity.

Classification and formats

The income statement and balance sheet have been produced for the Parent Company in accordance with the Swedish Annual Accounts Act's format, while the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Cash Flow Statements. The differences compared with the consolidated reports that are in the Parent Company's income statements and balance sheets consist primarily of reporting financial income and expenses and the classification of shareholders' equity.

Sales

Assigning joint Group expenses

The Parent Company has the character of a holding company, in which expenses consist solely of invoicing for joint Group expenses, particularly personnel costs for Group staff and other joint Group overheads, such as insurance, licensing fees, etc. Invoicing is carried out when services are rendered or when other resources have been received by the counterparty.

Dividend income

Dividend income is recognised when the right to receive the dividend is established. Any anticipated dividend is recognised as receivables from Group companies and as profit from investments in Group companies (see Note 7).

Financial instruments

In view of the relationship between accounting and taxation, the rules on financial instruments and hedge accounting contained in IAS 39 are not applied within the Parent Company as a legal entity. The Parent Company does not therefore recognise the fair value measurement of currency forwards/currency swaps in the balance sheet. Outstanding derivative instruments at 31 December 2016 are described in the consolidated statements' Note 4.

Employee benefits

Defined benefit schemes

Defined benefit pension schemes are insured through a policy held with Alecta. According to RFR 2, the defined benefit pension schemes are classified and recognised as defined contribution schemes, which means that premiums paid are charged to the income statement. Charges for the year to Alecta totalled SEK 298 k (273). Within the Parent Company, a different basis than that set out in IAS 19 is applied when calculating and valuing the defined benefit schemes. The Parent Company follows the provisions of the Swedish Law on Safeguarding Pension Obligations and the regulations of the Swedish Financial Supervisory Authority, since this is a requirement for tax deduction rights. The main differences compared with the rules of IAS 19 are the manner in which the discount rate is established, the fact that the defined benefit obligations are calculated based on current salary levels without taking assumptions regarding future salary increases into consideration, and the fact that all actuarial gains and losses are recognised in the income statement when they arise.

Recognition of income taxes

In the Parent Company, untaxed reserves are recognised gross as untaxed reserves in the balance sheet. Appropriations are recognised as gross amounts in the income statement.

Group contributions for legal entities

Group contributions paid and received in the Parent Company are recognised as appropriations according to the alternative rule.

Note 2 Purchasing and sales between Parent Company and subsidiaries

	2016	2015
Sales of services to subsidiaries	46	45
Purchase of services from subsidiaries	- 4	- 4

Note 3 Information on remuneration to auditors

The company's auditing firm has received remuneration:

SEK thousand	2016	2015
EY		
Auditing	- 728	- 441
Taxation assignments	- 152	- 200
Other assignments	- 830	—
Total	- 1,710	- 641

Auditing relates to reviewing the annual accounts and accounting records, as well as the administration of the Board of Directors and the President and CEO, other duties required of the company's auditor and providing advice or other assistance resulting from observations in relation to such review or carrying out such other duties.

Note 4 Other operating income

	2016	2015
Effect of exchange rate on receivables/liabilities	2	—

Note 5 Other operating expenses

	2016	2015
Effect of exchange rate on receivables/liabilities	- 6	- 17
Costs for personnel who are not employed by the Parent Company and their overheads	- 21	- 22
Total	- 27	- 39

Note 6 Personnel

Average number of employees

Nolato AB, Torekov, Sweden	2016		2015	
	Number	Of which men	Number	Of which men
	11	82%	10	80%

Employee benefits expense

	2016	2015
Salaries and remuneration	– 21	– 26
Pension expenses, defined contribution schemes	– 5	– 7
Social security contributions	– 7	– 10
Total	– 33	– 43

There are 5 (5) senior executives at the Parent Company. Expensed remuneration and benefits for senior executives at the Parent Company during the year totalled SEK 21 million (29), of which SEK 1 million (6) relates to bonuses. Of the Parent Company's pension expenses, SEK 1.9 million (4.1) relates to the Board and the President and CEO. The company's outstanding pension liabilities and obligations in relation to the Board and the President and CEO stood at SEK 0 million (0).

Gender distribution of senior executives

	2016		2015	
	Men	Women	Men	Women
Board members	7	2	7	1
President and CEO	1	—	1	—
Other senior executives	4	—	4	—

Note 7 Profit from investments in Group companies

	2016	2015
Dividend received from Group companies	68	18
Anticipated dividend from Group companies	29	128
Impairment of investments in Group companies	– 5	—
Total	92	146

Note 8 Financial income

	2016	2015
Interest income, Group companies	20	20
Repayment regarding impaired non-current loan receivable, Group companies	—	1
Total	20	21

All interest income is attributable to financial assets, which are measured at accumulated acquisition value.

Note 9 Financial expenses

	2016	2015
Interest expenses, credit institutions	– 1	– 1
Other financial expenses	– 1	– 2
Exchange rate differences	– 12	– 13
Total	– 14	– 16

All interest expenses are attributable to financial liabilities, which are measured at accumulated acquisition value.

Note 10 Appropriations

	2016	2015
Group contributions received	281	235
Group contributions paid	– 6	– 5
Reversal of tax allocation reserve	35	32
Provision for tax allocation reserve	– 69	—
Total	241	262

Note 11 Tax

Recognised in the income statement

	2016	2015
Current tax expense (–)/income (+)		
Tax expense (–)/income (+) for the period	– 55	– 53
	– 55	– 53
Deferred tax income/expense		
Deferred tax in relation to temporary differences	6	—
	– 49	– 53
Total recognised tax expense (–)/income (+)		

Reconciliation of effective tax

The tax rate applicable is 22%.

	2016	2015
Profit before tax	311	363
Tax according to applicable Parent Company tax rate	– 68	– 80
Non-deductible expenses	– 3	– 5
Non-taxable income	22	32
Recognised effective tax	– 49	– 53
Recognised in the balance sheet		
Other provisions	3	3
Other	10	4
Total	13	7

Change in deferred tax in temporary differences and loss carry-forwards

	Balance at 1 Jan. 2015	Recognised in profit for the year	Recognised in shareholders' equity	Balance at 31 Dec. 2015
Other provisions	2	1	—	3
Other	4	—	—	4
Total	6	1	—	7
	Balance at 1 Jan. 2016	Recognised in profit for the year	Recognised in shareholders' equity	Balance at 31 Dec. 2016
Other provisions	3	—	—	3
Other	4	6	—	10
Total	7	6	—	13

Note 12 Expenses allocated by type of cost

	2016	2015
Employee benefits expense	– 33	– 43
Insurance	– 2	– 2
Consulting expenses	– 5	– 5
Travel expenses	– 1	– 2
Advertising and PR	– 4	– 3
Effect of exchange rate on receivables/liabilities, net	– 4	– 17
Costs for personnel who are not employed by the Parent Company and their overheads	– 21	– 22
Other costs	– 4	– 1
Total	– 74	– 95

Note 13 Investments in Group companies

	2016	2015
Acquisition cost at 1 January	1,088	1,088
Acquisitions	489	—
Shareholders' contribution	1	—
Accumulated acquisition cost at 31 December	1,578	1,088
Accumulated impairment losses at 1 January	– 355	– 355
Impairment losses for the year	– 5	—
Accumulated impairment losses at 31 December	– 360	– 355
Carrying amount	1,218	733

	Participating interest		Carr. amount	
	2016	2015	2016	2015
AB Cerbo Group, Trollhättan, Sweden	100%	100%	117	117
Nolato Cerbo AB, Trollhättan, Sweden	100%	100%	—	—
A/S Cerbo Norge, Norway	100%	100%	—	—
Cerbo France Sarl, France	100%	100%	—	—
Lövepac Converting Ltd, China	100%	100%	9	9
Lövepac Converting Private Ltd, India	100%	100%	—	—
Nolato Alpha AB, Kristianstad, Sweden	100%	100%	12	12
Nolato Automotive Components (Beijing) Co. Ltd, China	100%	100%	1	1
Nolato EMC Production Center Sdn Bhd, Malaysia	100%	100%	—	—
Nolato Holding USA Inc., US	100%	100%	—	—
Nolato Contour Inc., US	100%	100%	—	—
Nolato Gota AB, Götene, Sweden	100%	100%	129	129
Nolato Hertila AB, Åstorp, Sweden	100%	100%	41	41
Nolato Holdings UK Ltd, UK	100%	100%	70	70
C A Portsmouth Ltd, UK	100%	100%	—	—
Nolato Jaycare Ltd, UK	100%	100%	—	—
Nolato Hungary Kft, Hungary	100%	100%	46	46
Nolato Incentive AB, Torekov, Sweden	100%	—	—	—
Nolato Lövepac AB, Skånes Fagerhult, Sweden	100%	100%	10	10
Nolato Medical Device (Beijing) Co. Ltd, China	100%	100%	—	5
Nolato MediTech AB, Hörby, Sweden	100%	100%	116	116
Nolato MediTor AB, Torekov, Sweden	100%	100%	9	9
Nolato Mobile Comm. Polymers (Beijing) Ltd, China	100%	100%	91	91
Nolato Plastteknik AB, Gothenburg, Sweden	100%	100%	42	42
Nolato Polymer AB, Torekov, Sweden	100%	100%	5	5
Nolato Produktions AB, Götene, Sweden	100%	100%	—	—
Nolato Romania S.R.L., Romania	100%	100%	—	—
Nolato Silikonteknik AB, Hallsberg, Sweden	100%	100%	18	18
Nolato Stargard Sp.zo.o., Poland	100%	—	1	—
Nolato Torekov AB, Torekov, Sweden	100%	100%	12	12
Nolato Treff AG, Switzerland	100%	—	488	—
Carrying amount			1,218	733

Note 14 Share capital

The share capital of Nolato AB totals SEK 132 million, divided into 26,307,408 shares. Of these, 2,759,400 are A shares and 23,548,008 are B shares. Each A share entitles the holder to ten votes, while a B share entitles the holder to one vote. All shares have equal rights to the assets and earnings of the company.

	Number of shares	Quotient value	Share capital
Share capital, 31 Dec. 2015	26,307,408	SEK 5	SEK 131,537 k
Share capital, 31 Dec. 2016	26,307,408	SEK 5	SEK 131,537 k

Note 15 Borrowings

	Maturity date	2016	2015
Short-term bank loan in SEK (variable rate)	< 3 months	90	140
Long-term bank loan in CHF (fixed rate)	2021	490	—
Total		580	140

Note 16 Receivables and liabilities, Group companies

Receivables from Group companies

At 1 January 2015	392
Change	24
At 1 January 2016	416
Change	17
At 31 December 2016	433

Liabilities to Group companies

At 1 January 2015	—
Change	55
At 1 January 2016	55
Change	—
At 31 December 2016	55

All items relate to internal loans, for which interest is calculated on an ongoing basis in line with the market. There are no contractually regulated durations.

Note 17 Other provisions

	2016	2015
Amount at 1 January	11	9
Provisions for the year	2	2
Amounts claimed	—	—
Amount at 31 December	13	11

Relates to future salary tax for endowment insurance.

Note 18 Accrued expenses and deferred income

	2016	2015
Salary liabilities	4	9
Social security contributions	3	3
Other items	2	2
Total	9	14

Note 19 Untaxed reserves

	2016	2015
Provision for tax allocation reserve (taxation year 2011)	—	35
Provision for tax allocation reserve (taxation year 2012)	47	47
Provision for tax allocation reserve (taxation year 2013)	47	47
Provision for tax allocation reserve (taxation year 2016)	69	—
Total	163	129

Note 20 Contingent liabilities

	2016	2015
Guarantees on behalf of subsidiaries	141	125

Note 21 Related parties

The Parent Company has controlling influence over the subsidiaries, in accordance with the structure described in Note 13.

When delivering goods and services between Group companies, business terms and conditions and market pricing are applied. The scope of internal invoicing for joint Group services amounts to SEK 46 million (45), as detailed in Note 2, and relates primarily to assigning costs for joint Group services and overheads. The Parent Company is an internal bank for the Group companies, whereby intra-Group interest income of SEK 20 million (20) and interest expenses of SEK 0 million (0) have arisen in the Parent Company to the extent reported in Notes 8 and 9. Interest on loans receivable and liabilities is calculated on an ongoing basis in line with the market rate. There are no contractually regulated durations. Intra-Group receivables at the Parent Company amount to SEK 433 million (416) and liabilities to Group companies amount to SEK 55 million (55).

During the year, the Parent Company received dividends from subsidiaries in the amount of SEK 97 million (146), of which SEK 29 million (128) refers to anticipated dividend.

Note 22 Cash flow

	2016	2015
<i>The following subcomponents are included in cash and cash equivalents:</i>		
Credit balance on Group account in Parent Company	75	37
Total cash and cash equivalents reported in the cash flow statement	75	37

Note 23 Appropriation of profit or loss

	2016	2015
Proposed allocation of earnings		
The Board proposes that unappropriated funds:		
Retained earnings	496	449
Profit for the year	262	310
	758	759
be allocated as follows:		
Dividend to the shareholders	276	263
To be carried forward	482	496
	758	759

Note 24 Changes in accounting policy

In the Parent Company, the principle regarding recognition of net sales, selling expenses, administrative and other operating expenses has changed, which has resulted in a restatement of prior years. The amended principle involves gross accounting, although it does not change the operating profit and has only affected the allocation between various income and expense items in the income statement.

Selling and administrative expenses now only include costs for employees with employment contracts with the Parent Company and other operating expenses include costs for other employees that are invoiced to other companies in the Group. This invoicing is included in net sales, together with invoicing of other joint Group costs, especially personnel costs for Group staff and other joint Group overheads.

Attestation and signatures of the Board

These annual accounts have been prepared in accordance with IFRS international accounting standards as adopted by the EU and provide a true and fair presentation of the operations, financial position and earnings of the Group and the Parent Company, and describe the significant risks and uncertainties faced by the Parent Company and the companies included in the Group.

As indicated below, the annual accounts were approved for issue by the Board on 9 March 2017. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be proposed for adoption at the Annual General Meeting on 26 April 2017.

Torekov, Sweden, 9 March 2017



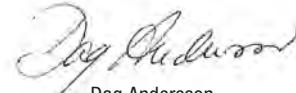
Fredrik Arp
Chairman of the Board



Sven Boström-Svensson
Board member



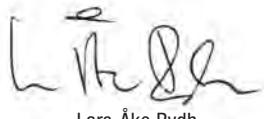
Henrik Jordén
Board member



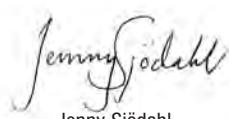
Dag Andersson
Board member



Åsa Hedin
Board member



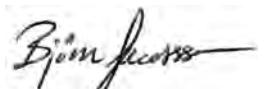
Lars-Åke Rydh
Board member



Jenny Sjödahl
Board member



Christer Wahlquist
President and CEO



Björn Jacobsson
Employee representative



Håkan Svensson
Employee representative

Our auditor's report was submitted on 14 March 2017.
Ernst & Young AB



Stefan Engdahl
Authorised public accountant

Auditor's report

THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

To the general meeting of the shareholders of Nolato AB (publ), corporate identity number 556080-4592

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Nolato AB (publ) for the financial year 2016. The annual accounts and consolidated accounts of the company are included on pages 51-89 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the 'Auditor's responsibility' section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of goodwill and investments in Group companies

Goodwill is recognised at SEK 775 million and investments in Group companies are recognised in the Parent Company at SEK 1,218 million at 31 December 2016. Nolato conducts annual tests and on indication of a decline in value to ensure that carrying amounts do not exceed estimated recoverable amounts for these assets. Recoverable amounts are determined via a present value calculation of future cash flows per cash generating unit and are based on the anticipated outcome of several factors based on management's business plans and forecasts.

The impairment test for 2016 did not result in any impairment adjustments. As a result of the assessments and key assumptions required when calculating value in use, we have treated valuation of goodwill and investments in Group companies as an area of key audit matters in the audit. A description of the impairment test is detailed under Note 15 and in the section 'Critical accounting estimates and judgements' under Note 3.

As part of our audit we have evaluated and examined management's process for establishing impairment testing, partly by assessing the accuracy of previous years' forecasts and assumptions. With the support of our valuation specialists

we have examined the company's model and method for implementing impairment tests. We have evaluated the company's sensitivity analyses and carried out our own sensitivity analyses of key assumptions and possible influencing factors. With the support of our valuation specialists we have also examined the reasonableness of assumptions regarding discount rates and long-term growth. We have formed an opinion as to whether the disclosures submitted in the annual accounts are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2-50. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts

and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Nolato AB (publ) for the financial year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or

– in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Torekov 14 March 2017
Ernst & Young AB

Stefan Engdahl
Authorized Public Accountant

Definitions

Nolato presents certain financial measures in this report that are not defined according to IFRS. Nolato considers that these measures provide valuable supplementary information for investors and company management, as they enable an assessment of trends and the company's performance. Since not all companies calculate financial measures in the same way, these are not always comparable to measures used by other companies. These financial measures should not therefore be regarded as substitutes for measures defined according to IFRS.

► **Adjusted earnings per share**

Profit after tax, excluding amortisation of intangible assets arising from acquisitions, divided by the average number of shares.

► **Cash conversion**

Cash flow after investments, excluding acquisitions and disposals, divided by operating profit (EBIT). Cash flow and operating profit have been adjusted to take account of any non-recurring items.

► **Cash flow from operating activities per share**

Cash flow from operating activities in relation to the average number of shares.

► **Cash flow per share**

Cash flow before financing activities in relation to the average number of shares.

► **Debt/equity ratio**

Interest-bearing liabilities and provisions divided by shareholders' equity.

► **Earnings per share**

Profit after tax in relation to the average number of shares.

► **EBITA margin**

Operating profit (EBITA) as a percentage of net sales.

► **Equity/assets ratio**

Shareholders' equity as a percentage of total capital according to the balance sheet.

► **Interest coverage ratio**

Profit after financial income and expenses, plus financial expenses, divided by financial expenses.

► **Liquidity**

Total current assets divided by total current liabilities.

► **Net financial liabilities/net financial assets**

Interest-bearing assets less interest-bearing liabilities and provisions.

► **Operating profit (EBIT)**

Earnings before interest and taxes.

► **Operating profit (EBITA)**

Earnings before interest, taxes and amortisation of intangible assets arising from acquisitions.

► **Operating profit (EBITDA)**

Earnings before interest, taxes, depreciation and amortisation.

► **Profit margin**

Profit after financial income and expenses as a percentage of net sales.

► **Return on capital employed***

Profit after financial income and expenses, plus financial expenses, as a percentage of average capital employed. Capital employed consists of total capital less non-interest-bearing liabilities and provisions.

► **Return on operating capital***

Operating profit as a percentage of average operating capital. Operating capital consists of total capital less non-interest-bearing liabilities and provisions, less interest-bearing assets.

► **Return on shareholders' equity***

Profit after tax in relation to average shareholders' equity.

► **Return on total capital***

Profit after financial income and expenses, plus financial expenses, as a percentage of average total capital according to the balance sheet.

*Opening balance sheet items from 2016 have been calculated as an average of the past five quarters due to acquisitions towards the end of the year. Other years have been calculated as an average of opening and closing balances.

A few specialist terms used within the Nolato Group



► **Polymer materials**

Materials such as plastic, silicone, rubber and thermoplastic elastomers (TPEs).



► **Dip moulding**

Method used to manufacture breathing bags, ventilator bellows and catheter balloons from synthetic or natural latex rubber. Pre-heated formers are dipped into liquid latex and the products are shaped by the geometry of the formers.



► **Injection moulding**

A method for the production of polymer components. The material is injected under high pressure into a mould in which the component is made.



► **Haptic technology/haptics**

Designing a surface so that a function or cosmetic effect can be felt.



► **Injection blow moulding**

Production technique whereby a container is first injection-moulded and then inflated so that a receptacle is formed. Injection blow moulding is used by Nolato in the production of pharmaceutical packaging.



► **Clean room**

A room with extremely strict requirements in terms of the absence of dust particles, in some cases even minimisation of bacteria, etc. Used by Nolato when producing medical technology components and mobile phone components.



► **Extrusion**

This is a method for continuously manufacturing products in strands, such as medical tubing.



► **Shielding (EMC)**

Technology for shielding electronics from electromagnetic interference, both internally between different electronic components and from external interference. This is achieved using silicone gaskets containing silver or nickel particles. EMC stands for Electro Magnetic Compatibility, which is the purpose of the shielding.

Five-year review key ratios

	2016	2015	2014	2013	2012
Sales and profit					
Net sales (SEK million)	4,447	4,726	4,234	4,522	3,874
Sales growth (%)	– 6	12	– 6	17	30
Percentage of sales outside Sweden (%)	76	77	79	80	75
Operating profit (EBITA) (SEK million)	457	570	470	427	303
Operating profit (EBIT) (SEK million)	443	556	454	411	287
Financial income and expense (SEK million)	– 5	– 1	8	– 8	– 15
Profit after financial income and expense (SEK million)	438	555	462	403	272
Profit for the year (SEK million)	336	420	364	314	202
Financial position					
Total assets (SEK million)	3,924	3,233	2,914	2,573	2,634
Shareholders' equity (SEK million)	1,850	1,759	1,567	1,348	1,170
Interest-bearing assets (SEK million)	411	403	256	318	272
Interest-bearing liabilities and provisions (SEK million)	– 819	– 281	– 197	– 196	– 385
Net financial liabilities (–)/net financial assets (+) (SEK million)	– 408	122	59	122	– 113
Equity/assets ratio (%)	47	54	54	52	44
Liquidity (%)	154	136	126	126	109
Debt/equity ratio (times)	0.4	0.2	0.1	0.1	0.3
Cash flow					
Cash flow from operations (SEK million)	466	532	330	512	476
Investing activities (SEK million)	– 619	– 244	– 203	– 144	– 335
Cash flow before financing activities (SEK million)	– 153	288	127	368	141
Cash conversion (%)	55	52	28	82	111
Profitability					
Return on total capital before tax (%)	13.7	18.3	17.1	15.9	11.9
Return on capital employed before tax (%)	20.6	29.6	28.4	26.7	19.4
Return on operating capital before tax (%)	24.4	35.3	33.0	32.6	22.6
Return on net shareholders' equity (%)	19.0	25.3	25.0	24.9	17.7
EBITA margin (%)	10.3	12.1	11.1	9.4	7.8
Profit margin (%)	9.8	11.7	10.9	8.9	7.0
Interest coverage ratio (times)	67	78	58	37	23
Share data (see also pages 44–45)					
Earnings per share after tax (SEK)*	12.77	15.97	13.84	11.94	7.68
Shareholders' equity per share (SEK)*	70	67	60	51	44
Cash flow from operating activities per share (SEK)*	17.71	20.22	12.54	19.46	18.09
Cash flow before financing activities excl. acq. and disp. per share (SEK)*	9.31	10.95	4.83	13.76	12.05
Yield (2016 proposal) (%)	4.0	3.9	4.8	5.5	7.6
Dividend per share (2016 proposal) (SEK)	10.50	10.00	8.50	8.00	6.00
Personnel					
Number of employees	6,418	7,759	8,020	9,357	8,421
Sales per employee (SEK thousand)	693	609	528	483	460
Income after financial items per employee (SEK thousand)	68	72	58	43	32

*The Group has a share warrants programme (Series 1) that may result in the dilution of the number of shares.



The Nolato Annual Report was produced by Bysted AB. Photography: Lasse Davidsson, Karl Forsberg, Gillis Sabrie, Jüri Soomägi, ©Scania CV AB (publ), Lasse Strandberg, Michel Thomas, Magnus Torle and others. Repro & printing Gigantprint, Vellinge. Translation by Hilltop Language Ltd. Production has been carried out in line with Nolato's corporate responsibility principles, with a sustainability focus, social responsibility and a low environmental impact. The paper comes from responsible, certified sources and the printing process is FSC and environmentally certified.

Nolato's history

1938

Nordic Latexfabriken i Torekov is founded.

1957

First medical device component is manufactured.

1982

The Group changes its name to Nolato, a contraction of the original name that was long used as a brand name and to refer to the company.

1984

Nolato shares are listed on the Stockholm Stock Exchange OTC list.

1994

The Group achieves sales of SEK 650 million through organic growth and acquisitions in Lomma, Sunne, Hallsberg, Gothenburg and Ängelholm, Sweden.

1997

The acquisition of Ericsson's plastics facility in Kristianstad, Sweden, expands Nolato's operations into the mobile phone sector. The acquisition results in a doubling of the Group's sales.

1998

The first Group company achieves certification under the ISO 14001 environmental management system.

2000

Production starts in Hungary through an acquisition.

2001

Relocation of mobile phone-related operations to China begins.

2005

Nolato Medical starts production in Hungary.

2006

Medical Rubber is acquired.

2007

Cerbo Group is acquired.

2008

Nolato Medical starts production in China.

2010

Nolato Medical starts production in the US through an acquisition.

2011

Nolato Industrial starts production in Romania.

2012

Nolato Medical starts production in the UK through an acquisition.

2013

Nolato Sunne is divested.

2014

Nolato Telecom establishes own production in Malaysia.

2016

Treff AG in Switzerland and Grizzly Medical in Poland are acquired.

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