

# ANNUAL REPORT 2017

*Strong performance by  
all business areas*

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\*The content of pages 47–87 has been audited.

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## Financial information 2018

▶ Three-month interim report 2018:	24 April 2018
▶ 2018 Annual General Meeting:	24 April 2018
▶ Six-month interim report 2018:	19 July 2018
▶ Nine-month interim report 2018:	24 October 2018

All financial information is posted on [www.nolato.com](http://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](http://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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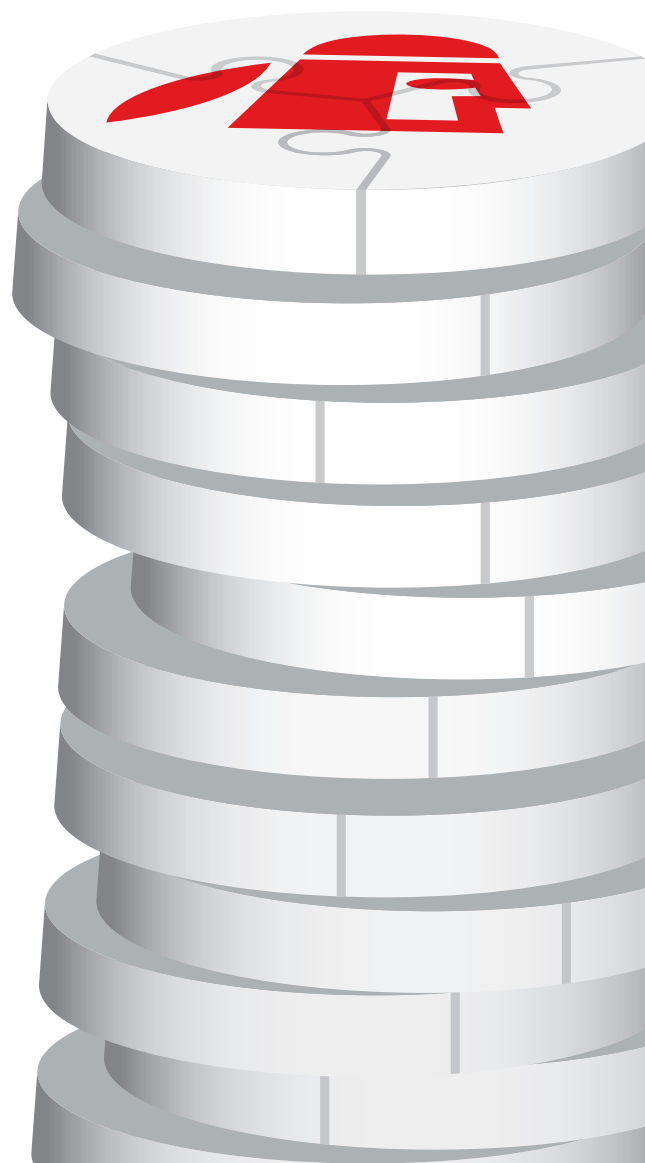
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*Nolato increased sales significantly in 2017. All business areas showed very strong growth, driven by good demand from our customers and Nolato's attractive offering.*

#### **Nolato in 15 seconds**

Nolato is a Swedish publicly listed group with 7,200 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, consumer electronics, 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.



# 2017 in brief

- ▶ In 2017, Nolato's sales increased by 51% to SEK 6,720 million (4,447).
- ▶ Operating profit (EBITA) increased by 67% to SEK 763 million (457).
- ▶ Operating margin (EBITA) of 11.4% (10.3).
- ▶ The rise in sales was due to a sharp increase in sales by all business areas, with an exceptional increase for Integrated Solutions. The Group's operating profit also rose sharply, mainly as a result of the strong sales performance.
- ▶ Earnings per share increased to SEK 21.74 (12.77).

## First quarter

- ▶ Consolidated sales rose to SEK 1,370 million (1,022).
- ▶ Operating profit (EBITA) increased to SEK 146 million (113).
- ▶ All business areas enjoyed strong sales performance, which contributed to the Group's 34% rise in sales. Adjusted for currency and acquisitions, growth was 17%. Adjusted for currency and acquisitions, Medical Solutions and Industrial Solutions increased their sales by 11% and 16% respectively, while Integrated Solutions increased sales by 28%, adjusted for currency.

## Second quarter

- ▶ Sales rose to SEK 1,675 million (1,037).
- ▶ Operating profit (EBITA) increased to SEK 178 million (110).
- ▶ Medical Solutions increased sales, adjusted for currency and acquisitions, by 10%, with the ramp-up of new customer projects within Medical Devices mainly contributing to the increase. Adjusted for currency, Integrated Solutions sales rose by an exceptionally strong 114% as the expansion of the business area's customer and product base progressed well. Industrial Solutions increased sales by 16% as a result of strong volume growth in most product areas, particularly Automotive and Hygiene.
- ▶ Consolidated operating profit rose by a strong 62% as all business areas increased their operating profit.
- ▶ The business areas changed names to Medical Solutions, Integrated Solutions and Industrial Solutions.

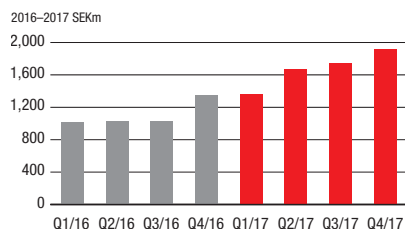
## Third quarter

- ▶ Sales rose to SEK 1,749 million (1,036).
- ▶ Operating profit (EBITA) increased to SEK 209 million (104).
- ▶ Adjusted for currency, Integrated Solutions increased sales by an exceptionally strong 143%, owing in part to high launch volumes for Vaporiser Heating Products (VHPs). Adjusted for currency and acquisitions, Medical Solutions and Industrial Solutions increased sales by 6% and 27%, respectively, following good sales performance in most product areas.
- ▶ The Group doubled its operating profit and the EBITA margin was a very strong 11.9% (10.0). Cash flow after investments rose sharply to SEK 308 million (SEK 19 million excluding acquisitions).

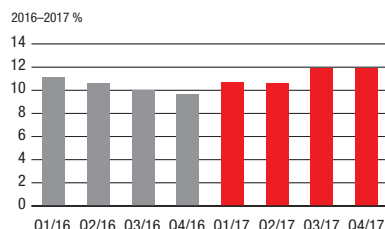
## Fourth quarter

- ▶ Sales increased to SEK 1,926 million (1,352).
- ▶ Operating profit (EBITA) rose to SEK 230 million (130).
- ▶ The Board proposes a dividend of SEK 12.50 per share (10.50).
- ▶ The financial position remains strong, with net liabilities of SEK 153 million and an equity/assets ratio of 45%.
- ▶ Strong growth and increase in profit across all business areas.
- ▶ Substantially higher volumes for Integrated Solutions in new product areas.

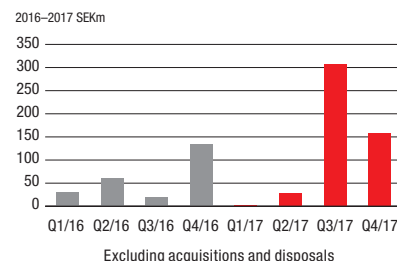
## Sales per quarter



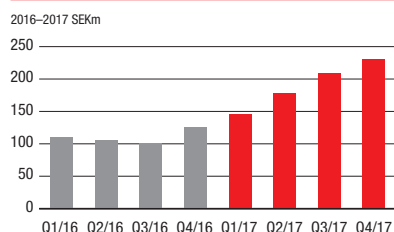
## EBITA margin per quarter



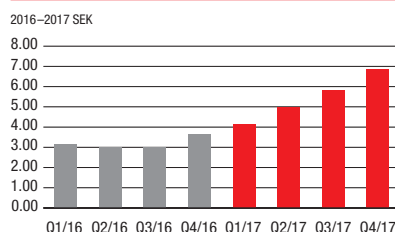
## Cash flow after investments per quarter



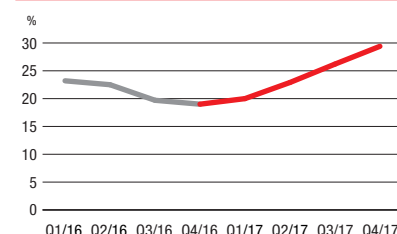
## Operating profit (EBITA) per quarter



## Earnings per share per quarter



## Return on equity per quarter



## Financial highlights

SEKm (unless otherwise specified)	2017	2016	2015	2014	2013
Net sales	6,720	4,447	4,726	4,234	4,522
Operating profit (EBITDA) <sup>1)</sup>	980	636	737	619	568
Operating profit (EBITA) <sup>2)</sup>	763	457	570	470	427
EBITA margin, %	11.4	10.3	12.1	11.1	9.4
Profit after financial income and expense	731	438	555	462	403
Profit after tax	572	336	420	364	314
Earnings per share, basic and diluted <sup>3)</sup> SEK	21.74	12.77	15.97	13.84	11.94
Adjusted basic earnings per share <sup>3) 4)</sup> SEK	22.16	13.19	16.35	14.29	12.39
Cash flow after investments, excl. acquisitions and disposals	496	245	288	127	362
Return on capital employed, %	26.6	20.6	29.6	28.4	26.7
Return on shareholders' equity, %	29.4	19.0	25.3	25.0	24.9
Cash conversion, %	66	55	52	28	82
Equity/assets ratio, %	45	47	54	54	52
Net financial liabilities (-)/net financial assets (+)	- 153	- 408	122	59	122
Dividend per share (2017 proposal) SEK	12.50	10.50	10.00	8.50	8.00
Average number of employees	7,249	6,418	7,759	8,020	9,357

<sup>1)</sup> EBITDA – Earnings before interest, taxes, depreciation and amortisation.

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

<sup>3)</sup> At the end of the period the Group had two share warrant programmes, Series 1 and Series 2. Series 1 has redemptions from 01/05/2019 to 15/12/2019 and Series 2 from 01/05/2020 to 15/12/2020. The subscription price is SEK 296.30 for Series 1 and SEK 485.10 for Series 2. The programmes have been taken into account in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 436,700 new class B shares.

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

## Corporate responsibility highlights in 2017

- ▶ Nolato updated its long-term goals on energy, carbon emissions and environmentally sustainable product development.
- ▶ Investment in energy-efficient lighting and production equipment contributed to greater energy efficiency.
- ▶ Measures to reduce our carbon footprint, including by boosting energy efficiency, phasing out fossil fuels and purchasing fossil-free electricity.
- ▶ Bio-based plastics were tested in a range of production processes with good results.
- ▶ Continued adaptation to new ISO 14001:2015 environmental management system requirements.
- ▶ Sustained ambitious goals for sustainability work in China through our Employee Care Programme and support of a school.

# The Nolato Group in brief

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 Solutions

Medical devices and products for administering pharmaceuticals (such as auto-injectors, insulin pens and catheter balloons).



## Integrated Solutions

Components and systems for fast-growth areas of technology, i.e. selected consumer electronics products, telecom sector products and thermal management solution and EMC shielding methods and materials for electronics.



## Industrial Solutions

Products for industrial companies (such as automotive components, hygiene products and specialist packaging, gardening/forestry and furniture).

## Our offering

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

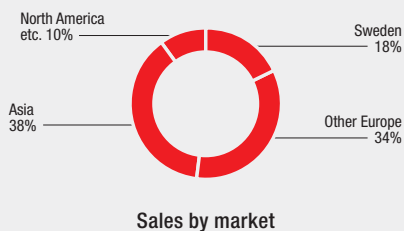
Nolato's customer offering comprises most technologies in the field of polymers and covers the entire value chain from development to product delivery.

## One Nolato

The 'One Nolato' concept means we can offer customers a comprehensive offering of technologies and products from our three business areas.



## Our global presence



- Development, production & sales
- Sales & technology



## 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. We are signatories to the UN Global Compact and report sustainability work in accordance with the GRI (Global Reporting Initiative).

## 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.

## Our employees

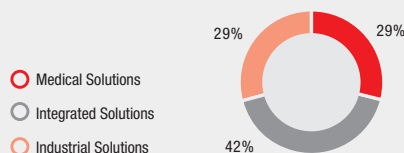
# 7,200

The average number of employees in 2017 was approximately 7,200. 87% were employed outside Sweden.

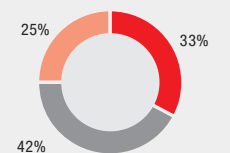


## Our business areas

Nolato's operations comprise three customer-focused business areas. 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.



Share of Group sales



Share of Group operating profit (EBITA)



## Medical Solutions

Financial highlights:	2017	2016
Sales, SEKm	1,955	1,645
Operating profit (EBITA), SEKm	257	216
EBITA margin, %	13.1	13.1
Average number of employees	1,395	1,157

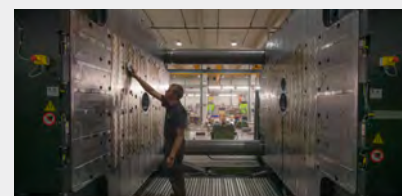
Development and manufacture of complex product systems and components within medical technology, diagnostics (IVD) and advanced packaging solutions for pharmaceuticals.



## Integrated Solutions

Financial highlights:	2017	2016
Sales, SEKm	2,810	1,402
Operating profit (EBITA), SEKm	332	131
EBITA margin, %	11.8	9.3
Average number of employees	4,928	4,480

Development and manufacture of advanced components and subsystems for selected consumer electronics products and mobile phones. Within EMC (electromagnetic compatibility) & Thermal, shielding and heat dissipation products and systems for electronics.



## Industrial Solutions

Financial highlights:	2017	2016
Sales, SEKm	1,968	1,409
Operating profit (EBITA), SEKm	195	134
EBITA margin, %	9.9	9.5
Average number of employees	920	775

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



# Record year for Nolato



## ► How would you sum up 2017 for Nolato?

We achieved fantastic growth in 2017 and increased sales to a new level. It's pleasing that all our business areas are demonstrating very good growth as a result of strong demand from our customers and Nolato's attractive offering. The earnings we achieved during the year are thanks to our committed and skilled employees, who made a sterling effort over the year.

I'm also delighted that the concept 'One Nolato' is starting to become established within the Group in the way employees are engaging with this concept. We are drawing on our combined capabilities for the benefit of both employees and customers. Nolato won a number of strategically important contracts over the year by combining the capabilities of different business areas.

Another area that I'm really pleased with is our sustainability efforts, as we achieved our goal for reducing energy consumption. We've now set a new target for a further reduction by 2020.

Finally, the reorganisation of the previous Nolato Telecom business area into Integrated Solutions is important for us. We have gradually expanded our offering, which now includes not only mobile phones and EMC & Thermal, but also selected areas of technology within consumer electronics. We continue to see good growth opportunities in areas such

as smart connected products, home electronics and VHP – Vaporiser Heating Products.

## ► What's behind the strong financial performance?

Strong economic conditions combined with strong demand for products and services in our areas are factors that contributed to us achieving record sales and earnings. Cash flow and cash conversion also improved, despite our high rate of growth. During the year we initiated investments in expanding production capacity. These are conscious investments that we are able to make given our high profit margin. We are strengthening our market positions while still generating healthy cash flows.

## ► How do you view the performance of Medical Solutions?

Medical Solutions has demonstrated long-term stable growth in recent years and this continued in 2017. We have progressed from being a supplier of basic development projects to being a global partner for our customers with complex system projects. Good examples are the development of autoinjectors and other types of product for administering pharmaceuticals. Medical Solutions has a sustained pipeline of development projects and we've established very strong relationships with our customers.

## ► What's behind Integrated Solutions' very strong growth?

Our focus on consumer electronics has generated results, particularly within VHP. Nolato has gained a lot of interest from new customers in our capabilities and working practices. They particularly appreciate our agility, our flexible production capabilities and our wide-ranging expertise across different areas of technology. Customers have very high surface finish standards for their products, which Integrated Solutions is more than capable of meeting. We also see good growth opportunities in other areas of technology such as smart, connected consumer products and smart home electronics.

Mobile Phones is now part of our consumer electronics unit. This area remains of great interest, particularly with customers with exacting standards, but we are not focusing on increased growth and are instead seeking to grow in the new product areas. EMC & Thermal is continuing to develop. The majority of sales are to customers within base stations and networks for EMC shielding of electronics. But we're also expanding into other sectors such as automotive and health care. This often involves smart, connected products with shielding and heat dissipation needs, such as radar systems and sensors in vehicles and EMC shielding in health care.

## ► How do you view the great performance by Industrial Solutions?

Industrial Solutions demonstrated very strong growth in 2017. Both the Automotive and General Industry product areas performed well. The business area benefited from good industrial activity in Northern Europe, and particularly from the performance of the Swedish automotive industry. Industrial Solutions took market share during the year as a result of its strong offering. Nolato is a highly stable supplier offering effective integrated production solutions. A focus on productivity and lean production is contributing to customers often choosing Nolato's solutions.

I see good development opportunities for this business area. In the automotive sector, we have the opportunity to grow by partnering with customers and supporting



them as they expand. Within general industry, there is significant potential in areas such as hygiene, forestry and gardening. There is a clear trend of increasing integration of electronics in products, which is leading to us gaining additional work from customers.

► **In 2016 you made two strategically important acquisitions. How did they perform in 2017?**

We're really pleased with the performance of our acquisitions, Poland-based Grizzly Medical (Nolato Stargard) and Switzerland-based Treff (Nolato Treff). They have integrated successfully into the Nolato family and are working well with our other companies. We're a good fit for each other in terms of corporate culture, with similar approaches to processes and customer relationships. Grizzly Medical has expanded our production offering. They have strong capabilities in the high-value manufacture of low-volume medical products that aren't suited to automated production. Treff has allowed us to establish a strong position in IVD, in vitro diagnostic products, and in technically complex products for the industrial segment. Nolato Treff also gives us a foothold in the German-speaking part of Europe and can supply our entire offering to this market.

► **How do you expect the market to perform in 2018?**

It looks like the positive economic conditions will continue for a while and will hopefully have a positive effect for us in 2018, particularly as Industrial Solutions has been outperforming the North European industrial economy. For Medical Solutions, we're involved in lots of development projects and the major pharmaceutical companies will be launching lots of new, particularly biopharmaceuticals over the next few years, which is positive for us. The performance of growth markets like China is also positive, with improving health care and citizens gaining access to more cost-effective treatment solutions. In Integrated Solutions, we are positive over the long term about the expansion of our offering into new markets.

► **What goals have you set for 2018?**

A clear overall goal for the long term is to grow faster than the market in each business area. We also aim to position ourselves more clearly as a solutions provider across all business areas. The emphasis will be on organic growth, while also continuing to look for attractive acquisitions provided the quality and technical capabilities are at Nolato's level. Overall I see good opportunities for 2018 to be a strong year for Nolato.

► **When you started as CEO in 2016 you launched the concept of 'One Nolato'. What impact has that had and what synergies do you see between the three business areas?**

It's very much about benefiting from each other's capabilities across the Group. It might involve different technologies, such as Integrated Solutions' integration of electronics in various products, specialist expertise in lean manufacturing and productivity from Industrial Solutions, and Medical Solutions' quality management. Packaging our combined capabilities gives us a much stronger offering for customers, particularly in developing new products. When our representatives meet customers, in addition to our particular specialism we need to always be able to offer the full range and strength of a global group working in partnership with its customers.

Torekov, March 2018



Christer Wahlquist  
President and CEO

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*“We are drawing on our combined capabilities for the benefit of both employees and customers.”*

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*“Strong economic conditions combined with strong demand for products and services in our areas are factors that contributed to us achieving record sales and earnings.”*

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*“We also aim to position ourselves more clearly as a solutions provider across all business areas.”*

# 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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Ethical & sustainable approach



Long-term customer relationships



Broad customer offering



Expertise



High productivity



Local yet global presence



Stable finances

## Targets

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

**>10%**  
EBITA margin

**>75%**  
Cash conversion

**>35%**  
Equity/assets ratio

## Strategy

To achieve its growth targets, Nolato has developed a strategy in the areas of: Positioning, 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.

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[Find out more on page](#)

# 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 manufacture 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 new engines 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
	▶ Competitiveness	▶ Pre-engineering/simulations
	▶ Sustainable development	▶ Shorter lead times
▶ Corporate responsibility		▶ Innovation
		▶ Design
		▶ Productivity
		▶ Quality
		▶ Sustainable development

Nolato is repositioning 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 work environment are therefore natural and integral features of our business.



#### 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 con-

tinual 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.

## 10%

- Medical Solutions' sales growth in 2017 was up by a strong 10% on the previous year, adjusted for currency and acquisitions. Long-term volume growth for this business area's market segments and applications is assessed to be around 4–5%.

## 102%

- Integrated Solutions sales growth in 2017 was an exceptionally strong 102%, primarily because of successful efforts to expand the business area's product and customer base. Demand was particularly strong for selected areas of technology within consumer electronics.

## 19%

- Industrial Solutions sales growth in 2017 was a very strong 19%, adjusted for currency and acquisitions, exceeding the increase in industrial production in Sweden.

## Financial targets and outcomes

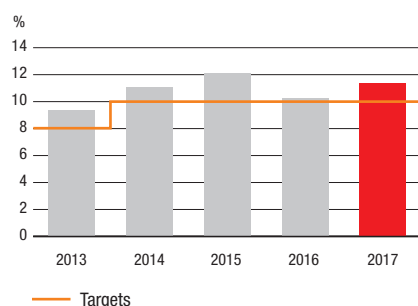
Nolato's financial targets ensure the Group is managed with the aim of achieving healthy earnings, generating adequate cash flow and maintaining a healthy level of financial risk. These financial targets reflect Nolato's strategic focus on a well-balanced Group structure with three business areas and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

## Dividend policy

The Board's intention is to annually propose a dividend that exceeds 50% of profit after tax, taking account of Nolato's long-term development opportunities, financial position and investment needs.

The 2017 Annual General Meeting (AGM) approved a dividend corresponding to 82% of profit after tax.

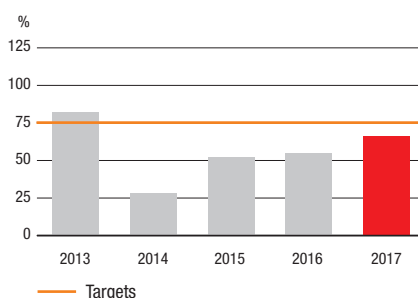
## EBITA margin



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

The outcome for 2017 was 11.4% (10.3). The reason for the improvement in the margin, which is above the Group's target, was strong financial performance by all three business areas and strong economic conditions. Integrated Solutions had an exceptionally strong 2017. For Medical Solutions, the margin was unchanged at a high level of 13.1%. For Integrated Solutions, the margin was a strong 11.8%. Industrial Solutions improved on its margin for the previous year, increasing it to 9.9%. Over the last five years, the EBITA margin has averaged 10.9%.

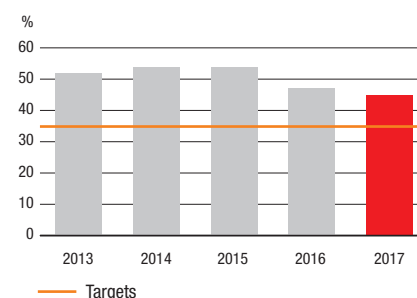
## Cash conversion



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 2017 was 66% (55). Cash conversion was adversely affected by investments exceeding depreciation and amortisation and working capital requirements, which were both affected by investments in growth. This is a deliberate decision by Nolato: to grow sales with a high profit margin and still deliver good cash flows, even if the cash conversion target is not achieved. Over the past five years, cash conversion has averaged 57%.

## Equity/assets ratio



The target for the equity/assets ratio is to exceed 35% over a business cycle. The outcome at year-end 2017 was 45% (47). Nolato's financial position remains strong, but its equity/assets ratio has decreased compared with the previous year, mainly because of the acquisitions of Grizzly Medical and Treff taking full effect and the high rate of growth, which has led to the balance sheet expanding. 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 and 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 & Thermal), we operate based on a customer-oriented strategy instead of a segment-oriented strategy.

### ► Customers

Focus on large customers in product areas 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 Solutions and Industrial Solutions 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, as well as providing 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 & Thermal area. In 2016, Nolato acquired Poland-based Grizzly Medical and Switzerland-based Treff AG. The latter has operations in both Medical Solutions and Industrial Solutions' areas. Both companies were integrated successfully in 2017 into the Nolato Group's operations.

### ► Business areas' focus on growth

Medical Solutions 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 health care needs, with customers increasingly outsourcing production to skilled suppliers.

Integrated Solutions is increasingly focusing on customers in Europe and the US, although Asia remains an important market. This business area sees good opportunities to develop within selected areas of technology in consumer electronics such as home electronics, fitness trackers and VHP products. Mobile phones remain an attractive area that is driving rapid technological development, providing synergies for the entire Group. In EMC & Thermal – electromagnetic compatibility and heat dissipation – Integrated Solutions 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.

Industrial Solutions 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.

# 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 contribute actively to sustainable development
- We operate with integrity and transparency

## 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
Low added value	→	High added value

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

# Nolato's business

## Our mission

Our 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

This 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



Full-scale production

Quality assurance

## Our production technologies

Nolato uses most manufacturing technologies, principally in the area of polymers, to develop products for the medical technology, consumer electronics, 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 different 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, consumer electronics, telecom, automotive and other selected industrial sectors. We produce both customer-specific and standard products.

## Customer-specific products

When developing customer-specific products we follow customer requirements and develop solutions based on our advanced technologies and expertise in cost-effective production. We support customers from concept development to high-volume production.

▶ Medical Solutions supports medical technology and pharmaceutical customers through the entire process, from idea, concept and design to validation, quality control and full-scale production. Customer-specific products include injection systems for pharmaceutical and medical technology applicators.

▶ Integrated Solutions offers customers a wide range of technologies and expertise in a one-stop shop for areas including injection moulding, casting, die-cutting, painting, decoration, assembly, testing and packaging of electronic products. Customer-specific products include components and subsystems for integrated electronic products such as speaker systems, fitness trackers and VHPs (Vaporiser Heating Products).

▶ Industrial Solutions is a high-tech partner for customers in the automotive and general industry sectors, from concept development to the entire production process. Our focus on high productivity, continuous improvement and lean manufacturing provides

customers with cost-effective solutions. Our ability to combine different technologies provides increased value for customers, such as replacing metal with plastic and complex structures like piping with a single component. Customer-specific products include interior details for cars and components for strimmers and chain saws.

## Standard products

Alongside customer-specific products, Nolato also develops and manufactures a standard range of its own products. These include pharmaceutical packaging, laboratory products, process and material solutions for EMC shielding and heat dissipation for electronics, and standard plugs and caps for industrial products.

## From concept to finished product



### Quality control

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



### 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 economy.



### 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.



### Full-scale production

We work with most production technologies, primarily in the field of polymers.

### 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<sup>①</sup> and manufacturer of polymer products<sup>②</sup> 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<sup>③</sup> of each customer's specific requirements, Nolato is an effective and innovative partner.”

### 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

The majority of Nolato's revenue comes from production assignments for our customers, whereby we manufacture a product to order for the customer. 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.

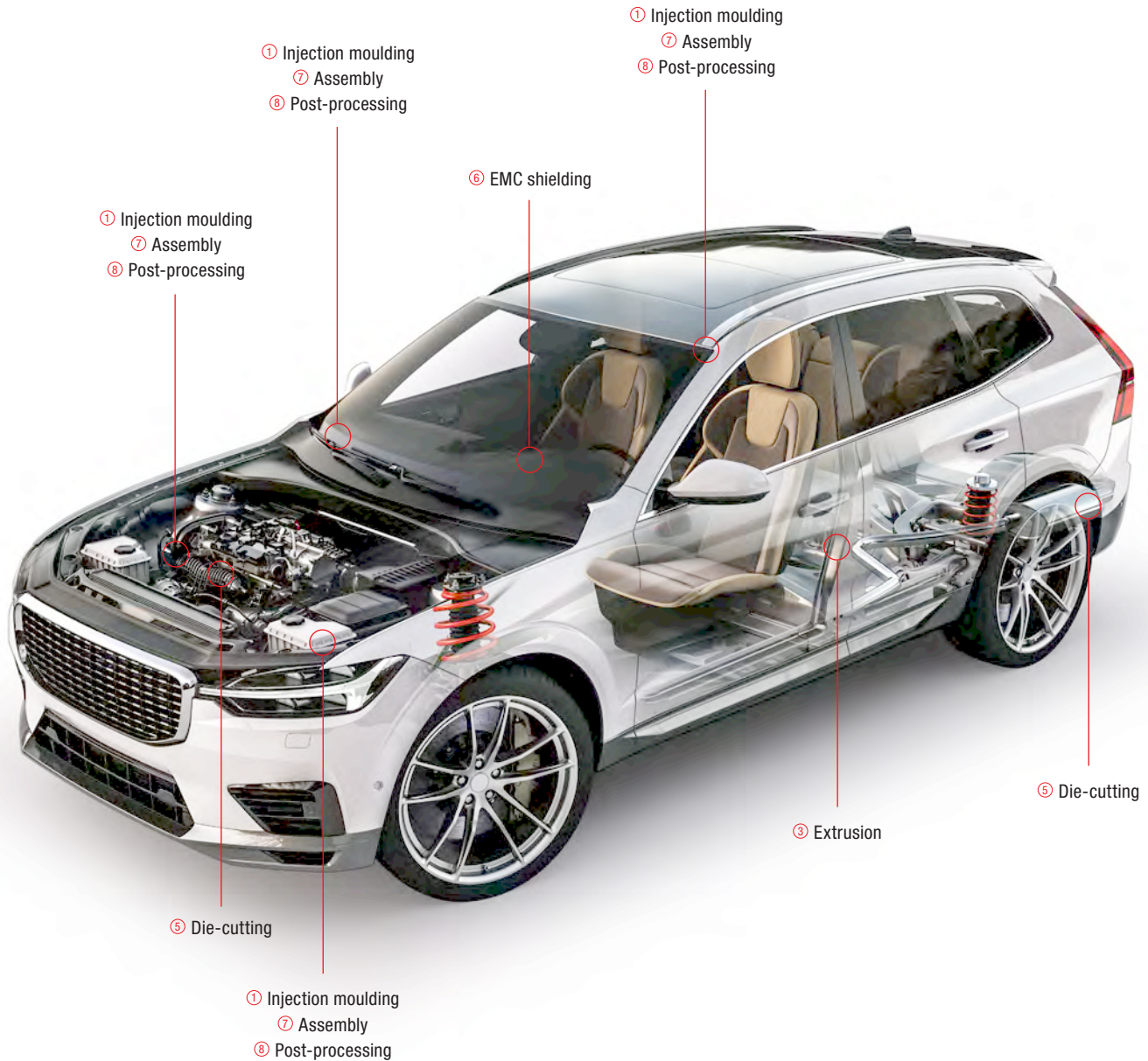
By being involved at an early stage in customers' development work, Nolato contributes by creating as competitive a product as possible. Nolato creates added value for its customers through progressive, leading technology, extensive expertise in development and design, and advanced project management.

① Being a high-tech developer is key for Nolato. Customers approach us with a concept and possibly an initial drawing. This 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.

② 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.

③ Experience, in-depth expertise in materials and processes, early involvement in customer projects, advanced project management and detailed 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 production technologies



## ① 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.

## ② 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.

## ③ Extrusion

Technology for the production of tubing and other tubular products.

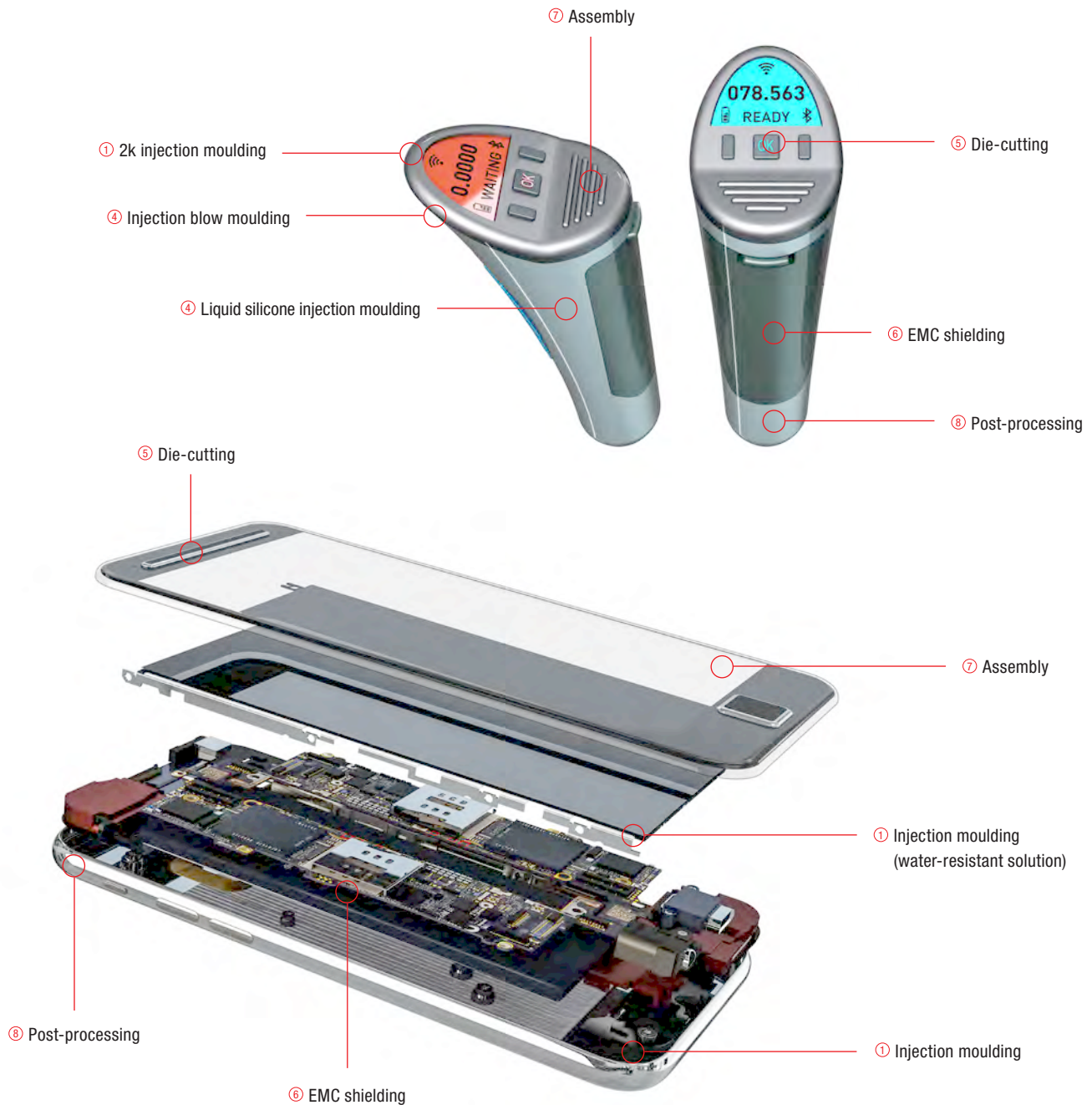
This technique is used to manufacture items such as surgical instruments and urine catheters, as well as EMC shielding gaskets.

## ④ Injection blow moulding

Technology for manufacturing plastic containers and bottles.

We use this method for the manufacture of pharmaceutical packaging.





### ⑤ 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.

### ⑥ EMC 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 uses EMC shielding.

### ⑦ Assembly

Assembly of components to create a complete product or subsystem. This may take place on a 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.

### ⑧ Post-processing

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

# 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 2017, 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 1,534 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 235 surveys and audits. Suppliers met the Group's requirements to a satisfactory degree. In 2017, Nolato paid its suppliers a total of SEK 4,495 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 105% in 2017.
 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. As a signatory to the UN Global Compact, Nolato contributed to the UN Sustainable Development Goals. In 2017, Nolato paid SEK 94 million in tax.

# Sustainable development – responsibility and opportunities

Expectations of Nolato's sustainability development work are increasing and relate to responsible behaviour, transparency and good business ethics, as well as opportunities to develop environmental friendly products and services. Corporate citizenship is one of Nolato's Basic Principles and is an important aspect of the Group's long-term strategy to create growth and value for its stakeholders.

## Strategy

Nolato's sustainable development strategy includes the following areas:

- ▶ We aim to create business opportunities through responsible conduct and transparent communication of our sustainability efforts. Business opportunities also arise through resource-efficient production methods and the development of products with the lowest possible environmental footprint. In short, we aim to be customers' first choice for sustainable development.
- ▶ We reduce risk and cost through preventive measures, risk analysis and investments in modern technology. Issues regarding energy and carbon emissions are of particular priority and are subject to long-term targets. Regarding the use of materials, we aim to increase the percentage of recycled plastic raw material and the use of bioplastics.
- ▶ Using ISO standards and concepts such as lean manufacturing, Medical Excellence and 5S, we create a systematic approach to and credibility for our sustainability work.

- ▶ We involve our employees through a safe, gender-equal and stimulating work environment. Sustainability work should be something that helps encourage new employees to apply to the company.
- ▶ Nolato should be a good corporate citizen and apply sound business principles and good ethics. Preventing corruption is an important aspect of this work and something we have undertaken in accordance with the principles of the UN Global Compact.
- ▶ Sustainability issues are part of Nolato's business model and strategy.

## Governance and monitoring

The approach to 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 clear long-term goals on the environment, social responsibility and business ethics. Each unit works with both groupwide targets and its own more detailed goals.

Operational responsibility for the environment and health and safety is delegated to the Managing Director of each company. Group management follows up on the development of this work and how sustainability development goals are 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 performance indicators (KPIs) during the year.

## 2017 highlights

- ▶ Our long-term goals on energy, carbon emissions and environmentally sustainable product development were updated. These goals provide a background to the strategic sustainability work of the Group companies.
- ▶ Work within the scope of the Global Compact was further developed and Group targets were validated as part of the UN Sustainable Development Goals.
- ▶ Energy audits in accordance with the EU Energy Efficiency Directive continued and were reported to the relevant authorities. Investment in energy-efficient lighting and production equipment contributed to greater energy efficiency.
- ▶ During the year, measures to reduce Nolato's carbon footprint were taken, including boosting energy efficiency, phasing out fossil fuels and purchasing fossil-free electricity.
- ▶ In 2017, an online course on business ethics and Nolato's Code of Conduct was organised for all senior executives and employees involved in commercial relations working in sales and marketing.
- ▶ Bioplastics were tested in a range of production processes with good results. There is significant potential to reduce Nolato and customers' carbon footprint.
- ▶ Certification under the ISO 14001 environmental management system is a key element of our sustainability work, and adaptation to the new ISO 14001:2015 requirements is underway.
- ▶ Continued ambitious goals for our sustainability work in China, such as through our Employee Care Programme (health and safety, personal development and participation) and Building Hope Together (support for a school in a poor area).
- ▶ Active cooperation with universities, including through degree projects on environmental management, wastewater and scientifically based carbon emissions targets.
- ▶ During the year, 341,000 hours of training were undertaken, equating to 53 hours per employee.

Find out more about our sustainability work in Nolato's Sustainability Report at [www.nolato.com/sustainability](http://www.nolato.com/sustainability)

## 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. These 10 principles are incorporated into The Nolato Spirit.

### The UN Sustainable Development Goals

Nolato's long-term goals are linked to the Sustainable Development Goals or 'Global Goals' introduced by the UN in 2015. In this way, the Group is contributing to Agenda 2030.

### Sustainability reporting

Nolato's sustainability work is reported in accordance with the Swedish Act on Sustainability Reporting by Large Companies, Global Reporting Initiative (GRI) 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), ISO 9001 (quality management) and, where applicable, to industry-specific ISO standards. We also work with health and safety and energy management standards. The ISO 26000 social responsibility standard provides guidance for our overarching sustainable development efforts.

# Sustainable development key figures

Nolato undertakes extensive work relating to responsibility for the environment, people and society. We believe this creates a benefit for society and the Group's business operations. The groupwide sustainability targets are long-term and the results of this work are presented in Nolato's annual sustainability report. These goals are linked to Agenda 2030 and the UN Sustainable Development Goals. This page provides key performance indicators (KPIs) on developments in some important areas.

## Environmental responsibility

Global warming is one of the greatest challenges of our time and something that concerns Nolato in a number of ways. The transition to a society with less use of fossil fuels and raw materials creates both risks and opportunities for the Group. Boosting energy efficiency and phasing out fossil fuels is reducing Nolato's carbon footprint. These measures also create preparedness for higher fees and taxes on activities carbon-emitting operations. Greater use of recycled and bio-based raw materials are other initiatives that will reduce carbon emissions in the long term. Environmentally sustainable product development is a priority area, in which Nolato's expertise and technology can contribute to customers' environmental and carbon reduction efforts. Nolato has a number of long-term targets relating to the environment.

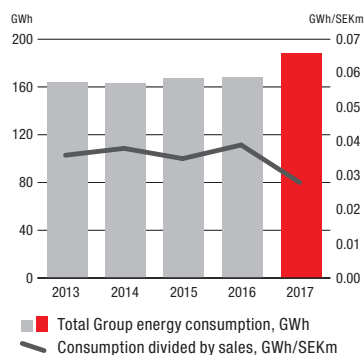
## Energy

### Target:

- More efficient energy use; for 2017–2020 Nolato is targeting a 20% reduction compared with the average for 2011–2012. The Group-wide KPI is GWh/net sales and many production units use locally adapted targets.
- Global Goal: 'Affordable and clean energy'.

### Outcome:

- Energy audits in accordance with the EU Energy Efficiency Directive were carried out. Both large and small energy efficiency projects were conducted at all facilities, including investments in more efficient production equipment, infrastructure and lighting.
- The new target introduced in 2017 aims for additional energy efficiency gains until 2020.



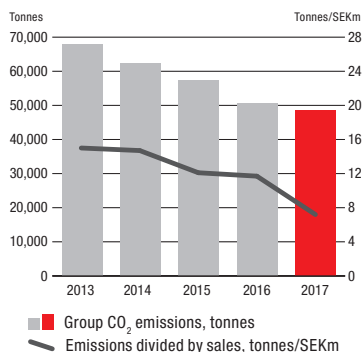
## Carbon emissions

### Target:

- A 20% reduction in the greenhouse gas carbon dioxide (CO<sub>2</sub>) during 2017–2020 compared with the average for 2011–2012. The target relates to CO<sub>2</sub> emissions from energy consumption. The groupwide KPI is tonnes of CO<sub>2</sub>/net sales and there are also different types of local targets.
- Global Goal: 'Climate Action.'

### Outcome:

- Carbon emissions efforts are based on more efficient energy consumption, more environmentally sustainable transportation and the purchase of electricity from renewable sources. These measures are producing positive results but we are still dependent on how electricity and district heating is generated.
- Opportunities to purchase 'green energy' are currently limited in certain countries. Despite this, we see opportunities to continue constructive measures to reduce our carbon footprint and have introduced a new target for 2020.



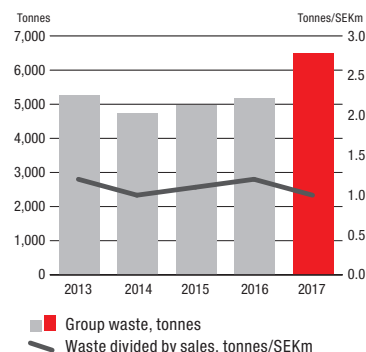
## Waste

### Target:

- The amount of waste should continually decrease in relation to net sales. The percentage of recycled waste should increase. 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.
- Global Goals: 'Sustainable industry, innovation and infrastructure', and 'Responsible consumption and production'.

### Outcome:

- Over the long term the percentage of waste disposed of in landfill has decreased and the percentage that is recycled has increased. This good result is due to a combination of a change in legislation and measures taken at Nolato's facilities, such as reduced scrap and more advanced waste sorting systems.
- We apply a lifecycle approach to waste management, for example by using smart packaging solutions that cut Nolato's consumption of material, emissions from transportation and the volume of customer waste. This target is part of the Group's continually improvement measures and has no specific deadline.



## Environmental management systems

### Target:

- All units to be ISO 14001-certified. Acquired companies should be certified within two years.
- Global Goal: 'Industry, Innovation and Infrastructure.'

### Outcome:

- The majority of facilities (95%) are ISO 14001-certified. Those production facilities that have not yet updated their management systems to ISO 14001:2015 are in the final phase of their work. The update will be completed in 2018.
- A company acquired in 2016 is planning to achieve certification in 2018.





## Chemicals, raw materials and environmentally sustainable products

### Target:

- Hazardous chemical substances should be identified and, where possible, phased out. The percentage of recycled and/or renewable raw materials should increase. Nolato will take part in projects aimed at reducing the environmental impact of existing or new products.
- Global Goals: 'Sustainable industry, innovation and infrastructure', and 'Responsible consumption and production'.

### Outcome:

- See 'Recycled raw materials and green plastics' case study.

## ► Social responsibility

Nolato's Code of Conduct (The Nolato Spirit) applies in the same way all over the world. The company aims to be a good neighbour to communities and a good corporate citizen. These values help attract, retain and develop committed and skilled staff. We have long-term goals on social responsibility and our work includes the professional development of leaders, the training of employees, and initiatives that contribute to good health and safety. Engagement with society is being further developed in those countries in which the Group operates.



## Safe workplaces

### 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 near misses. This work should be conducted systematically, for example using certified management systems relating to health and safety (OHSAS 18001/ISO 45001).
- Global Goal: 'Good jobs and economic growth'.

### Outcome:

- From an industrial perspective, the accident rate is low and over the past five years has averaged 3.1 accidents resulting in sickness absence per million hours worked.
- In order to ultimately eliminate all accidents, however, we need to continue technical and organisational initiatives. One such example are the systems to record near misses that have been introduced at all units.
- Systematic health and safety measures in accordance with OHSAS 18001/ISO 45001 are useful tools and certified systems are in place at six units.



## 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.
- Global Goals: 'Gender equality' and 'Good jobs and economic growth'.

### Outcome:

- During the year, employee training was held on The Nolato Spirit, with new employees an important target group. No cases of infringements of human rights were recorded.
- Of the Group's approximately 7,200 employees (6,400), 45% (49) are women. 30% (22) 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 20% (18) and the recruitment of female managers is an important issue for Nolato.
- The unit in Hungary continued its recruitment of people with disabilities.

## ► Business benefits

Nolato business principles are characterised by integrity, responsibility and good ethics – basic principles that we share with suppliers, customers and others affected by our business operations. Prevention of corruption is a high priority. In this respect the Global Compact provides an ethical guide for employees and generates business benefits in the interaction with customers and other stakeholders.



## Anti-corruption

### Target:

- There should be no cases of bribery, corruption or cartel formation. Continued active information to employees.
- Global Goal: 'Peace, justice and strong institutions'.

### Outcome:

- The management and employees of Group companies are cooperating on measures to prevent corruption. Training, information and discussions are important tools in this work.
- In 2017, an online course on business ethics and Nolato's Code of Conduct was organised for all senior executives and employees involved in commercial relations working in sales and marketing.
- The Group has introduced the whistleblowing system and no events relating to corruption or inadequate business ethics were recorded during the year.



## Customers

### Target:

- Customer requirements regarding the environment and social responsibility should be met by a comfortable margin.
- Global Goal: 'Responsible consumption and production'.

### Outcome:

- A large proportion of Nolato's customers stipulate detailed sustainable development requirements. The results of customer evaluations and audits were good during the year.
- Two plants in China and one in Malaysia have been approved as Sony Green Partners.



## Suppliers

### Target:

- Improved evaluation of suppliers' sustainability work.
- Global Goal: 'Responsible consumption and production'.

### Outcome:

- In 2017, Group companies conducted 235 (173) evaluations of suppliers' sustainability work.
- The suppliers satisfied Nolato's requirements at an acceptable or good level.

## Continued efforts

In 2018 we will be focusing on the following areas:

- Updating companies' environmental management systems to the ISO 14001:2015 standard.
- Sustained efforts on more efficient use of energy, water and materials.
- Increased use of recycled plastic raw materials and bio-based (fossil-free) plastics. In this respect, Nolato can generate benefits by offering customers expertise and experience in making products and production systems more environmentally sustainable.
- Measures to cut Nolato's emissions of greenhouse gases.
- Preventive health and safety measures, in part through the introduction of certified management systems.
- Social engagement through our Employee Care Programme and Building Hope Together in China, as well as other types of interaction in other countries in which Nolato operates, such as cooperation with schools and universities.

## Case study – Plastics in the environment

## Recycled raw materials and ‘green’ plastics

Plastics are receiving negative coverage, with the criticism mainly being about plastic waste that ends up in the sea, injuring fish and other marine life. The criticism also relates to the fact that plastic may contain additives that are hazardous to the environment and to health, and that they are produced from fossil raw materials and consequently have an impact on the climate.

“Every year, Nolato uses more than 30,000 tonnes of plastic. Many of the products that Nolato manufacturers are long-lasting and used in vehicles, garden machinery, mobile phones, furniture and medical equipment. These don’t constitute a major problem in this context and the products themselves are often subject to legal requirements and well-developed systems for recycling. It’s also unlikely that, for example, chainsaws, domestic appliances and toilet flush mechanisms end up in the sea,” says Nolato’s Head of Sustainable Development Torbjörn Brorson.

“Nolato also produces plastic products with a short lifespan. These include consumer packaging for pharmaceuticals and food supplements, which usually end up in domestic waste and are then handled in a controlled manner. Other examples include single-use products used in health care, but there are usually good systems for collecting and sorting this type of waste.

Nolato has come a long way in its efforts to phase out hazardous chemical additives in plastic. As Nolato’s main raw material is plastic, we also take care to ensure that as little as possible ends up as waste. So we have a strong focus on reducing waste and scrap. We also have a target to both increase the use of recycled plastic, as well as plastic that doesn’t come from fossil raw material, i.e. bioplastics,” notes Torbjörn.

“We have recently tested polyethylene plastic using raw material from sugarcane. Instead of producing the ethylene from oil, you produce the same molecule from biological material. Ultimately it has an identical polyethylene molecular structure with the same technical properties as fossil-based plastic. The difference is in the carbon footprint, which is very small for bioplastic. This ‘green’ plastic functions excellently in all our production technologies so now we just need to persuade customers to request this material,” comments Darren Whitworth, Engineering Manager at Nolato Jaycare.



## Case study – Social engagement

## Support for pupils and teachers in China



“Over the past five years, we have been involved in helping students and teachers at a school in a poor area around four hours’ drive from Beijing. The school has around 60 pupils between the ages of 7 and 12. As their parents have to work in other parts of China, many of the children live at the school. Over the years our Building Hope Together project has donated computers, printers, desks, mattresses, bedding, clothing and other items that help with teaching and improve circumstances for the pupils and teachers”, explains Anna Wang, HR Manager at Nolato’s largest production unit in China.

“Nolato donates as a company to the school’s activities, but in addition to this over 40 em-

ployees and their families have become involved in the project in a private capacity. They visit the school and help financially with various donations, such as for clothing and books and for pupils and their families that require additional support. In 2017, Nolato and individual employees donated towards items including school uniforms, toys and milk. Teachers and other staff were given Bluetooth headphones to use at work and in their free time.”

“We also identified four pupils who, due to an illness or death in their family, needed additional support. Nolato’s managers donated money and food and visited three of the families,” adds Anna Wang.

## Case study – Energy efficiency reduces carbon footprint

## Energy and carbon footprint are priorities

Nolato is highly dependent on electricity and over 85% of its energy consumption consists of electricity purchased in those countries in which the Group operates. This involves significant amounts of energy, leading to costs for the Group and generating carbon emissions. The efficient use of energy has always been important and for many years various measures have been implemented to increase energy efficiency. Ongoing climate change now requires increased efforts from the whole of society and issues concerning energy and carbon emissions are consequently priority areas for Nolato.

“In 2017 we conducted an energy audit at Nolato Lövepac in Skånes Fagerhult, Sweden. A key driver, of course, is to find where energy is being wasted, but the audit was also a means for Nolato to meet the new EU energy directive. Using energy statistics and an energy balance, together with energy expertise our audit identified those activities requiring the most energy at the plant,” explains Henrik Enoksson, Managing Director of Nolato Lövepac.

“The audit showed that there is potential to make improvements both in terms of energy consumption and carbon emissions. By installing additional heat pump capacity we could phase out the use of oil, cutting our carbon footprint. We also found that 25–30% of energy consumption was more or less constant, even when there was no production. That should offer the opportunity to save energy. And of course we’ll also be working on increasing the energy efficiency of lighting, ventilation and compressed air,” adds Henrik.

“Nolato Treff in Switzerland has been working on energy issues for some time. Obviously this relates to our business’ finances, but it also relates to the demanding energy legislation in Switzerland. But issues around energy are complex and it’s not always easy to find good solutions.

“We manufacture lots of products from plastic, which requires a high temperature for processing. This leads to energy consumption for both heating and cooling. In addition, the temperature in the work premises has to be kept at a reasonable level. This part of Switzerland gets quite warm for large parts of the year, and combined with the waste heat from the equipment, there’s a lot of heat that needs to be vented. We’re saving a lot of energy by installing a separate cooling system for products that require high processing temperatures and another system for processes with lower temperatures. Another key initiative was installing heat pumps to use the waste heat from the compressors. We now use this heat to heat the main building and we’ve phased out the use of fossil fuel oil. In terms of all the energy initiatives taken over a period of five years, it amounts to savings of more than 18%,” notes Guido Vollrath, Managing Director of Nolato Treff.



# Three business areas generating synergies



Medical Solutions



Integrated Solutions



Industrial Solutions

Nolato's three business areas base their operations on shared values and similar technologies, but they also have their own specific circumstances and features.

Nolato's operations comprise three customer-focused business areas: Medical Solutions, Integrated Solutions and Industrial Solutions. All three areas have a shared approach: to be a solutions provider, offering solutions for customers' needs and problems.

While these 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 Nolato's operations. This provides a sound basis for committed and motivated employees, while enabling us to make operational decisions in close contact with our customers.

These three business areas generate synergies and often collaborate with each

other to create additional customer value. This allows both Medical Solutions and Industrial Solutions to offer their customers integration of electronics and advanced decoration solutions, based on the capabilities of Integrated Solutions through its long-standing work with mobile phone producers and customers in consumer electronics. Integrated Solutions' experience of working with short lead times and rapid production of moulds also benefits both the other business areas.

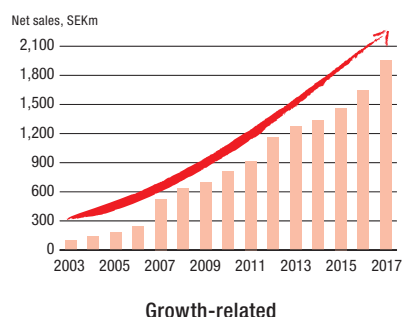
Similarly, Medical Solutions and Integrated Solutions benefit from Industrial Solutions' expertise in lean manufacturing for efficient production and increased productivity. Medical Solutions' recent introduction of a Global Quality & Medical Excellence department allows us to better

utilise and coordinate quality assurance resources and improvement measures across the Group, which also creates added value for customers.

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. This makes it easier for the Group and the business areas to develop competitive concepts for new materials, such as environmentally sustainable bio-materials. As a solutions-oriented company, we combine specifications from our customers with our own expertise and methodology. This enables us to strengthen our offering and ensure we have satisfied customers.

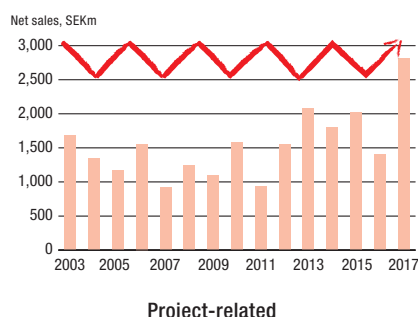
## Medical Solutions 2003–2017

From local to global



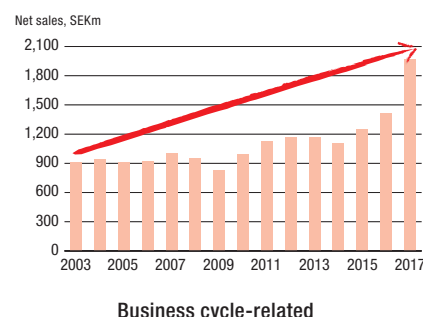
## Integrated Solutions 2003–2017

Adaptation and flexibility



## Industrial Solutions 2003–2017

Innovative technology and productivity







### Strategic focus of the business areas

#### Medical Solutions

- Growth market
- Structural changes
- Further internationalisation

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

#### Integrated Solutions

- Rapidly changing growth market
- Project-related/volatile
- Strong price pressure

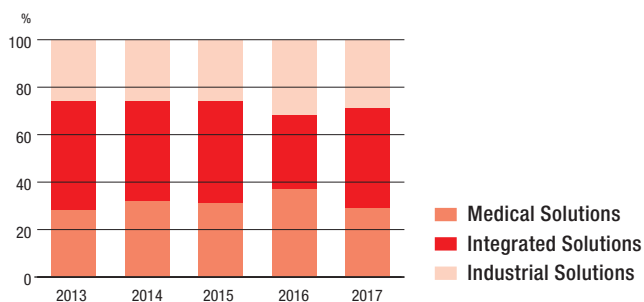
- ♦ Organic growth
- ♦ Expanded customer offering
- ♦ Technology and project management
- ♦ Focus on EMC & Thermal

#### Industrial Solutions

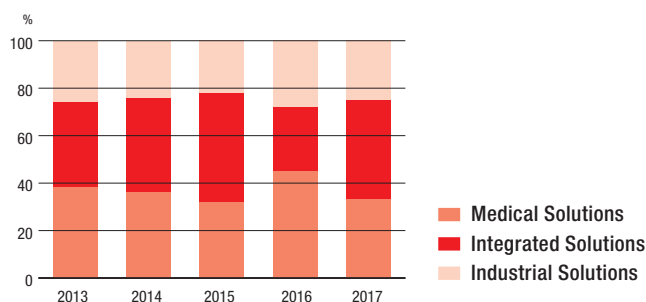
- Tracks the industrial business cycle
- Fragmented market
- Polymer materials gaining ground

- ♦ Market share
- ♦ Productivity
- ♦ Selective geographical expansion

### The business areas' share of net sales



### The business areas' share of operating profit (EBITA)



## Medical Solutions

## Sustained high market activity and strong growth

**Business Area President:**

Johan Iveberg  
Employed since 2010  
President since 2016

**Financial highlights:**

	2017	2016
Sales, SEKm	1,955	1,645
Operating profit (EBITA), SEKm	257	216
EBITA margin, %	13.1	13.1
Average number of employees	1,395	1,157

**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, 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.



Medical Solutions is a fast-growing business area that develops and manufactures medical device products for customers in the medical technology and pharmaceuticals sectors. In 2017, market activity remained high and Nolato enjoyed a good level of project activity. Volumes increased in both the Medical Devices and Pharma Packaging sectors, but especially in Medical Devices in which the ramp-up of new customer projects made a positive contribution. The good performance resulted in Medical Solutions strengthening its market positions.

**Development during the year**

- ◆ Sales rose by 19% to SEK 1,955 million (1,645). Adjusted for currency and acquisitions, the increase was 10%.
- ◆ Operating profit (EBITA) rose to SEK 257 million (216) and the EBITA margin was 13.1% (13.1).

### Operational focus

Medical Solutions' 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

- ▶ New system projects for customers contributed to good growth. These include new injection and inhalation projects, as well as complex system solutions that integrate electronics into medical devices.
- ▶ Project activity and capacity utilisation were high in this business area, which also resulted in Medical Solutions recruiting a large number of new employees, particularly engineers and staff on collective agreements.
- ▶ Large investments in machinery and other equipment were made in all production units during the year to increase production capacity. In addition, the business area took the decision to expand operations at Hörby in Sweden, Mosonmagyaróvár in Hungary and Degersheim in Switzerland, to manage long-term growth. These expanded operations will be completed by the end of 2018/start of 2019.
- ▶ Medical Solutions made investments in technological development within automation and advanced assembly. The business area also made investments in measuring equipment, for example to produce full 3D models of various components, and in software for advanced simulation for developing and optimising new products for quality and cost purposes.
- ▶ During the year, the acquired companies Treff (Switzerland) and Grizzly Medical (Poland) were integrated according to plan. Grizzly was renamed Nolato Stargard and Treff was renamed Nolato Treff. The performance of both businesses exceeded expectations, with strong sales to customers.
- ▶ The acquisition of Treff has given Medical Solutions a strong position within in vitro diagnostics (IVD) and a presence in the German-speaking part of Europe. This has given Nolato access to a number of new and internationally leading customers, particularly in medical technology, and could provide more technologies and solutions in the Medical Solutions business. Customer interest in Treff's business has increased since the company became part of the Nolato Group. Medical Solutions has also expanded its range of laboratory products through Treff.
- ▶ The acquisition of Grizzly Medical has boosted Nolato's capacity in the low-volume, clean room-based production segment, including assembly and post-processing, giving Medical Solutions an even more comprehensive customer offering.
- ▶ The business area took the decision to expand its Pharma Packaging offering and develop products and solutions in segments in between packaging and medical technology equipment.
- ▶ In 2017, Medical Solutions introduced a new Global Quality & Medical Excellence department. The aim is to better utilise and coordinate quality management resources and improvement measures within the Group, which also creates added value for customers. International pharmaceutical and medical technology companies increasingly want to use global and leading suppliers. So it will be an advantage for Medical Solutions to offer the business area's full range of quality management resources.

### Medical Solutions' 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 health-care 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.

### Examples of products



### Medical devices

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



### Pharmaceutical packaging

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



The entire in vitro diagnostics market is showing strong growth, driven in part by the need for a greater quantity of and more precise diagnostics. For Medical Solutions 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 biopharmaceuticals, such as high-viscosity medicines that require new injection methods, is also positive for Nolato's development. Medical Solutions' 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 suppliers with a more global focus have the opportunity to advance their positions. The sector continued to consolidate in 2017.

### Medical Solutions' market position

Over the past 10 years the Medical Devices 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 a finished product. Medical Solutions offers customers a broad technological base, advanced support in the development process and 12 production units in Europe, Asia and North America. In 2017 Nolato took market share and also strengthened its position within in vitro diagnostics (IVD).

Nolato has a leading position in Pharma Packaging on the Scandinavian and UK markets and also has significant exports outside these regions. Medical Solutions 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 2017, Pharma Packaging strengthened its market position, both through new development projects and previous projects that moved into the production phase.

In recent years, Medical Solutions has strengthened its market position in both

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

### Medical Solutions' strategic focus

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

Medical Solutions aims to be particularly strong in product development and production on a global basis. This means being able to grow with customers and offer production on the major international markets in Europe, America and Asia. The business area is now expanding its offering within fields including design, product development and integrated electronics. It is focusing increasingly on working with customers on advanced system projects.

Medical Solutions operates both using in-house sales and distributors to bolster its market position.

### Medical Solutions' continued development

In 2018, the market is expected to continue to grow by around 4–5%, driven in part by the launch of new biological pharmaceuticals and strong growth of the diagnostics market. Medical Solutions' many development projects together with customers also support this assessment.

For 2018, Medical Solutions' goals are to continue growing and taking market share, delivering on existing customer projects, carrying on expanding capacity at its production units and, through active marketing, gaining new customers and widening its activities within its existing customer base.

### Case study



### Nolato solves customer's autoinjector production problem

Nolato MediTech, a Medical Solutions company, was contracted by a large Danish medical technology company to take over production of their autoinjector. The customer had experienced technical problems with the autoinjector and wanted to change supplier. The autoinjector is used to treat anaphylactic shock by injecting adrenalin into a patient's leg. Anaphylactic shock is an acute allergic reaction that occurs when the body's immune system overreacts to a substance.

Medical Solutions helped by designing the production process, adapting production tools and optimising production, and then manufacturing a dozen or so plastic components for the autoinjector. The assignment was delivered on time and without any production disruptions to the customer's delivery of autoinjectors to its clients.

"We have a really good business relationship and both parties are professional and responsible in their approach, which encourages further cooperation," says Kristian Larsson, Sales & Project Director at Nolato MediTech.

## 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  
Negoiesti, Romania  
MD Johan Arvidsson

#### Nolato MediTech

Hörby and Lomma, Sweden  
MD Torkel Skoglösa

#### 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

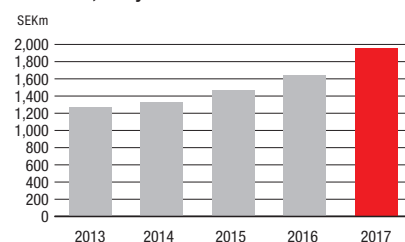
Trollhättan, Sweden  
MD Glenn Svedberg

#### Nolato Jaycare

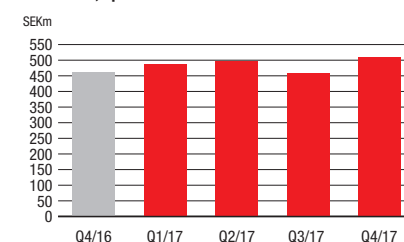
Portsmouth & Newcastle, UK  
MD Joe Barry

## Medical Solutions five-year review

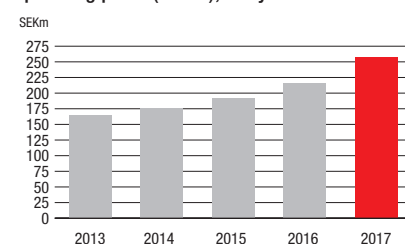
### Net sales, full year



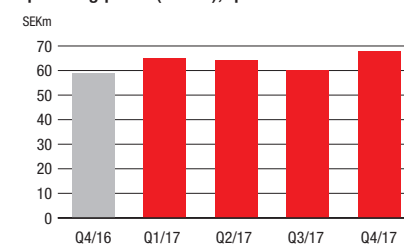
### Net sales, quarter



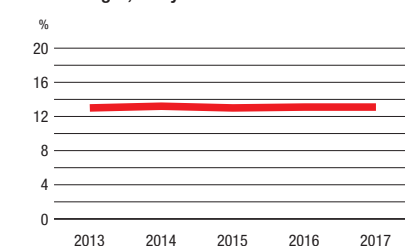
### Operating profit (EBITA), full year



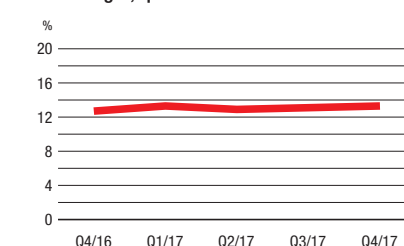
### Operating profit (EBITA), quarter



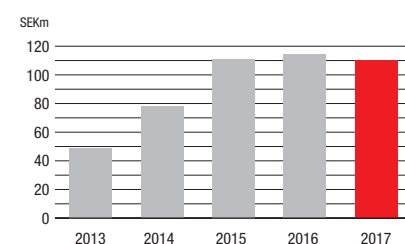
### EBITA margin, full year



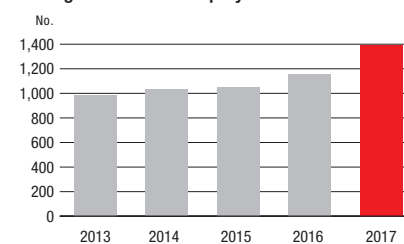
### EBITA margin, quarter



### Investments

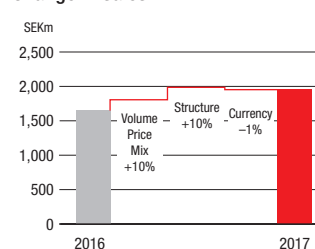


### Average number of employees

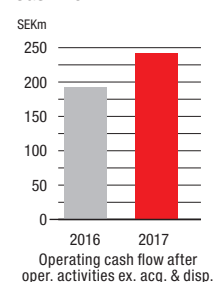


Affecting cash flow,  
excluding business acquisitions and disposals

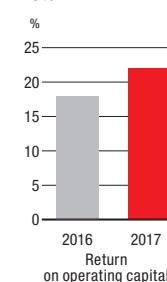
### Change in sales



### Cash flow



### Return



## Integrated Solutions

# Focus on new products leads to sharp increase in sales and profit



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

Financial highlights:	2017	2016
Sales, SEKm	2,810	1,402
Operating profit (EBITA), SEKm	332	131
EBITA margin, %	11.8	9.3
Average number of employees	4,928	4,480

## Market characteristics:

A few large, global companies. These customers have high technological demands, 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 & Thermal, EMC shielding and heat dissipation products and systems for electronics.

## Geographic information:

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



## 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, Nest (Google), Nokia, Sonos, Sony Mobile, Xiaomi, ZTE.

## Competitors include:

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

## Volatility:

High. Project-based operations.

## Product life cycle:

Short.



Integrated Solutions performed strongly in 2017. Efforts to expand the business area's product and customer base were successful. Demand in the vaporiser heating products (VHP) segment was particularly strong. Production for mobile phone projects saw high volumes too. Demand was also good for the EMC & Thermal area, i.e. products for shielding and heat dissipation for electronics, both within the traditional telecom segment for base stations and networks, but also for new sectors such as automotive.

## Developments in 2017

- ◆ Sales doubled to SEK 2,810 million (1,402). Adjusted for currency, growth was an exceptionally strong 102%.
- ◆ Operating profit (EBITA) rose very sharply to SEK 332 million (131) and the EBITA margin was 11.8% (9.3).

## Operational focus

Integrated Solutions' operations are divided into two business sectors:

- ▶ **Consumer Electronics:** This area comprises selected electronics products in which Nolato develops and manufactures mechanical subsystems and components for these products. They are often smart products that are connected over the internet of things, such as home electronics, including web cameras, and speaker systems, along with fitness trackers and other consumer electronics. In addition, VHP is a strong growth product area. Mobile phones and tablet devices also remain important products. These consumer electronics products have high cosmetic and haptic content, often with requirements regarding special functions such as water resistance.
- ▶ **EMC & Thermal:** 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. The majority of the business comes from telecom network and base station customers, but new customer segments such as automotive and health care are becoming increasingly important.

## Events during the year

- ▶ Strategic expansion of the business area has progressed well, and demand was particularly strong in the VHP product area. Nolato's strong expertise in product development, injection moulding, assembly, testing and cosmetic aspects has provided the basis for the successful move into this segment.
- ▶ Demand remained good for the Ceramics and Laser Activated Adhesives product areas for new customers in consumer electronics such as Fitbit and Nest (Google).
- ▶ EMC saw increased sales of new applications and products to certain customers that have had successful sales, while older customer products decreased. Demand from the new Thermal product area and from the automotive sector is increasing gradually. Cars and other vehicles have a

significant need for EMC shielding of electronic components, including everything from cameras and radar units to batteries.

- ▶ In autumn 2017, Nolato launched Compashield 2.0 for the shielding of electronics. Compashield is an updated and, in several respects, improved version of Nolato's extruded gaskets used to shield and protect items such as data network cabinets against the penetration of moisture.
- ▶ The business area took the decision to establish a small product unit in Hungary to process silicone material in order to be in close proximity to customers in the Central European automotive sector.

## Market

The business area's offering is aimed increasingly at fast-growth areas of consumer electronics. 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. Laser-activated adhesive is replacing glue and is a water-resistant product with good adhesive properties. The Ceramics product area offers ceramic components with high cosmetic value, both for VHPs and selected consumer products.

The VHP market is considered to have long-term growth potential, driven mainly by strong growth in Asia and selected markets in Europe.

The mobile phones market is volatile, and overall growth is now relatively low. In addition to the major producers Samsung and Apple, new players are constantly entering the market. Chinese producers such as Huawei, Xiaomi, Oppo and Vivo compete with each other and other new brands for the places below the two dominant manufacturers. Consequently, volumes fluctuate rapidly, so expansion of the customer base is strategically important to Nolato.

EMC operates in an attractive market, with additional needs for applications and products as new networked products are rolled out for 4G and, soon, 5G networks, in particular. As network traffic increases

## Examples of products



## Components and systems for consumer electronics

Subsystems for VHPs, mobile phones and home electronics products, which contain injection-moulded, painted and decorated components, in certain cases integrated with electronics in the form of 'mechanical modules', sometimes water-resistant. Creative material and surface design with significant cosmetic and haptic content.

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



## EMC & Thermal

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



## Case study



### New TIM products for efficient cooling

Nolato has recently launched two brand new thermal interface material (TIM) product lines: Compatherm Filler and Compatherm Paste for efficient cooling of electronics. TIM is used for demanding cooling of electronics in a range of industries, including telecom, automotive, home electronics, IT and medical technology.

#### Compatherm Filler

Compatherm Filler fills gaps between heat-generating and heat-dissipating components and therefore has roughly the same function as the previously launched Compatherm Pad while offering several unique advantages:

“Once the material has cured to fit the geometry it is assigned on application, it is capable of withstanding both strong vibrations and CTE movement. As a result, the material has become popular in the automotive industry,” says Jussi Myllyluoma, Head of Product Line Thermal at Nolato Silikonteknik.

Compatherm Filler is highly suitable for automated dispensing, which could potentially mean low production costs even for high volumes.

#### Compatherm Paste

Compatherm Paste creates the thinnest possible film between the heat source and heat sink, in order to provide the lowest possible thermal resistance. Compared with gap-filling materials such as pads and fillers, Compatherm Paste reduces thermal resistance, providing better cooling.

there is a growing need for EMC & Thermal’s process and materials solutions for shielding and heat dissipation.

One area increasing in significance for Integrated Solutions is TIM, or thermal interface materials, products. TIM is a more mature, competitive market. The advantage for Integrated Solutions, 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.

#### Market position

Nolato is a niche operator in the new consumer electronics product areas, but sees attractive product areas in which to develop. Examples of customer include both established companies such as Sonos, Nest and Fitbit, as well as relatively new companies like Essential and Cloudtag.

In the VHP product area, Nolato has established a good position as a partner. Partnerships involve Nolato contributing both product development, and production and assembly of complete products, while customers focus more on marketing and building their brand.

Compared with the large EMS (Electronics Manufacturing Services) companies, Integrated Solutions is a niche player in the mobile phone product area, 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.

Within EMC & Thermal, Integrated Solutions 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, Samsung and ZTE. Nolato also sees attractive markets in both EMC and other applications such as TIM (Thermal Interface Materials) in other sectors, particularly automotive. Customers include Harman, Autoliv, Bosch and Kongsberg.

#### Strategic focus

Integrated Solutions’ strategy is to be a partner and supplier of technically advanced products, primarily to the high-end segments of the electronics and telecom sector. The business area has a unique ability to offer customers a wide range of technologies and expertise in a one-stop shop for areas including injection moulding, die-cutting, painting, decoration, assembly, testing and packaging of electronic products. Within EMC & Thermal, Integrated Solutions’ strategy is to be a supplier to customers mainly in the radio base station and automotive 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. The business area focuses on both close relationships with existing customers and gaining new customers and new geographical markets.

#### Continued development

Nolato continues to see long-term areas of growth in selected areas of consumer electronics. VHP is an attractive market with long-term growth potential. Within EMC, product development is underway for the forthcoming build-out of 5G networks, which is estimated to take place around 2020.

The business area is therefore focusing on continuing to develop new products such as Compashield 2.0 for customers in order to take market share. Integrated Solutions will also maintain development of the Automotive customer segment, with everything from IATF (International Automotive Task Force) certifications to new products and an expansion of production.

## Strategic objectives

- ▶ Organic growth
- ▶ Broader customer offering for new markets
- ▶ Technology and project management
  - own niche technologies
  - project management and start-ups
- ▶ Further development of the shielding business (EMC & Thermal)
  - new markets and segments

## The business area's units

### Consumer electronics:

#### Nolato Beijing

Beijing, China  
MD Jörgen Karlsson

#### Lövepac Converting

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

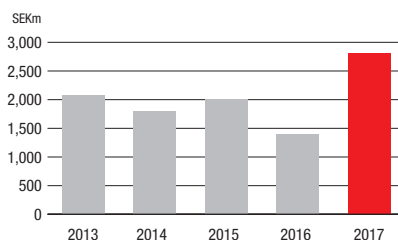
### EMC & Thermal:

#### Nolato Silikonteknik

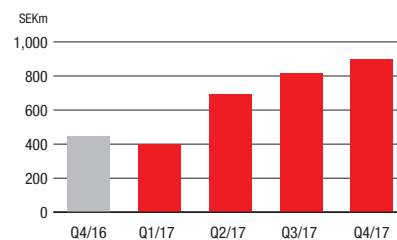
Hallsberg, Sweden  
Beijing, China  
Penang, Malaysia  
Győr, Hungary  
MD Anders Ericsson

## Integrated Solutions five-year review

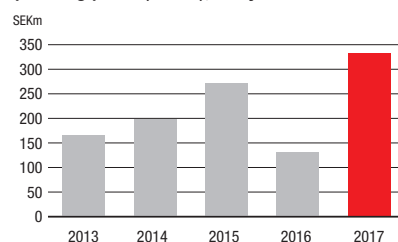
### Net sales, full year



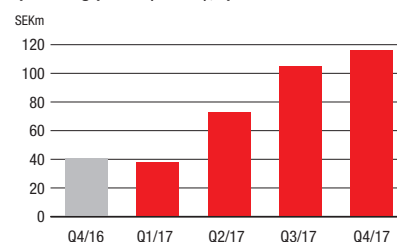
### Net sales, quarter



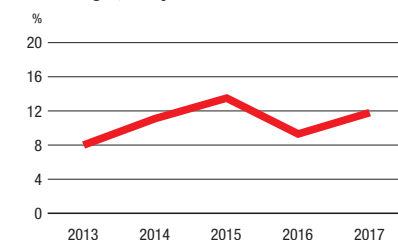
### Operating profit (EBITA), full year



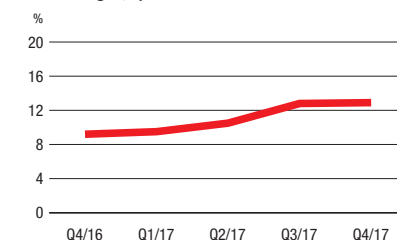
### Operating profit (EBITA), quarter



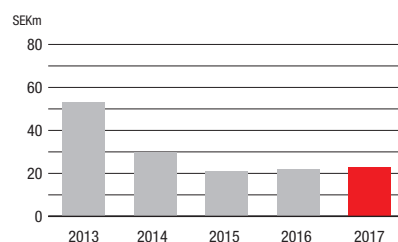
### EBITA margin, full year



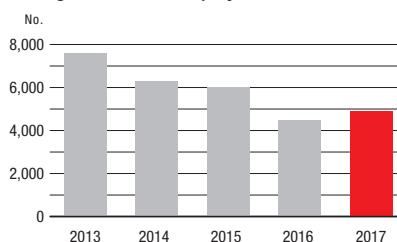
### EBITA margin, quarter



### Investments

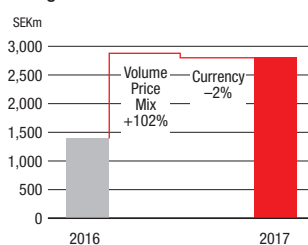


### Average number of employees

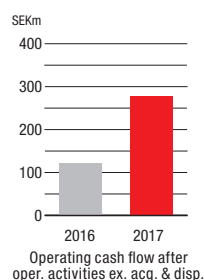


Affecting cash flow,  
excluding business acquisitions and disposals

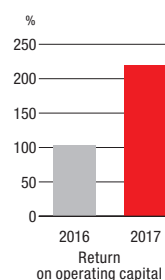
### Change in sales



### Cash flow



### Return



## Industrial Solutions

## Increased volumes and advanced market positions

**Business Area President:**

Johan Arvidsson  
Employed since 1994  
President since 2012

**Financial highlights:**

	2017	2016
Sales, SEKm	1,968	1,409
Operating profit (EBITA), SEKm	195	134
EBITA margin, %	9.9	9.5
Average number of employees	920	775

**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, primarily in polymer materials, 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:**

Extensive technology base, project management and productivity.

**Customers include:**

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

**Competitors include:**

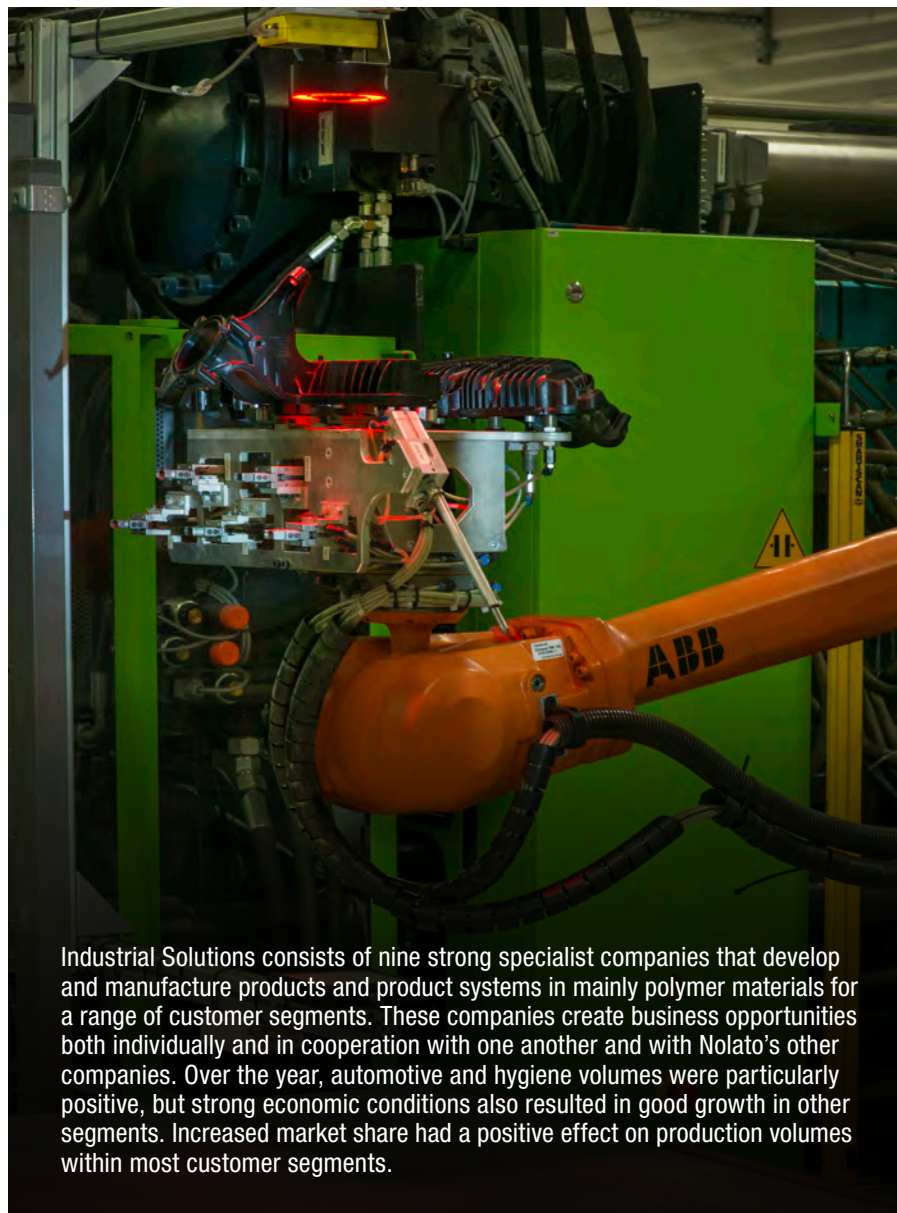
Euroform, KB Components, Kunststoff Schwanden, Plastal, Rosti (Nordstierman).

**Volatility:**

Medium. Follows the Northern European industrial business cycle.

**Product life cycle:**

Medium/Long.



Industrial Solutions 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 and with Nolato's other companies. Over the year, automotive and hygiene volumes were particularly positive, but strong economic conditions also resulted in good growth in other segments. Increased market share had a positive effect on production volumes within most customer segments.

**Developments in 2017**

- ◆ Sales rose by 40% to SEK 1,968 million (1,409). Adjusted for currency and acquisitions, the increase was a strong 19%. There was positive development of volumes in most product areas, particularly Automotive and Hygiene.
- ◆ Operating profit (EBITA) rose to SEK 195 million (134) and the EBITA margin was 9.9% (9.5).



## Operational focus

Industrial Solutions' business is mainly focused on two customer sectors:

- ♦ For the automotive sector, Industrial Solutions supplies advanced technical products.
- ♦ For general industry, including segments such as hygiene, packaging, gardening/forestry and furniture, Industrial Solutions 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

- ♦ Industrial Solutions continued to show strong performance in the automotive industry and took market share. Volvo Cars' launch of new models of the 60 series contributed to good production volumes for Nolato, which is supplying components for the engines, cosmetic details and the plenum covering the space between the bonnet and the windscreen. Industrial Solutions supplies both direct to Volvo Cars and to systems suppliers.
- ♦ Performance in the general industry sector was also positive, driven by good economic conditions, with healthy volumes and increased market share in segments such as hygiene, office furniture and gardening/forestry.
- ♦ Nolato was once again named Husqvarna's supplier of the year. Among the reasons given were that Nolato has invested in automation, listens to its customers, is proactive and all employees are encouraged to exceed customer expectations. Industrial Solutions supplies, among other things, components and parts for Husqvarnas' chainsaws, strimmers and leaf blowers.
- ♦ The acquisition of Switzerland-based Treff in 2016 progressed well in 2017, both in terms of sales and profit. The acquisition includes operations within both Industrial Solutions and Medical

Solutions. For Industrial Solutions, this means Treff develops and produces advanced precision components for various industry segments. Sales to customers in these segments performed well in the year.

- ♦ Industrial Solutions won new orders from Scania as a result of the launch of its new generation of trucks, which started in 2016. Nolato is supplying items such as components and systems for truck cabins.
- ♦ Industrial Solutions invested in increased production capacity at its plants in Sweden, Hungary and Switzerland to meet strong customer demand.

## Market

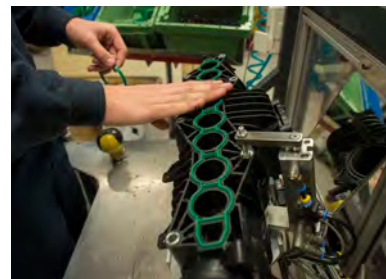
The European market for the manufacture of polymer products is fragmented, consisting of almost 50,000 companies with combined sales of over SEK 500 billion. The typical company is family-owned, has annual sales of SEK 20–35 million and operates in its local market. Business is done locally as the products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

The Nordic region is just as fragmented as elsewhere in Europe. In Sweden, where Nolato has its largest presence, there are over 700 manufacturers of polymer products, 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 Industrial Solutions' competitors on the Swedish market.

There are a number of driving forces behind developments in Industrial Solutions' market. The main driver for customers is being able to offer better and more cost-effective products on their 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. This may be production of a complete module in the form of a manifold for an automotive customer, involving stages such as injection moulding, welding, assembly and pressure testing.

The Nordic markets for automotive

## 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 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 brew units for coffee machines.

## Case study



### Swedish-made leaf blower goes down a storm in US

Nolato has cooperated with Husqvarna on forestry and gardening products for many years. In two current projects, Nolato Polymer, based in Torekov in Sweden, has been involved in the development phase and in producing numerous plastic components for the new series of battery-powered leaf blowers for the US market.

"The first project was for a series of professional blowers," says Jimmy Wallin, Marketing and Sales Director at Nolato Polymer. Husqvarna wanted the new series to move on to the next level and be the best in class.

"Part of the objective was to achieve perfect balance and ergonomics," explains Jimmy Wallin. "Not just with regard to the overall leaf blower and what it feels like for users to hold, but also for the fan to be perfectly balanced so the blower is as free of vibrations as possible, and the background noise from the fan was eliminated.

In the second project, the aim was to develop a lower-specification version of the blower for the US retail market.

The product would be developed and manufactured in Sweden, but could be sold in stores and hypermarkets in the US, as well as through major online retailers.

"So we worked a lot on the cost structure, adapted components and changed materials to reduce the production cost. Nolato provided valuable and proactive support during the development phase and the project was officially completed with 100% delivery at top quality," says Christian Bylund, Lead Engineer at Husqvarna Research & Development.

"Sales are going great and the next challenge is to automate production."

and general industry products and systems largely follow the industrial economic cycle. The development of the automotive industry in Sweden is particularly beneficial for Industrial Solutions. Scania and Volvo Cars' investment in their new models is driving demand. For Industrial Solutions, these investments mean a transfer from project-based orders to production orders.

### Market position

Industrial Solutions is a market leader in Sweden. The companies in Industrial Solutions are all among the largest operators in the market and Industrial Solutions is the largest overall player in its sector.

In Central Europe, Industrial Solutions has a strong position as a quality supplier of products in the hygiene sector and precision components for domestic appliances.

It is believed the extensive fragmentation in the sector will lead to continued consolidation in the Nordic region and the rest of Europe. Industrial Solutions' main competitors are Euroform, KB Components, Kunststoff Schwanden, Plastal and Rosti (Nordstiernan).

### Strategic focus

Industrial Solutions' strategy is to be a leading supplier, providing development and production of products and product systems in polymer materials for customers in the automotive and general industry sectors. With the Nordic market as its base, the business area aims to grow by developing existing customers and taking market share in these segments. In addition to organic growth, the business area is continually reviewing opportunities for new acquisitions.

A key objective for Nolato's business areas is to be customers' high-tech partner. For Industrial Solutions, 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 Industrial Solutions' 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 with a single component.

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

### Continued development

Key goals for 2018 are to continue taking market share and supplying existing projects that are receiving capacity investments in both in Sweden and Central Europe.

Industrial Solutions believes that strong conditions for industry in Northern Europe will continue throughout 2018. Industrial Solutions, however, is most dependent on the performance of individual customers. Long-term and stable customer relationships, along with a very strong offering, and the capacity investments that have been made, are expected to contribute to stronger market positions.

## Strategic objectives

- ▶ Market share
- ▶ Productivity
- ▶ Selective geographical expansion
  - alongside customers
  - through selective acquisitions that bring new customers or technologies

## The business area's units

### Nolato Gota

Göteborg, Sweden  
MD Peter Holterberg

### Nolato Hertila

Åstorp, Sweden  
MD Stefan Persson

### Nolato Hungary

Mosonmagyaróvár, Hungary  
MD Johan Arvidsson

### Nolato Lövepac

Skånes Fagerhult, Sweden  
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

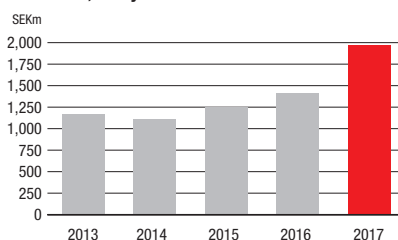
Degersheim, Switzerland  
MD Guido Vollrath

### Nolato Automotive Components (Beijing)

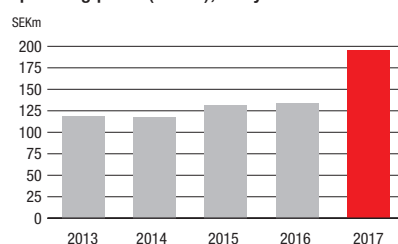
Beijing, China  
MD Jörgen Karlsson

## Industrial Solutions five-year review

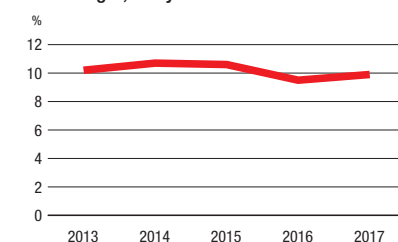
### Net sales, full year



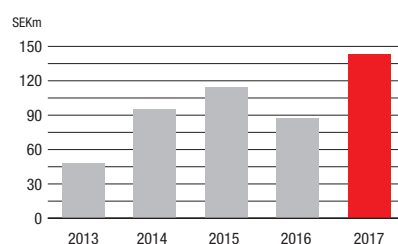
### Operating profit (EBITA), full year



### EBITA margin, full year

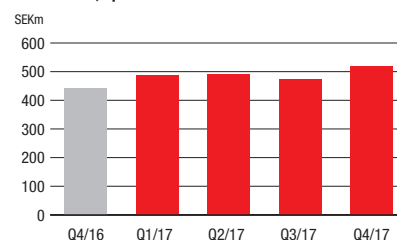


### Investments

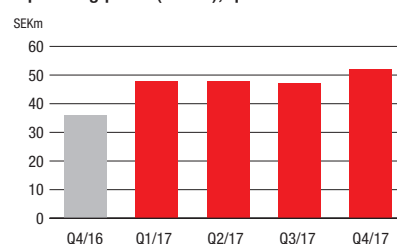


Affecting cash flow,  
excluding business acquisitions and disposals

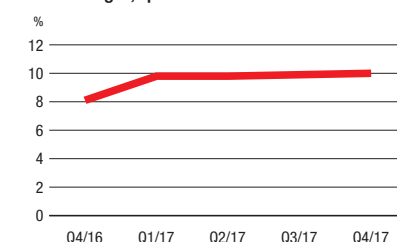
### Net sales, quarter



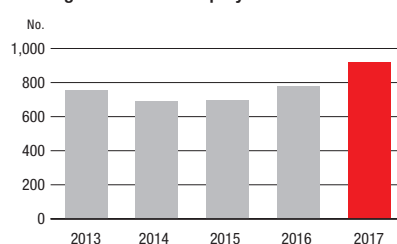
### Operating profit (EBITA), quarter



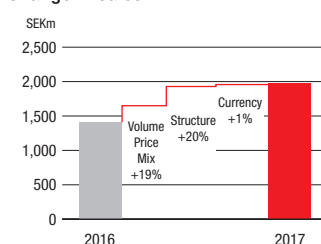
### EBITA margin, quarter



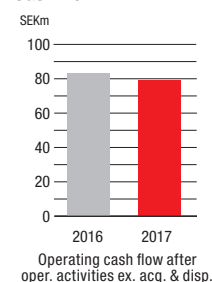
### Average number of employees



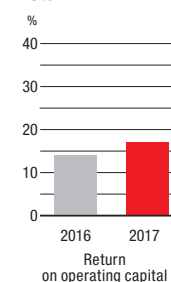
### Change in sales



### Cash flow



### Return



# Shareholder information

## Listing

Nolato AB was listed on Stockholm Stock Exchange in 1984 and the class B shares are today listed on Nasdaq Stockholm, in the Mid Cap segment in the Industrials sector. The B shares traded over the year on Nasdaq Stockholm, Cboe Europe and Turquoise. The share symbol is STO:NOLA B and the ISIN code is SE0000109811.

## Share price performance

Nolato's B shares rose by 105 % during the year (2). The share price at the end of 2017 was SEK 539.00 (263.00). The highest closing price on Nasdaq Stockholm in 2017 was SEK 540.00 (28/12/2017) and the lowest

was SEK 255.00 (19/01/2017). The highest price paid during the year was SEK 547.00 (30/11/2017) and the lowest was SEK 249.50 (08/02/2017). The market value of the shares at 31 December 2017 was SEK 14,180 million (6,919). In 2017, 15.5 million of Nolato's shares were traded, 39 % of which were in open exchange trading and 61 % was off-book, anonymously or by auction. Of open exchange trading, 88 % of trade was on Nasdaq Stockholm, 11 % on Cboe Europe and 1 % on Turquoise.

The turnover ratio, the degree of liquidity, was 66 % (58). The number of shareholders increased by 16 % during the year, totalling 13,947 (11,982) 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 two share warrant programmes (Series 1 & 2) for management that results in the dilution of the number of shares. For additional information, see Note 25 on page 73.

## 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 a dividend for 2017 of SEK 12.50 (10.50), corresponding to SEK 329 million (276).

The pay-out ratio, i.e. the dividend in relation to profit after tax, is 57 % (82). The dividend yield is 2.3 % in relation to the share price on 31 December 2017. Over the last five years, the average yield from Nolato's shares has been 4.1 %.

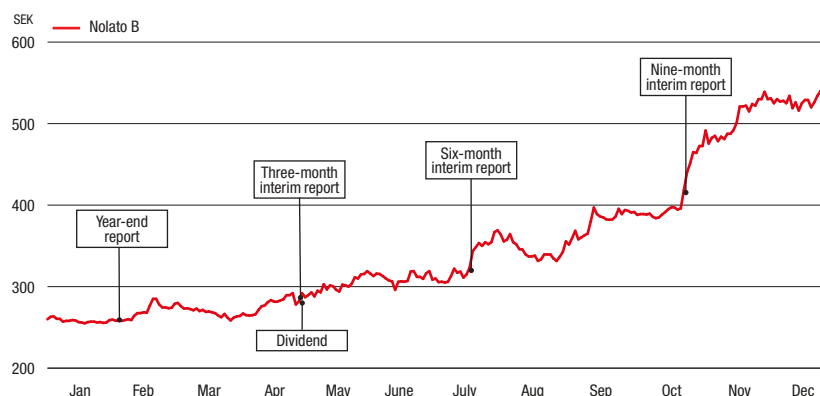
## Transferability

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

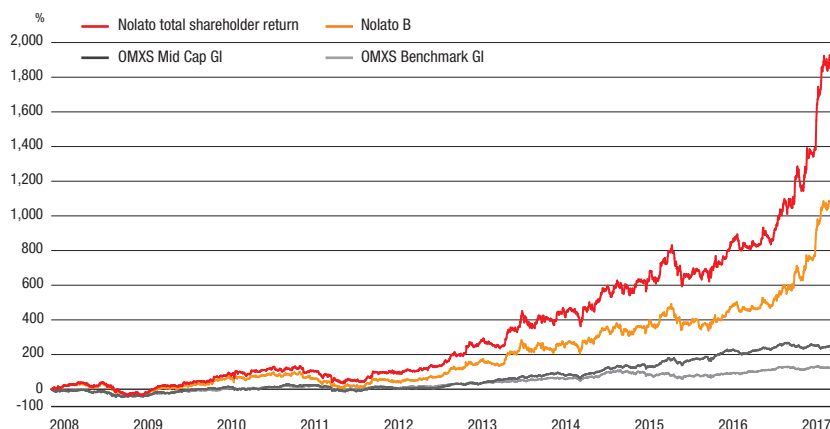
## Financial information

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](http://www.nolato.com). On the website you will also find all interim reports, annual reports and press releases for the recent 10 years.

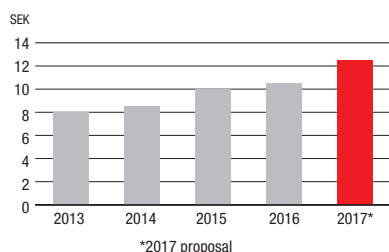
## Share price performance 2017



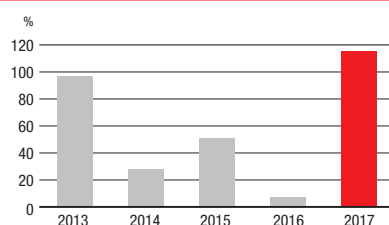
## Total shareholder return and share price performance 2008–2017



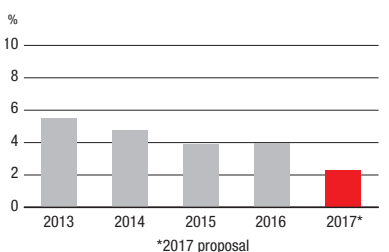
## Dividend 2013–2017



## Annual total shareholder return 2013–2017



## Dividend yield, 2013–2017



## Total shareholder return:

10 years	1,923% (yearly average 35%)
5 years	743% (yearly average 53%)
3 years	233% (yearly average 49%)
2 years	129% (yearly average 51%)

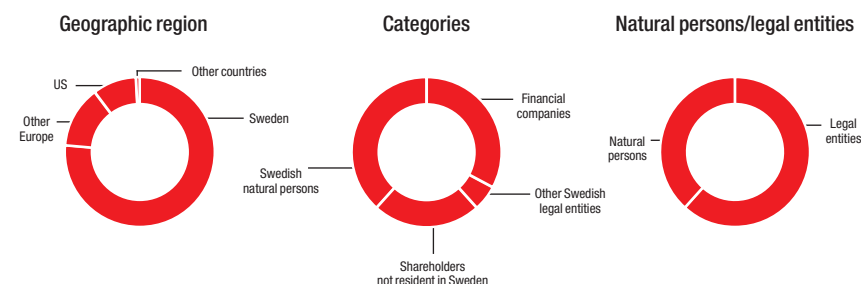
**Definition of total shareholder return (not IFRS measure):** Total shareholder return shows the change in the share price, including reinvested dividends over the period.

## Analysts

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

- ♦ Carnegie – Mikael Laséen, +46 8 588 687 21
- ♦ Handelsbanken – Marcela Klang, +46 8 701 51 18
- ♦ Remium – Carl Ragnerstam, +46 8 454 32 23

## Breakdown of shareholders at 31 December 2017



## The largest shareholders at 31 December 2017

Shareholders	31/12/2017	% of capital Change*	31/12/2017	% of votes Change*
Jorlén family	9.7	0.0	24.4	0.0
Boström family	9.4	0.0	19.6	0.0
Hamrin family	8.8	2.4	18.9	1.2
Didner & Gerge Funds	7.7	0.1	4.0	0.0
Lannebo Funds	6.3	2.0	3.2	1.0
SSB Client Omnibus	3.3	2.7	1.7	1.4
Nordea investment Funds	3.0	1.5	1.5	0.8
DnB – Carlson Funds	2.1	-0.5	1.1	-0.3
SEB Investment Management	1.6	-2.0	0.8	-1.0
Svolder Aktiebolag	1.3	-1.0	0.7	-0.5
Cbldn-400 Series Funds	1.3	0.0	0.7	0.0
Skogstornet	1.0	0.0	0.5	0.0
Länsförsäkringar Fund Management	0.9	-0.2	0.4	-0.1
Försäkringsaktiebolaget, Avanza Pension	0.8	-0.2	0.4	-0.1
<b>Total for largest shareholders</b>	<b>57.2</b>		<b>77.9</b>	
Other shareholders	42.8		22.1	

\*Change (percentage points) in shareholdings compared with 31 December 2016.

## Data per share

	2017	2016	2015	2014	2013
Earnings per share after tax, basic and diluted (SEK) <sup>1)</sup>	21.74	12.77	15.97	13.84	11.94
Shareholders' equity per share, SEK <sup>2)</sup>	82	70	67	60	51
Cash flow per share, SEK, excl. acquisitions and disposals	18.85	9.31	10.95	4.83	13.76
Share price at 31 December, SEK	539.00	263.00	257.50	178.00	146.50
Price/earnings ratio, times <sup>3)</sup>	25	21	16	13	12
Turnover rate, %	66	58	75	86	62
Dividend (2017 proposal), SEK	12.50	10.50	10.00	8.50	8.00
Yield (2017 proposal) % <sup>4)</sup>	2.3	4.0	3.9	4.8	5.5
Dividend as a percentage of earnings per share (2017 prop.)	57	82	63	61	67
Average number of shares before dilution, thousand	26,307	26,307	26,307	26,307	26,307
Price/equity ratio per share, times	6.6	3.8	3.8	3.0	2.9
Market capitalisation at 31 December, SEK million	14,180	6,919	6,774	4,683	3,854

### Definitions

- <sup>1)</sup> Profit after tax divided by the the average number of shares, IFRS measure.
- <sup>2)</sup> Shareholders' equity divided by the number of shares.
- <sup>3)</sup> Quoted share price at 31 December divided by earnings per share after tax.
- <sup>4)</sup> 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.
- **Finance 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 stock exchange listing requirements.
- **Inside Information Policy**  
This 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](http://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 and CEO 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 point of 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, and that no more than one of the Board members on the Nomination Committee may not be independent of the company's major shareholders. Nolato's largest shareholders are of the opinion that the company's ownership structure, with three families that hold just over 60% of the votes, is best represented within the Nomination Committee by these shareholders together with other major 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 2017 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 and AGES Industri AB.

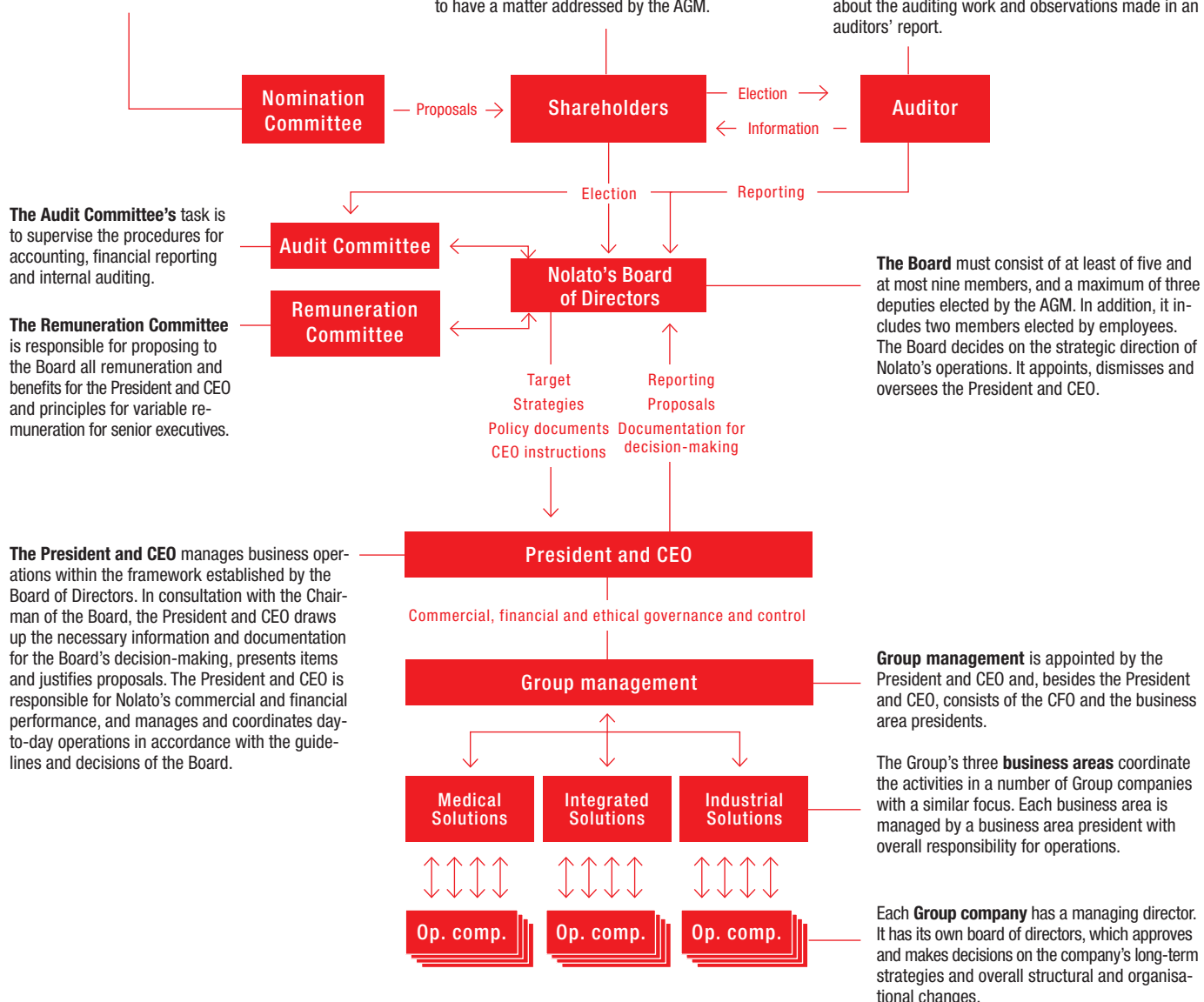
## Schematic description of the Nolato Group's corporate governance

**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 accounts. 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 CEO'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.








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 annual accounts. 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.

# Nolato's Board of Directors

					
<b>Name</b>	Fredrik Arp	Dag Andersson	Sven Boström-Svensson	Lovisa Hamrin	Åsa Hedin
<b>Elected</b>	2009 (also member 1998–1999)	2014	2013	2017	2014
<b>Position</b>	Chairman of the Board and Chairman of the Remuneration Committee.	Board member	Board member	Board member	Board member
<b>Born</b>	1953	1961	1983	1973	1962
<b>Education</b>	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 (Economics and Business), Stockholm School of Economics and Bachelor of Science.	Master of Science (Biophysics), Bachelor of Science (Physics).
<b>Other assignments</b>	Board member of Vattenfall, Nuevolution AB and Swedfund International.	Member of the board of Diaverum AB and various boards within Diaverum, including joint venture companies.	—	Chairwoman of the Carl-Olof and Jenz Hamrin Foundation, Deputy Chairwoman of Jönköping County Chamber of Commerce and member of the Swedish Media Publishers' Association ('Tidningsgivarna').	Board member of Tobii AB, E J:or Öhman AB, Cellavision AB, Immuno-via AB, Sensavis AB and Fingerprint AB.
<b>Background</b>	CEO of Volvo Cars, Trelleborg, PLM.	President and CEO of Diaverum AB. Deputy CEO of Mölnlycke Health Care, various positions at SKF.	—	Owner and President of Herenco AB, senior management positions at Hallpressen and Schibsted.	Deputy CEO of Elekta AB. Senior management positions at Siemens Healthcare and Gambro AB.
<b>Attendance</b>	6 of 6 meetings	5 of 6 meetings	6 of 6 meetings	4 of 6 meetings (elected at 2017 AGM)	6 of 6 meetings
<b>Remuneration <sup>1)</sup></b>	508,000	194,000	194,000	194,000	194,000
<b>Shareholding <sup>2)</sup></b>	3,000 B (3,000 B)	10,000 B (5,000 B)	255,870 B (255,870 B)	819,200 A + 1,486,743 B	0 (0)
<b>Dependence</b>	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 but not independent of major shareholders.	Independent of the company and major shareholders.

<sup>1)</sup> For further information about remuneration, see Note 25 on page 73.

<sup>2)</sup> Shareholding in Nolato at 31/12/2017 (31/12/2016) incl. family and companies, according to Euroclear Sweden. For current information see [www.nolato.com](http://www.nolato.com)






					
<b>Name</b>	Henrik Jorlén	Lars-Åke Rydh	Jenny Sjö Dahl	Björn Jacobsson	Håkan Svensson
<b>Elected</b>	1974	2005	2016	2015 (also member 2000–2013) Deputy 2014	2014 Deputy 2009–2014
<b>Position</b>	Board member and member of the Audit and Remuneration Committees.	Board member and chairman of the Audit Committee.	Board member	Employee representative from LO (the Swedish Trade Union Confederation).	Employee representative from PTK (Swedish Federation of Salaried Employees in Industry and Services)
<b>Born</b>	1948	1953	1973	1971	1960
<b>Education</b>	Business school	Master of Science (Engineering)	Master of Science (Industrial Economics), MBA	Upper secondary school	Upper secondary school. Certificated Board member by PTK.
<b>Other assignments</b>	—	Chairman of Danfo AB, OLJA cooperative, Plastprint AB, Schuchardt Maskin AB and Prototypen AB. Board member of Nefab AB, HL Display AB, Söderbergföretagen AB, Chiffonjén AB and Östrand o Hansen AB.	—	—	—
<b>Background</b>	Senior management positions within the Nolato Group.	President and CEO of Nefab.	CEO of Westermo AB. Senior management positions within ABB.	Employed at Nolato Gota.	Employed at Nolato Cerbo.
<b>Attendance</b>	6 of 6 meetings	6 of 6 meetings	6 of 6 meetings	6 of 6 meetings	5 of 6 meetings
<b>Remuneration <sup>1)</sup></b>	236,000	257,000	194,000	0	0
<b>Shareholding <sup>2)</sup></b>	294,000 A + 37,950 B (294,000 A + 37,950 B)	2,000 B (2,000 B)	0	0 (0)	0 (0)
<b>Dependence</b>	Independent of the company but not independent of major shareholders.	Independent of the company and major shareholders.	Independent of the company and major shareholders.	—	—

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

<sup>1)</sup> For further information about remuneration, see Note 25 on page 73.

<sup>2)</sup> Shareholding in Nolato at 31/12/2017 (31/12/2016) incl. family and companies, according to Euroclear Sweden. For current information see [www.nolato.com](http://www.nolato.com)

# Nolato Group management

					
<b>Name</b>	Christer Wahlquist	Per-Ola Holmström	Johan Iveberg	Jörgen Karlsson	Johan Arvidsson
<b>Employed</b>	1996	1995	2010	1995	1994
<b>Position</b>	President and CEO since February 2016.	Executive Vice President and CFO since 1995	President of Medical Solutions since 2016	President of Integrated Solutions since 2009 and MD of Nolato Beijing since 2007	President of Industrial Solutions since 2012 and MD of Nolato Hungary since 2008
<b>Born</b>	1971	1964	1969	1965	1969
<b>Education</b>	Master of Science (Engineering), MBA	Bachelor of Science (Economics)	Master of Science (Engineering)	Polymer Engineering	Master of Science (Engineering)
<b>Background</b>	Business Area President: MD in Group companies	Authorised public accountant	Senior positions with Trelleborg, Akzo Nobel and Perstorp. MD in Group companies	Marketing manager MD in Group companies	MD in Group companies
<b>Shareholding <sup>1)</sup></b>	15,712 B (15,712 B)	14,084 B (14,084 B)	1,500 B (0)	0 (0)	5,000 B (5,000 B)
<b>Warrants</b>	38,000 (Series 1) (38,000) 38,000 (Series 2) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (0)

<sup>1)</sup> Shareholding in Nolato at 31/12/2017 (31/12/2016) incl. family and companies, according to Euroclear Sweden. For current information see [www.nolato.com](http://www.nolato.com)



# Directors' report and financial statements

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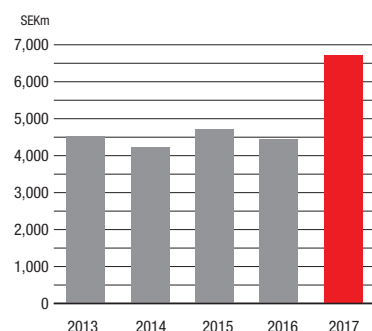
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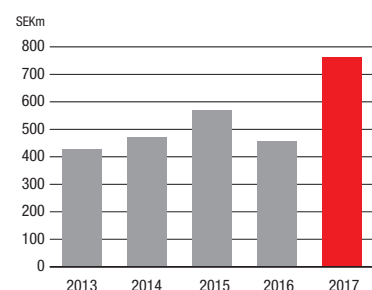
\*The content of pages 47–87 has been audited.

# Directors' report

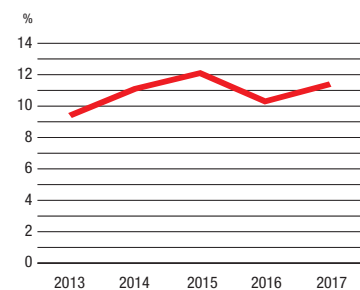
## Sales



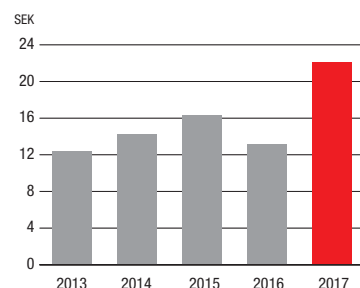
## Operating profit (EBITA)



## EBITA margin



## Adjusted basic earnings per share



## Operations in 2017

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 2017 financial year.

Nolato is a Swedish publicly listed group with 7,249 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, consumer electronics, 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:

**Medical Solutions:** Development and manufacture of complex product systems and components within medical technology, diagnostics (IVD) and advanced packaging solutions for pharmaceuticals.

**Integrated Solutions:** Development and manufacture of advanced components and subsystems for selected consumer electronics products and mobile phones. Within EMC & Thermal, products and systems for shielding.

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

The operations of these business areas are presented in more detail on pages 26–39.

## Financial summary

Consolidated sales rose by 51% in 2017, amounting to SEK 6,720 million (4,447). Adjusted for currency and acquisitions, sales rose by 41%. Operating profit (EBITA) increased to SEK 763 million (457), giving an EBITA margin of 11.4% (10.3).

Operating profit (EBIT) totalled SEK 749 million (443) after an expense of SEK 14 million in amortisation of intangible assets arising in connection with acquisitions. The EBIT margin was 11.1% (10.0). For further financial information, see the five-year review on page 79.

♦ Consolidated profit after tax was SEK 572 million (336). Earnings per share, basic and diluted, were SEK 21.74 (12.77). Adjusted basic earnings per share excluding amorti-

## Sales, operating profit and EBITA margin by business area, 2015–2017

SEKm	Sales			Operating profit (EBITA)			EBITA margin (%)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Medical Solutions	1,955	1,645	1,464	257	216	191	13.1	13.1	13.0
Integrated Solutions	2,810	1,402	2,017	332	131	272	11.8	9.3	13.5
Industrial Solutions	1,968	1,409	1,251	195	134	132	9.9	9.5	10.6
Intra-Group adj., Parent Co.	-13	-9	-6	-21	-24	-25	—	—	—
<b>Group total</b>	<b>6,720</b>	<b>4,447</b>	<b>4,726</b>	<b>763</b>	<b>457</b>	<b>570</b>	<b>11.4</b>	<b>10.3</b>	<b>12.1</b>

sation of intangible assets arising from acquisitions were SEK 22.16 (13.19). The effective tax rate was 22 % (23).

♦ Medical Solutions sales rose to SEK 1,955 million (1,645); adjusted for currency and acquisitions, sales growth was a strong 10%. Acquisitions contributed an additional SEK 157 million. Volumes increased in both the Medical Devices and Pharma Packaging sectors, but especially in Medical Devices in which the ramp-up of new customer projects made a positive contribution. 2017 was marked by high project activity and healthy capacity utilisation. Operating profit (EBITA) rose to SEK 257 million (216). The EBITA margin was 13.1% (13.1). The businesses acquired in 2016 are performing well and according to plan. Owing to the strong growth of recent years, Nolato is expanding production capacity in Hungary, Sweden and Switzerland.

♦ Integrated Solutions sales doubled to SEK 2,810 million (1,402); adjusted for currency, sales growth was an exceptionally strong 102%. The focus on expanding this business area's customer and product base has shown very positive development, particularly for VHPs (Vaporiser Heating Products). Operating profit (EBITA) increased sharply to SEK 332 million (131). The EBITA margin was a strong 11.8% (9.3). High volumes and consequent high capacity utilisation had a positive effect on the margin.

♦ Industrial Solutions sales increased to SEK 1,968 million (1,409); adjusted for currency and acquisitions, sales growth was a strong 19%. Acquisitions contributed an additional SEK 288 million. There was positive development of volumes in most product areas, particularly automotive and hygiene. Advanced market positions and a high level of invoicing for development work and production equipment for forthcoming production contributed to the strong growth. Operating profit (EBITA) increased to SEK 195 million (134), with an EBITA margin of 9.9% (9.5). The business acquired in 2016 is performing well and according to plan.

For additional comments on financial performance, see page 55 of the directors' report.

### 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 sound business

ethics, responsibility and environmental awareness. The company's sustainable development strategy is built on the conviction that a forward-looking and responsible approach creates opportunities and business benefits.

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

♦ We have set Group sustainable development targets (see pages 22–23). 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 2010 and we comply with the ten principles relating to the environment, human rights and anti-corruption measures. Nolato's goals are linked to the UN Sustainable Development Goals.

### Sustainability reporting

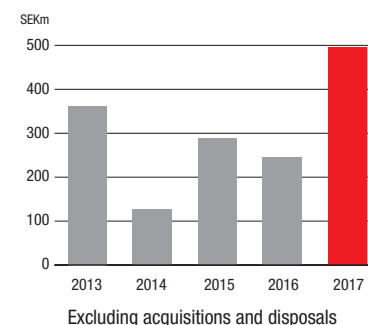
In the directors' report below, Nolato has opted to report on the Swedish Annual Accounts Act's (ÅRL) requirements Chapter 6, Section 1, according to the Swedish Accounting Standards Board's recommendation U 98:2, concerning environmental information. According to ÅRL Chapter 6, Section 11, the company has chosen to prepare the statutory sustainability report separately from the annual report. The sustainability report will be available on the company's website to coincide with the publication of the annual report.

Pages 21–25 of the annual report contain general information about how sustainability work is managed, monitored and the performance trend. A detailed description of sustainability work is provided in the separate sustainability report available at [www.nolato.com](http://www.nolato.com). The sustainability report is set out according to Global Reporting Initiative (GRI G4) guidelines. The Group's performance with regard to carbon emissions is reported according to the Carbon Disclosure Project (CDP).

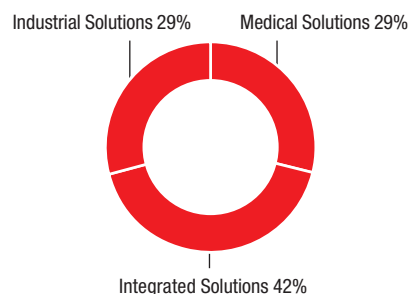
### Employees

The average number of employees at Nolato in 2017 was 7,249 (6,418). Of the total number of employees in the Group, 45 % (49) were women. All units are wholly owned by Nolato and comply fully with the guidelines in Nolato's Basic Principles and Code of Conduct. The practical work relating to personnel issues in the Group is decentralised. This means each individual Group company is responsible for managing issues in a way that complies with both Group guidelines and

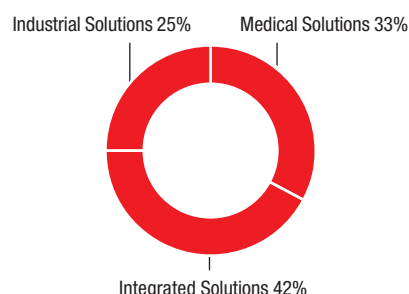
### Cash flow after investments



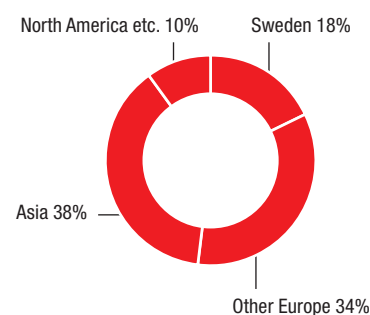
### Share of sales



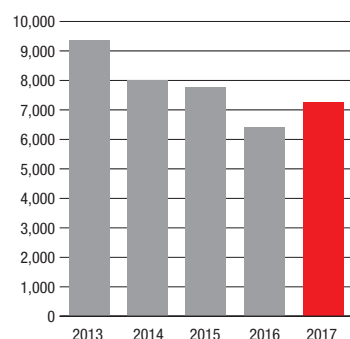
### Share of operating profit (EBITA)



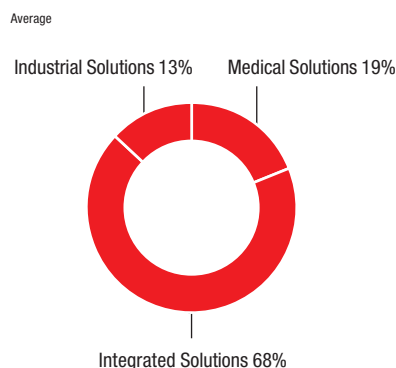
### Sales by geographic markets



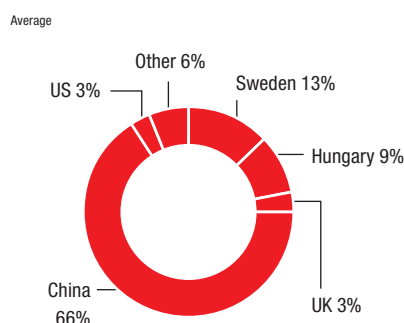
### Average no. employees



### Employees by business area



### Employees by country



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 workplace with around 66% of its employees, an Employee Care Programme was introduced and further developed in 2017. The programme aims to ensure good conditions for employees in the workplace, and to offer training and stimulating leisure activities.

In order to quickly alert the company to breaches of the Group's Code of Conduct or other serious irregularities, employees can sound the alarm regarding any irregularities without risk of reprisals or pressure (whistle-blowing). No such cases were reported in 2017.

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 workforce for various projects and consequently avoid creating its own large recruitment organisation. In accordance with the Group's Code of Conduct, 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 the Group's Code of Conduct we must refrain from doing business or take alternative actions. In 2017, managers and sales and marketing employees completed training on issues relating to corruption, cartel formation and sound business ethics. Using the Global Compact checklists, annual evaluations are carried out to examine what action is taken by Group companies to prevent corruption. No events relating to corruption or inade-

quate business ethics were recorded in 2017.

The guidelines in Nolato's Code of Conduct also apply to suppliers and other Nolato business partners. In 2017, Group companies conducted 235 (173) 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 manufacture of products in polymer materials is associated with a number of significant environmental aspects. Some examples include the use of materials (plastics, silicone rubber, metals), chemicals (solvents, varnish, paints), energy and water. Emissions of greenhouse gases and solvents (VOC), along with the occurrence of various types of waste, are other key environmental issues. Indirect environmental aspects relating to products, packaging and transportation are also significant. In the Group, the ISO 14001 environmental management system is a valuable tool as part of efforts to systematically reduce our environmental impact.

All production units in Sweden apart from one are obliged to provide notifications pursuant to the Swedish Environmental Code. Most of 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 the majority of the Group's net sales.

Routine updates to the environmental permits will be carried out at a handful of plants in 2018. In a couple of cases, these updates are required due to an expansion of operations. We do not anticipate any significant legal or financial consequences as a result of the renewal of these environmental permits.

In most cases, regular reports are submitted to the environmental authorities, and the supervisory authorities carry out inspections. Two minor breaches of environmental legislation were registered in 2017. The deviations were of a formal nature and led to minimal penalties. With regard to customer requirements in the area of social responsibility and the environment, evaluations and audits at 15 of Nolato's plants were carried out during the year. The results of these evaluations were very 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 52–53.

## Management systems

All of Nolato's production units are certified in accordance with the requirements of the ISO 9001 quality management system. Almost 75% of the units are certified in accordance with industry-specific ISO standards, for example with a focus on the automotive industry (ISO/TS 16949), medical technology (ISO 13485), food industry (ISO 22000) and pharmaceutical packaging (ISO 15378).

For the environment and work environment, 95% of the companies are certified according to the environmental management standard (ISO 14001), nearly 30% according to the health and safety standard (OHSAS 18001), and roughly 10% according to the energy management standard (ISO 50001). The social responsibility standard (ISO 26000) provides a guideline for Nolato's sustainable development 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 2017, Nolato had 13,947 (11,982) shareholders. The largest shareholders are the Jorlén family with 10%, the Boström and Hamrin families with 9%, Didner & Gerge Funds with 8% and Lannebo Funds with 6%.

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 and 2017, Nolato's management were offered the opportunity to acquire warrants for the purchase of shares at a predetermined price.

At the end of the period the Group had two share warrant programmes, Series 1 and Series 2. Series 1 has redemptions from 01/05/2019 to 15/12/2019 and Series 2 from 01/05/2020 to 15/12/2020. The subscription price is SEK 296.30 for Series 1 and SEK 485.10 for Series 2. The programmes have been taken into account in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 436,700 new class B shares.

Further information about Nolato's shares can be found on pages 40–41. Up-to-date information about the share price is always available at [www.nolato.com](http://www.nolato.com).

## Corporate governance

Basic information about the company's governance, Board of Directors and management can be found on pages 42–46. Nolato's formal corporate governance report is available at [www.nolato.com/corpgov](http://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 25 on page 73. 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 2018 Annual General Meeting.

## Parent Company

The Parent Company Nolato AB, which has no operating activities, is a holding company which carries out joint Group management functions and financial and accounting functions.

Sales totalled SEK 50 million (46). Profit after financial income and expense increased to SEK 275 million (70), owing mainly to higher 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 482 million
Profit for the year	SEK 453 million
<b>Total</b>	<b>SEK 935 million</b>

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

Div. to shareh. of SEK 12.50 per share	SEK 329 million
To be carried forward	SEK 606 million
<b>Total</b>	<b>SEK 935 million</b>

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 2018, 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. For Integrated Solutions, we will carry on extending our offering into related products with our integrated solutions. For Medical Solutions, we see opportunities for sustained growth by investing in new projects and customer relationships. Industrial Solutions 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.

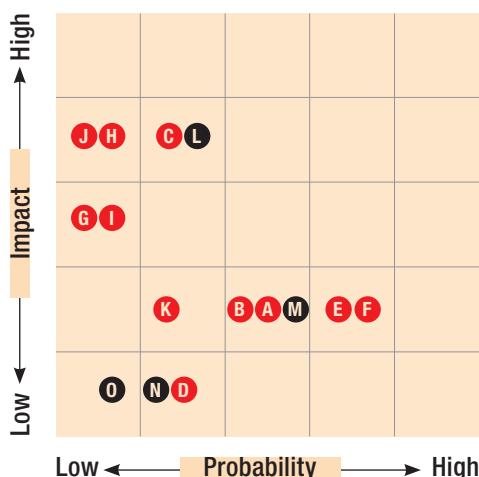
The positions we have on the market and the investments we have implemented within each business area should enable us to continue to develop Nolato regardless of economic fluctuations. We will continue to grow by working even more closely with our customers to ensure we satisfy their demands and requirements.



# 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.



## Operational risks

- A** Business cycle risk
- B** Subcontractor risk
- C** Customer dependence
- D** Supplier dependence
- E** Raw material price risk
- F** Energy cost risk
- G** Production risks
- H** Property damage and disruptions
- I** Legal risks
- J** Product liability risk
- K** Sustainable development risks

## Financial risks

- L** Customer credit risk
- M** Foreign exchange risk
- N** Interest rate risk
- O** Financing and liquidity risk

Operational risks	Risk exposure	Risk management
<b>A Business cycle risk</b> The risk that an economic downturn could have a significant impact on Nolato's performance and earnings.	Medical Solutions and Integrated Solutions' operations have a fairly low sensitivity to economic and business cycle fluctuations, while Industrial Solutions' 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>B Subcontractor risk</b> 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.
<b>C Customer dependence</b> 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 Industrial Solutions, whose market is made up of a large number of customers. Medical Solutions also has good risk diversification across a large number of customers, while Integrated Solutions has fewer customers.	We are endeavouring to broaden our customer base and offering within Integrated Solutions.
<b>D Supplier dependence</b> 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.
<b>E Raw material price risk</b> 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 Integrated Solutions, with its many thin-walled products, the plastic raw material only accounts for around 5–15% of the selling price, while the corresponding figure is around 20–25% for Medical Solutions and 25–30% for Industrial Solutions.	We endeavour to include price adjustment clauses in supply agreements that cover an extended period of time. Product life span within Integrated Solutions is short, usually less than one year, which limits the risk in this business area.

<b>F Energy cost risk</b> 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 2017, the Group's energy costs totalled SEK 136 million, of which 92% 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 4 to 12 quarters.
<b>G Production risks</b> 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).
<b>H Property damage and disruptions</b> 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.
<b>I Legal risks</b> 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.
<b>J Product liability risk</b> The risk of faults in a product manufactured by Nolato leading to significant financial claims on the Group.	Design liability for products and components usually lies with customers. Nolato's risk is therefore limited solely to manufacturing faults.	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).
<b>K Sustainable development risks</b> 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.	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).	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.

Financial risks*	Risk exposure	Risk management
<b>L Customer credit risk</b> The risk of a major customer becoming insolvent and being unable to pay for orders made.	In terms of customers within Industrial Solutions and Medical Solutions, this risk is mitigated by sales taking place in a large number of countries to a large number of customers, which diversifies the risk. Integrated Solutions 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 1,128 million at year-end (all receivables from all customers).	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.
<b>M Foreign exchange risk</b> The risk that fluctuations between different currencies will have 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.	Estimated net flows in foreign currency amounted to SEK 239 million at year-end, 44% of which was hedged. This means that SEK 133 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 7 million on Group profit. The Group has SEK 998 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 50 million on the net assets in the Group.	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 28 on page 76.
<b>N Interest rate risk</b> The risk that the Group's net interest expense will significantly increase in the event of changes to market interest rates.	At 31 December, interest-bearing liabilities amounted to SEK 822 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 153 million.	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%.
<b>O Financing and liquidity risk</b> The risk of the Group having problems accessing capital.	Total credit lines granted in the Group amount to SEK 1,268 million (1,085). Of this amount, SEK 463 million matures on 27/09/2021 and SEK 600 million on 24/04/2022. Other credit commitments of SEK 205 million (108) mature between 2018 and 2023.	In order to maintain financial flexibility and meet the Group's capital requirements, loan facilities are continually agreed.

\*Financial risk management is described in detail in Note 28 on pages 75–77.

## Consolidated income statement

SEKm	Note	2017	2016
Net sales	3	6,720	4,447
Cost of goods sold	4, 5	– 5,642	– 3,733
<b>Gross profit</b>		<b>1,078</b>	<b>714</b>
Selling expenses	5	– 116	– 115
Administrative expenses	5	– 205	– 170
Other operating income and operating expenses, net	6	– 8	14
		<b>– 329</b>	<b>– 271</b>
<b>Operating profit</b>		<b>749</b>	<b>443</b>
Financial income	7	3	3
Financial expenses	7	– 21	– 8
		<b>– 18</b>	<b>– 5</b>
<b>Profit after financial income and expenses</b>		<b>731</b>	<b>438</b>
Tax	8	– 159	– 102
<b>Profit for the year attributable to Parent Company shareholders</b>		<b>572</b>	<b>336</b>
Earnings per share, basic and diluted (SEK)	9	21.74	12.77

## Consolidated comprehensive income

SEKm	2017	2016
<b>Profit for the year attributable to Parent Company shareholders</b>	<b>572</b>	<b>336</b>
<b>Other comprehensive income</b>		
<i>Items that cannot be transferred to profit for the period</i>		
Revaluations of defined benefit pension schemes	16	8
Tax attributable to items that cannot be reversed to profit for the period	– 2	– 2
	<b>14</b>	<b>6</b>
<i>Items transferred or that could be transferred to profit for the period</i>		
Translation differences for the year on translation of foreign operations	– 6	12
Changes in the fair value of cash flow hedges for the year	3	– 2
Tax attributable to changes in the fair value of cash flow hedges	– 1	—
	<b>– 4</b>	<b>10</b>
<b>Total other comprehensive income, net</b>	<b>10</b>	<b>16</b>
<b>Comprehensive income for the year attributable to Parent Company shareholders</b>	<b>582</b>	<b>352</b>

## Comments on the consolidated income statement

### Net sales

Consolidated net sales for 2017 totalled SEK 6,720 million (4,447), a rise of 51%. Adjusted for currency and acquisitions, sales rose by 41%.

Medical Solutions sales rose by 19% to SEK 1,955 million (1,645). Adjusted for currency and acquisitions, sales rose by a strong 10%. Acquisitions contributed an additional SEK 157 million. Volumes increased in both the Medical Devices and Pharma Packaging sectors, but especially in Medical Devices in which the ramp-up of new customer projects made a positive contribution. 2017 was marked by high project activity and healthy capacity utilisation.

Integrated Solutions sales doubled, amounting to SEK 2,810 million (1,402). Adjusted for currency, sales rose by an exceptionally strong 102%. The focus on expanding this business area's customer and product base has shown very positive development, particularly for the VHP (vaporiser heating products) product area.

Industrial Solutions sales amounted to SEK 1,968 million (1,409), an increase of 40%. Adjusted for currency and acquisitions, sales rose by a strong 19%. There was positive development of volumes in most product areas, particularly automotive and hygiene. Advanced market positions and a high level of invoicing for development work and production equipment for forthcoming production contributed to the strong growth. Acquisitions contributed SEK 288 million.

### Gross profit

Gross profit totalled SEK 1,078 million (714) and was positively affected by higher sales and margins. All business areas have increased sales and made a contribution. Integrated Solutions' margin has risen and amounted to a strong 11.8% (9.3). High volumes and high capacity utilisation had a positive effect on the margin. Medical Solutions' margin remained unchanged, while Industrial Solutions' margin increased from 9.5% in 2016 to 9.9% in 2017.

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 essentially remained the same at 16.0%.

Total depreciation increased and amounted to SEK 231 million (193). 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 213 million (177). 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.

### Selling and administrative expenses

Selling and administrative expenses saw a slight increase compared with 2016 and amounted to SEK 321 million (285). 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 so-called customer relationships that are assigned value in the acquisition analysis in connection with acquisitions.

### Other operating income and operating expenses

Other operating expenses have increased due to net negative currency effects.

### Operating profit

Operating profit was SEK 749 million (443). The increase is due to higher earnings for all business areas, but in particular for Integrated Solutions.

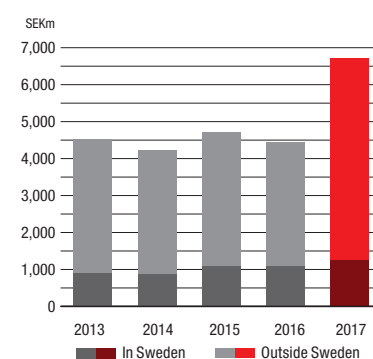
### Net financial income/expense

Net financial income/expense in 2017 declined compared with 2016 by a net amount of SEK 13 million, owing to higher interest expenses and negative currency effects. Profit after net financial income/expense was SEK 731 million (438).

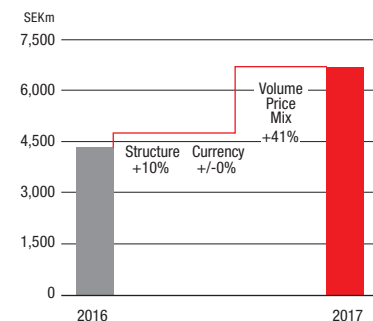
### Profit after tax

Profit after tax totalled SEK 572 million (336), with basic and diluted earnings per share of SEK 21.74 (12.77). The effective tax rate was 22% (23). The slightly lower tax rate was mainly due to an increased share of earnings in countries with lower tax rates.

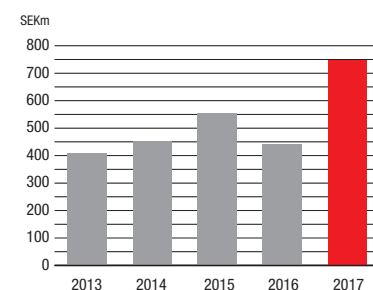
## Sales



## Changes in sales



## Operating profit (EBIT)



## Consolidated balance sheet

SEKm	Note	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Non-current intangible assets	10	813	849
Property, plant and equipment	11	1,243	1,205
Non-current financial assets	12	2	2
Other non-current receivables		1	1
Deferred tax assets	8	52	46
<b>Total non-current assets</b>		<b>2,111</b>	<b>2,103</b>
<b>Current assets</b>			
Inventories	13	530	393
Accounts receivable	12	1,128	819
Current tax assets		16	29
Other current assets	14	290	159
Other current financial assets	12	8	10
Cash and cash equivalents	12	669	411
<b>Total current assets</b>		<b>2,641</b>	<b>1,821</b>
<b>Total assets</b>		<b>4,752</b>	<b>3,924</b>
<b>Shareholders' equity and liabilities</b>			
<b>Equity attributable to Parent Company shareholders</b>	15		
Share capital		132	132
Other capital contributed		228	228
Other reserves	16	101	105
Retained earnings		1,698	1,385
<b>Total shareholders' equity</b>		<b>2,159</b>	<b>1,850</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	18	184	202
Non-current financial liabilities	17	487	517
Deferred tax liabilities	8	103	88
Other provisions	19	87	85
<b>Total non-current liabilities</b>		<b>861</b>	<b>892</b>
<b>Current liabilities</b>			
Accounts payable	17	666	583
Current tax liabilities		56	10
Other current financial liabilities	17	151	104
Other current liabilities	20	859	485
<b>Total current liabilities</b>		<b>1,732</b>	<b>1,182</b>
<b>Total liabilities</b>		<b>2,593</b>	<b>2,074</b>
<b>Total liabilities and shareholders' equity</b>		<b>4,752</b>	<b>3,924</b>



## Comments on the consolidated balance sheet

### Assets

Non-current assets saw a slight increase, as net investments in property, plant and equipment were higher than depreciation/amortisation of SEK 231 million for the year. Net investments totalled SEK 275 million, excluding acquisitions. During the year, investments have been made primarily for expansion in Medical Solutions and Industrial Solutions, where production plants have been expanded and machine capacity increased. Other changes in non-current assets include translation effects from assets in foreign companies.

Current assets increased by SEK 820 million. Inventories and other receivables saw a sharp increase. Other current assets also increased. These increases were largely an effect of the substantial growth achieved by the Group in 2017. Cash and cash equivalents increased via the positive cash flow and amounted to SEK 669 million (411).

### Shareholders' equity

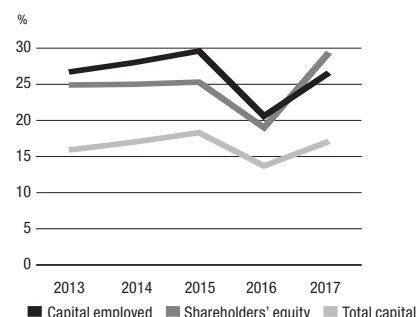
Shareholders' equity increased as a result of comprehensive income for 2017 of SEK 582 million, which consists of profit after tax and currency effects from translation differences and the revaluation of defined benefit pension schemes. Dividends in the amount of SEK 276 million were paid, thereby reducing shareholders' equity. The return on shareholders' equity was 29.4% (19.0) and the increase was due to the strong growth in earnings compared with 2016.

### Liabilities

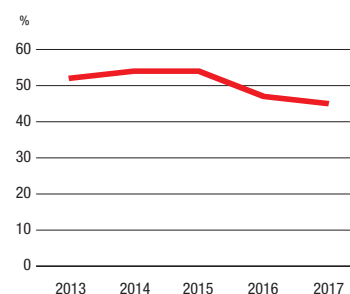
Non-interest-bearing liabilities and provisions rose by SEK 516 million to SEK 1,771 million. These increases were largely an effect of the substantial growth achieved by the Group in 2017. The average total working capital requirement in relation to sales was 5.3% (5.9). The higher earnings meant that, while there was a relatively modest increase in average capital employed, the return on capital employed rose to 26.6% (20.6).

Interest-bearing liabilities and provisions essentially remained the same and amounted to SEK 822 million (819). Interest-bearing liabilities to credit institutions increased to SEK 638 million (617), while interest-bearing pension liabilities decreased to SEK 184 million (202). The change in interest-bearing liabilities was relatively small and reflected a normal fluctuation in financing. Pension liabilities declined primarily as a result of a somewhat higher discount rate. Interest-bearing assets amounted to SEK 669 million (411), and accordingly, net financial debt totalled SEK 153 million (408). One of the Group's credit agreements was extended and increased in the second quarter. Consequently, Nolato has long-term credit agreements of between four and five years totalling approximately SEK 1.1 billion. Short-term financial credit facilities of approximately SEK 200 million are also available. The loan agreements' credit facilities mainly provide capacity for capital requirements in the event of future acquisitions.

## Return



## Equity/assets ratio



SEKm	Attributable to Parent Company shareholders					
	Share capital	Other capital contributed	Hedging reserves	Translation reserves	Retained earnings	Total shareholders' equity
<b>Opening balance, 1 January 2016</b>	<b>132</b>	<b>228</b>	<b>—</b>	<b>95</b>	<b>1,304</b>	<b>1,759</b>
Profit for the year	—	—	—	—	336	336
Other comprehensive income for the year	—	—	-2	12	6	16
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>-2</b>	<b>12</b>	<b>342</b>	<b>352</b>
Dividend for 2015	—	—	—	—	-263	-263
Warrants included in incentive programme (Series 1)	—	—	—	—	2	2
<b>Closing balance, 31 December 2016</b>	<b>132</b>	<b>228</b>	<b>-2</b>	<b>107</b>	<b>1,385</b>	<b>1,850</b>
<b>Opening balance, 1 January 2017</b>	<b>132</b>	<b>228</b>	<b>-2</b>	<b>107</b>	<b>1,385</b>	<b>1,850</b>
Profit for the year	—	—	—	—	572	572
Other comprehensive income for the year	—	—	2	-6	14	10
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>2</b>	<b>-6</b>	<b>586</b>	<b>582</b>
Dividend for 2016	—	—	—	—	-276	-276
Warrants included in incentive programme (Series 2)	—	—	—	—	3	3
<b>Closing balance, 31 December 2017</b>	<b>132</b>	<b>228</b>	<b>—</b>	<b>101</b>	<b>1,698</b>	<b>2,159</b>

## Consolidated cash flow statement

SEKm	Note	2017	2016
	23		
<b>Operating activities</b>			
Operating profit		749	443
<i>Adjustments for items not included in cash flow:</i>			
Depreciation/amortisation and impairment		231	193
Provisions		10	6
Unrealised exchange rate differences		—	4
Other items		2	2
Pension payments		– 5	– 5
Interest received		3	3
Interest paid		– 13	– 7
Realised exchange rate differences		16	– 13
Income tax paid		– 94	– 119
<b>Cash flow from operating activities before changes in working capital</b>		<b>899</b>	<b>507</b>
<b>Cash flow from changes in working capital</b>			
Changes in inventories		– 146	– 31
Changes in accounts receivable		– 324	134
Changes in accounts payable		96	– 118
Other changes in working capital		248	– 26
		<b>– 126</b>	<b>– 41</b>
<b>Cash flow from operating activities</b>		<b>773</b>	<b>466</b>
<b>Investing activities</b>			
Acquisition of non-current intangible assets		– 5	—
Acquisition of property, plant and equipment		– 274	– 223
Business combinations, excluding cash and cash equivalents	23, 29	—	– 398
Sale of property, plant and equipment		2	2
<b>Cash flow from investing activities</b>		<b>– 277</b>	<b>– 619</b>
<b>Cash flow before financing activities</b>		<b>496</b>	<b>– 153</b>
<b>Financing activities</b>			
Borrowings	23	151	485
Repayment of loans	23	– 102	– 65
Warrants paid for incentive programme		5	—
Dividend paid		– 276	– 263
<b>Cash flow from financing activities</b>		<b>– 222</b>	<b>157</b>
<b>Cash flow for the year</b>		<b>274</b>	<b>4</b>
<b>Cash and cash equivalents, opening balance</b>		<b>411</b>	<b>403</b>
Exchange rate difference in cash and cash equivalents		– 16	4
<b>Cash and cash equivalents, closing balance</b>		<b>669</b>	<b>411</b>

## Comments on the consolidated cash flow statement

### Cash flow from operating activities

Cash flow before investments rose to SEK 773 million (466). The strong increase in earnings had a positive impact on cash flow. The change in working capital was a negative SEK 126 million (-41).

### Cash flow from investing activities

Investments affecting cash flow totalled SEK 277 million (221, excluding acquisitions). In 2016, investments for acquisitions totalled SEK 398 million, excluding cash and cash equivalents. Total cash flow-related net investments amounted to SEK 277 million (619 including acquisitions). 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 110 million (112) for Medical Solutions, SEK 23 million (22) for Integrated Solutions and SEK 143 million (87) for Industrial Solutions. For Medical Solutions, investments have chiefly consisted of additional machinery capacity, primarily for new customer projects. Integrated Solutions investments have mainly

comprised investments in technology, along with additional machinery capacity in China. Industrial Solutions has made investments in additional machinery capacity for new projects.

Investments (net)	2017	2016
Non-current intangible assets	5	—
Buildings and land	5	8
Machinery and equipment	159	120
Construction in progress	108	93
<b>Total investments</b>	<b>277</b>	<b>221</b>

Affecting cash flow, excluding acquisitions and disposals

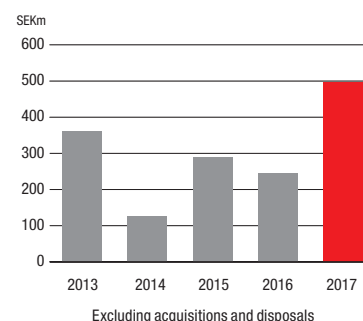
### Cash flow after investing activities

Cash flow after investments was SEK 496 million (245, excluding acquisitions). Including acquisitions, cash flow amounted to SEK 496 million (-153).

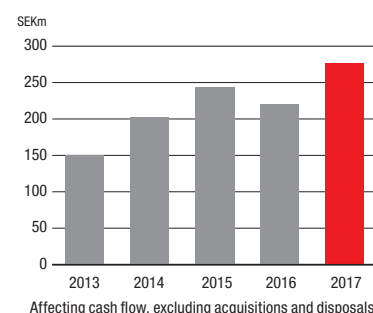
### Cash flow from financing activities

Financing activities describe the Group's financing and dividends to shareholders, and totalled a net amount of SEK -222 million (+157). This consists of net borrowings of SEK 49 million (420), warrants paid for under the incentive programme of SEK 5 million (0) and dividends paid totalled SEK -276 million (-263).

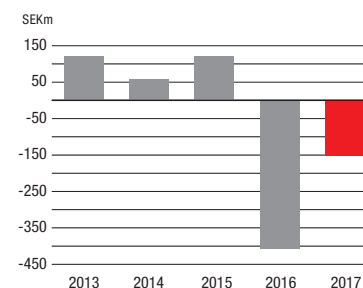
## Cash flow after investments



## 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 2017 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 2018 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 quantitative impact on the Group's reporting of financial instruments.

IFRS 15 Revenue from Contracts with Customers enters into force on 1 January 2018. In 2016, Nolato carried out a detailed analysis of major customer contracts within the Group's three business areas; Medical Solutions, Integrated Solutions and Industrial Solutions. Nolato's analysis reviewed the performance commitments included in such contracts and how they are fulfilled. Nolato has valued and established transaction prices, including an allocation for performance commitments. This analysis has not been assessed to result in any need to amend current policies for the accounting of revenue from contracts with customers. In qualitative terms, the standard will affect Nolato's accounting and valuation policies in the next annual accounts with regard to revenue recognition.

IFRS 16 Leases replaces IAS 17 as of 1 January 2019. The standard removes the requirement in IAS 17 for the lessee to classify leases as either operating or finance leases, and instead introduces a collective model for all leases. In this model the lessee must recognise (a) assets and liabilities for all leases with a lease term of more than 12 months, with the exception of assets with a low value; and (b) depreciation of leased assets separately from debt interest on leases in the income statement. The Group provides details of its leasing commitments in Note 17. An investigation was 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.

In order to make the text clearer and easier to read, the accounting policies have been moved to the beginning of each note. Any accounting policies that do not relate to a specific note can be found in Note 2. Where necessary, estimates and judgements have been moved to the relevant note.

#### 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.

For all of the Group's subsidiaries, control exists via 100% ownership.

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.

#### Revenue recognition

Nolato's revenue is primarily derived from the sale of products that have been developed via development together with our customers. Customer contracts are essentially divided into two separate parts; 1) development of production tools, and 2) serial production of related products. Production tools are regarded as a lesser separate undertaking and costs are invoiced to the customer prior to the start of any potential serial production.

On completion of the production tool with Nolato, the customer may also decide to engage a different supplier for future serial production. The product life cycles in our business areas vary, with Medical Solutions and Industrial Solutions generally having longer cycles (approx. 7–15 years) than Integrated Solutions (approx. 1–5 years).

Revenue from Nolato's main contract manufacture of products, based on specifications established and owned by the customers, 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. The product revenues are recognised at the fair value of what has been received or will be received, less any discounts awarded.

Nolato has been reporting the opening and closing balances for accounts receivable, contract assets and contract liabilities separately in its annual accounts. Contract assets for ongoing development of new products together with customers are recorded under prepaid expenses and accrued income. Contract liabilities for ongoing development of new products together with customers are recorded under customer advances.

Timeframes for when a contract asset is reclassified to a receivable or recognised as income deriving from a contract liability differ between our business areas.

Nolato normally assumes manufacturing responsibility, while the customer normally assumes design responsibility.

### Note 3 Operating segments

#### Information on operating segments

Each operating segment is defined as business activities from which income can be generated or expenses incurred, whose operating earnings are regularly monitored by the Group's Chief Operating Decision Maker (CODM) and for which separate financial information is available. In Nolato's case, CODM is defined as Group management, which determines how resources are to be allocated between the different segments and that also makes regular assessments of earnings. The Group's internal reporting covers three segments: Medical Solutions, Integrated Solutions and Industrial Solutions.

**Medical Solutions** 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. Medical Solutions holds 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 and China. A more detailed presentation of the business area can be found on pages 28–31.

**Integrated Solutions** business is divided into two sectors: consumer electronics and EMC & Thermal. Consumer electronics comprises selected electronics products for which Nolato develops and manufactures mechanical subsystems and components. EMC & Thermal develops techniques and materials for shielding of electronics to achieve electromagnetic compatibility. The market consists of a few large, global companies with high technological demands, extremely short development times and quick production start-ups. Integrated Solutions enjoys a strong position with selected customers. In 2017, development and production were conducted in China, Malaysia and Sweden. A more detailed presentation of the business area can be found on pages 32–35.

**Industrial Solutions** develops and manufactures components and product systems 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. Industrial Solutions 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 36–39.

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 non-current intangible 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.

	Medical Solutions		Integrated Solutions		Industrial Solutions		Elimination		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External sales	1,955	1,645	2,798	1,395	1,967	1,407	—	—	6,720	4,447
Internal sales	—	—	12	7	1	2	– 13	– 9	—	—
<b>Net sales</b>	<b>1,955</b>	<b>1,645</b>	<b>2,810</b>	<b>1,402</b>	<b>1,968</b>	<b>1,409</b>	<b>– 13</b>	<b>– 9</b>	<b>6,720</b>	<b>4,447</b>
<b>Profit</b>										
Operating profit (EBITA)	257	216	332	131	195	134	– 21	– 24	763	457
Amort. of intang. assets arising from acq.	– 10	– 13	—	—	– 4	– 1	—	—	– 14	– 14
<b>Operating profit</b>	<b>247</b>	<b>203</b>	<b>332</b>	<b>131</b>	<b>191</b>	<b>133</b>	<b>– 21</b>	<b>– 24</b>	<b>749</b>	<b>443</b>
Financial income									3	3
Financial expenses									– 21	– 8
Tax expenses for the year									– 159	– 102
<b>Profit for the year</b>									<b>572</b>	<b>336</b>
<b>Receivables and liabilities</b>										
Segments' assets	1,690	1,622	1,096	724	1,546	1,416	– 310	– 300	4,022	3,462
Unallocated assets									730	462
<b>Total assets</b>	<b>1,690</b>	<b>1,622</b>	<b>1,096</b>	<b>724</b>	<b>1,546</b>	<b>1,416</b>	<b>– 310</b>	<b>– 300</b>	<b>4,752</b>	<b>3,924</b>
Segments' liabilities	590	480	923	570	388	342	– 238	– 300	1,663	1,092
Unallocated liabilities									930	982
<b>Total liabilities</b>	<b>590</b>	<b>480</b>	<b>923</b>	<b>570</b>	<b>388</b>	<b>342</b>	<b>– 238</b>	<b>– 300</b>	<b>2,593</b>	<b>2,074</b>
<b>Other information</b>										
Investments (capitalised)	105	295	22	18	145	431	3	—	275	744
Depreciation/amortisation	108	92	33	36	90	65	—	—	231	193
Significant items, other than depr./amort. with no offsetting payments, impairment and provisions	5	3	2	4	– 3	– 5	—	—	4	2



## Cash flow from operations, allocated by segment

	2017				2016			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Cash flow from operations before changes in working capital	355	365	281	1,001	295	167	198	660
Changes in working capital	– 3	– 65	– 60	– 128	10	– 24	– 28	– 42
<b>Cash flow from operating activities</b>	<b>352</b>	<b>300</b>	<b>221</b>	<b>873</b>	<b>305</b>	<b>143</b>	<b>170</b>	<b>618</b>
Unallocated items <sup>1)</sup>				– 100				– 152
<b>Total cash flow from operations</b>				<b>773</b>				<b>466</b>

## Cash flow from investing activities, allocated by segment

	2017				2016			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Acquisition of non-current assets <sup>2)</sup>	– 110	– 23	– 143	– 276	– 114	– 22	– 87	– 223
Business combinations, excl. cash and cash equivalents	—	—	—	—	– 143	—	– 255	– 398
Sale of non-current assets	—	1	1	2	2	—	—	2
Parent Company				– 3				—
<b>Cash flow from investing activities</b>	<b>– 110</b>	<b>– 22</b>	<b>– 142</b>	<b>– 277</b>	<b>– 255</b>	<b>– 22</b>	<b>– 342</b>	<b>– 619</b>

1) For 2017, the Group's change in working capital was SEK –126 million and, allocated by business area, according to the above, was SEK –128 million. The difference of SEK 2 million is included in the amount of SEK –100 million. Other unallocated items consist chiefly of operating loss of SEK –21 million (with the Parent Company accounting for the majority), income tax paid at SEK –94 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 –4 million (–2).

## 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 Medical Solutions and Industrial Solutions business areas, and sales for the Integrated Solutions business area. In Asia, the Group has manufacturing and sales in all three business areas, and in North America in the Medical Solutions business area.

	Sweden		Other Nordic countries		Rest of Europe		North America etc.		Asia (mainly China)		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External sales	1,224	1,084	198	208	2,099	1,589	614	426	2,585	1,140	6,720	4,447
Assets	1,622	1,451	—	—	1,497	1,431	226	247	1,407	795	4,752	3,924
Average number of employees	929	834	—	—	1,206	952	208	193	4,906	4,439	7,249	6,418
Investments (capitalised)	152	125	—	—	101	573	9	17	13	29	275	744

**Note 4 Research and development**

Group	2017	2016
Development expenditure for customer-specific products	– 495	– 392

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 under cost of goods sold. Nolato normally invoices the customer for these costs prior to serial production of the product and it is regarded as a lesser separate undertaking.

**Note 5 Expenses allocated by type of cost**

	2017	2016
Material costs	– 2,819	– 1,520
Employee benefits	– 1,209	– 993
Social security contributions	– 225	– 194
Employee pensions	– 100	– 96
Energy costs	– 136	– 123
Other costs	– 1,263	– 903
Depreciation/amortisation	– 231	– 193
<b>Total</b>	<b>– 5,983</b>	<b>– 4,022</b>

Depreciation/amortisation is included in operating expenses as follows:

	2017	2016
Customer relationships	– 14	– 14
Buildings and land	– 25	– 22
Machinery and other technical facilities	– 168	– 138
Equipment, tools, fixtures and fittings	– 24	– 19
<b>Total</b>	<b>– 231</b>	<b>– 193</b>

Depreciation/amortisation has been allocated as follows:

	2017	2016
Cost of goods sold	– 213	– 177
Selling expenses	– 16	– 16
Administrative expenses	– 2	—
<b>Total</b>	<b>– 231</b>	<b>– 193</b>

**Note 6 Other operating income and operating expenses**

	2017	2016
<b>Other operating income</b>		
Effect of exchange rate on receivables/liabilities	—	17
Other *	12	1
<b>Total</b>	<b>12</b>	<b>18</b>
<b>Other operating expenses</b>		
Effect of exchange rate on receivables/liabilities	– 20	—
Acquisition expenses	—	– 4
<b>Total</b>	<b>– 20</b>	<b>– 4</b>
<b>Other operating income and operating expenses, net</b>	<b>– 8</b>	<b>14</b>

\* The SEK 12 million primarily concerns government grants received in Beijing, China.

**Note 7 Financial income and expenses**

	2017	2016
Interest income	3	3
Interest expenses	– 11	– 5
Foreign exchange gains and losses, net	– 8	– 2
Other financial expenses	– 2	– 1
<b>Net financial income/expense</b>	<b>– 18</b>	<b>– 5</b>
Recognised as:		
Financial income	3	3
Financial expenses	– 21	– 8
<b>Net financial income/expense</b>	<b>– 18</b>	<b>– 5</b>

## Total net financial income/expense per category of financial instruments

	2017			2016		
	Interest in- come	Interest expenses	Foreign exchange gains/losses, net	Interest in- come	Interest expenses	Foreign exchange gains/losses, net
<i>Financial assets/liabilities measured at fair value in income statement</i>						
Derivatives used to hedge intra-Group loans	—	—	– 3	—	—	3
Bank deposits	3	—	—	3	—	—
PRI pension liability	—	– 3	—	—	– 4	—
Borrowings	—	– 8	—	—	– 1	—
Other financial assets/liabilities	—	– 2	– 5	—	– 1	– 5
<b>Total</b>	<b>3</b>	<b>– 13</b>	<b>– 8</b>	<b>3</b>	<b>– 6</b>	<b>– 2</b>

Financial income consists of interest income on invested funds and is measured at amortised cost. 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.

## Note 8 Tax

### Accounting policies

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.

All companies in the Group calculate income taxes in accordance with the tax rules and regulations that apply in the countries in which the profit is taxed.

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.

Provision has been made in the Group for taxes on subsidiaries' taxable profits for the financial year, which may be allocated to the Parent Company next year. Provision for any coupon tax for anticipated dividends is made in the Parent Company once the dividend is recognised as a receivable from a Group company. However, no provisions have been made for tax that may arise on allocation of the remaining distributable profits in foreign subsidiaries as these may be distributed tax-free, or because the Group does not intend to allocate any internal dividends in the foreseeable future.

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.

### Estimates and judgements

Management is required to make significant judgements when calculating tax liabilities and tax assets and for deferred tax for provisions and receivables. This process involves an assessment of the Group's exposure to current tax and the establishment of temporary differences created by various tax and accounting rules.

Management looks in particular at the likelihood that deferred tax assets may be offset against any surplus in future taxation.

Deferred tax assets are recognised to the extent that management deems it likely that sufficient taxable surplus will be available to permit recognition of such assets.

### Recognised in the income statement

	2017	2016
<b>Current tax expenses</b>		
Tax expenses for the period	– 152	– 98
Adjustment for tax attributable to previous years	– 1	1
	<b>– 153</b>	<b>– 97</b>
<b>Deferred tax income/expense</b>		
Deferred tax in relation to temporary differences	– 6	– 5
<b>Total recognised tax expense</b>	<b>– 159</b>	<b>– 102</b>
<b>Reconciliation of effective tax</b>		
	2017	2016
<b>Profit before tax</b>	<b>731</b>	<b>438</b>
Tax according to applicable Parent Company tax rate	– 161	– 96
Effect of other tax rates for foreign Group companies	10	– 3
Non-deductible expenses	– 9	– 6
Non-taxable income	1	5
Tax attributable to previous years	– 1	1
Effect of change in tax rates	3	—
Effect of non-capitalised deficits arising during the year	– 2	– 3
<b>Recognised effective tax</b>	<b>– 159</b>	<b>– 102</b>

Swedish corporation tax amounted to 22.0% (22.0) and the effective tax rate was 21.8% (23.3).

## Recognised in the balance sheet

	Deferred tax assets		Deferred tax liabilities		Net	
	2017	2016	2017	2016	2017	2016
Non-current intangible assets	—	—	18	25	– 18	– 25
Property, plant and equipment	23	28	76	75	– 53	– 47
Inventories	10	10	1	—	9	10
Accounts receivable	1	1	—	—	1	1
Provisions for pensions	36	39	1	1	35	38
Tax allocation reserves	—	—	44	36	– 44	– 36
Other	32	19	14	5	18	14
Loss carry-forwards	1	3	—	—	1	3
<b>Tax assets/liabilities</b>	<b>103</b>	<b>100</b>	<b>154</b>	<b>142</b>	<b>– 51</b>	<b>– 42</b>
Offsetting	– 51	– 54	– 51	– 54	—	—
<b>Tax assets/liabilities, net</b>	<b>52</b>	<b>46</b>	<b>103</b>	<b>88</b>	<b>– 51</b>	<b>– 42</b>

## Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the Group in relation to a loss carry-forward totalling SEK 27 million (29). 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. 2016	Recognised in profit for the year	Recognised in other com- prehensive income	Acquisitions of businesses	Disposal of businesses	Balance at 31 Dec. 2016
Non-current intangible assets	– 14	– 1	—	– 10	—	– 25
Property, plant and equipment	– 34	– 2	—	– 11	—	– 47
Inventories	9	1	—	—	—	10
Accounts receivable	1	—	—	—	—	1
Provisions for pensions	26	1	– 2	13	—	38
Tax allocation reserves	– 29	– 7	—	—	—	– 36
Other	16	—	—	– 2	—	14
Loss carry-forwards	—	3	—	—	—	3
<b>Total</b>	<b>– 25</b>	<b>– 5</b>	<b>– 2</b>	<b>– 10</b>	<b>—</b>	<b>– 42</b>

	Balance at 1 Jan. 2017	Recognised in profit for the year	Recognised in other com- prehensive income	Acquisitions of businesses	Disposal of businesses	Balance at 31 Dec. 2017
Non-current intangible assets	– 25	7	—	—	—	– 18
Property, plant and equipment	– 47	– 6	—	—	—	– 53
Inventories	10	– 1	—	—	—	9
Accounts receivable	1	—	—	—	—	1
Provisions for pensions	38	– 1	– 2	—	—	35
Tax allocation reserves	– 36	– 8	—	—	—	– 44
Other	14	5	– 1	—	—	18
Loss carry-forwards	3	– 2	—	—	—	1
<b>Total</b>	<b>– 42</b>	<b>– 6</b>	<b>– 3</b>	<b>—</b>	<b>—</b>	<b>– 51</b>

## Tax attributable to other comprehensive income

	2017	2016
Deferred tax attributable to provisions for pensions (PRI)	– 2	– 2
Deferred tax on currency forwards	– 1	—
<b>Total</b>	<b>– 3</b>	<b>– 2</b>

**Note 9 Earnings per share**

	2017	2016
Profit for the year attributable to Parent Company shareholders	572	336
Average number of ordinary shares outstanding	26,307,408	26,307,408
<b>Basic earnings in kronor per share (SEK)</b>	<b>21.74</b>	<b>12.77</b>
	2017	2016
Dilutive shares from Series 1 incentive programme (exercise price SEK 296.30 per share; total 240,500 warrants)	8,436	—
Dilutive shares from Series 2 incentive programme (exercise price SEK 485.10 per share; total 196,200 warrants)	—	—
Average number of dilutive shares	26,315,844	26,307,408
<b>Diluted earnings in kronor per share (SEK)</b>	<b>21.74</b>	<b>12.77</b>

Basic earnings per share are calculated by dividing profit for the year attributable to Parent Company shareholders by the average number of ordinary shares outstanding during the period.

When calculating diluted earnings per share, the average number of shares outstanding during the period is adjusted for all potential dilutive ordinary shares. Shares from incentive programmes are considered to be dilutive if the average closing price of Nolato's B share during the year has exceeded the exercise prices in the respective incentive programme.

The warrants in Series 1 can be exercised for subscription of shares as of 1 May 2019 up to and including 15 December 2019.

The warrants in Series 2 can be exercised for subscription of shares as of 1 May 2020 up to and including 15 December 2020.

**Note 10 Non-current intangible assets****Accounting policies**

Intangible assets are recognised at original cost less accumulated amortisation and impairment. Amortisation is applied on a straight-line basis over the useful lives of the assets and is initiated once the asset is put into use.

Useful life is based on historical experience of use of similar assets, area of use as well as other specific attributes of the asset.

Intangible assets acquired in a business acquisition which 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.

**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. Previously this has in some cases meant the acquisition level. However, following integration they have been transferred to part of a business area. For Medical Solutions and Industrial Solutions, impairment testing has been carried out at segment level.

The acquisition of Nolato Treff AG in 2016 and the integration of the acquired business into both Medical Solutions and Industrial Solutions has meant that separate cash flows cannot be identified at company level within the Industrial Solutions segment. Other cash-generating units have also been adjusted. Acquired companies that were previously tested for impairment separately within the Industrial Solutions

segment are now tested in the cash-generating unit Industrial Solutions. Following integration into the business area, these must also now be tested at business area level.

**Customer relationships**

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.oz.o in Poland and Nolato Treff AG in Switzerland. Straight-line depreciation is applied over the expected useful life, i.e. six to ten years.

**Estimates and judgements**

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, Switzerland 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.

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 has been assumed to be roughly the same.

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.



	Software	Tenancy rights	Customer relationships <sup>1)</sup>	Capitalised development expenditure	Goodwill <sup>1)</sup>	Total
<b>ACQUISITION COST</b>						
<b>At 1 January 2016</b>	<b>13</b>	<b>5</b>	<b>139</b>	<b>3</b>	<b>517</b>	<b>677</b>
Acquisitions	—	—	63	—	259	322
Translation differences	—	1	– 3	—	– 1	– 3
<b>At 1 January 2017</b>	<b>13</b>	<b>6</b>	<b>199</b>	<b>3</b>	<b>775</b>	<b>996</b>
Investments	4	—	—	—	—	4
Reclassifications	4	– 4	—	—	—	—
Translation differences	—	1	– 5	—	– 21	– 25
<b>At 31 December 2017</b>	<b>21</b>	<b>3</b>	<b>194</b>	<b>3</b>	<b>754</b>	<b>975</b>
<b>ACCUMULATED DEPRECIATION/AMORTISATION</b>						
<b>At 1 January 2016</b>	<b>– 12</b>	<b>– 4</b>	<b>– 115</b>	<b>– 3</b>	<b>—</b>	<b>– 134</b>
Depreciation/amortisation for the year	—	—	– 14	—	—	– 14
Translation differences	—	– 1	2	—	—	1
<b>At 1 January 2017</b>	<b>– 12</b>	<b>– 5</b>	<b>– 127</b>	<b>– 3</b>	<b>—</b>	<b>– 147</b>
Depreciation/amortisation for the year	– 1	—	– 14	—	—	– 15
Reclassifications	– 3	3	—	—	—	—
Translation differences	—	– 1	1	—	—	—
<b>At 31 December 2017</b>	<b>– 16</b>	<b>– 3</b>	<b>– 140</b>	<b>– 3</b>	<b>—</b>	<b>– 162</b>
<b>Carrying amount at 31 December 2016</b>	<b>1</b>	<b>1</b>	<b>72</b>	<b>—</b>	<b>775</b>	<b>849</b>
<b>Carrying amount at 31 December 2017</b>	<b>5</b>	<b>—</b>	<b>54</b>	<b>—</b>	<b>754</b>	<b>813</b>

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

#### Goodwill is allocated to Group segments as follows:

	2017	2016
Medical Solutions	489	502
Industrial Solutions	265	*
Nolato Gota AB	*	41
Nolato Hertila AB	*	62
Nolato Treff AG	*	170
<b>Total</b>	<b>754</b>	<b>775</b>

\*See above under heading: Goodwill impairment testing.

#### Assumptions for establishing the discount rate

	Medical Solutions		Industrial Solutions		
	2017	2016	2017	2016	
			Ind. Sol.	Nol. Gota AB	Nol. Hertila AB
Risk-free rate, %	0.7	0.4	0.6	0.5	0.5
Tax rate, %	20.0	20.4	19.0	22.0	22.0
Forecast period	3 years	3 years	3 years	3 years	3 years
Growth after forecast period, %	2.0	2.0	2.0	2.0	2.0
Applied discount rate before tax, %	8.3	8.3	9.2	9.2	9.2

## Note 11 Property, plant and equipment

### Accounting policies

Property, plant and equipment are recognised within the Group at acquisition cost after accumulated depreciation according to plan and any impairment.

The principle of componentisation is applied for the depreciation of property, plant and equipment. This means that each component of an item of property, plant and equipment with a significant acquisition cost in relation to the asset's combined cost must be depreciated separately. Depreciation is applied on a straight-line basis and calculated based on the assets' original acquisition cost.

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 economic benefits are expected from using 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.

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

### Estimates and judgements

Useful life is based on the estimated period of time for which the asset generates income and is largely based on historical experience of the use of similar assets and technological development.

Property, plant and equipment is tested for impairment if an event occurs or circumstances change that indicate that it will not be possible to recover the carrying amount.

	Buildings and land	Machinery and technical facilities	Equip., tools, fixtures and fittings	Construction in progress and adv.	Total
<b>ACQUISITION COST</b>					
<b>At 1 January 2016</b>	<b>538</b>	<b>2,139</b>	<b>233</b>	<b>87</b>	<b>2,997</b>
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
<b>At 1 January 2017</b>	<b>634</b>	<b>2,440</b>	<b>261</b>	<b>82</b>	<b>3,417</b>
Investments	5	142	16	108	271
Sales/disposals	—	– 88	– 9	—	– 97
Reclassifications	2	78	12	– 92	—
Translation differences	– 3	– 37	– 3	—	– 43
<b>At 31 December 2017</b>	<b>638</b>	<b>2,535</b>	<b>277</b>	<b>98</b>	<b>3,548</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
<b>At 1 January 2016</b>	<b>– 254</b>	<b>– 1,610</b>	<b>– 181</b>	<b>—</b>	<b>– 2,045</b>
Depreciation/amortisation for the year	– 22	– 138	– 19	—	– 179
Sales/disposals	—	28	7	—	35
Translation differences	– 2	– 20	– 1	—	– 23
<b>At 1 January 2017</b>	<b>– 278</b>	<b>– 1,740</b>	<b>– 194</b>	<b>—</b>	<b>– 2,212</b>
Depreciation/amortisation for the year	– 25	– 168	– 24	—	– 217
Sales/disposals	—	88	9	—	97
Translation differences	– 1	27	1	—	27
<b>At 31 December 2017</b>	<b>– 304</b>	<b>– 1,793</b>	<b>– 208</b>	<b>—</b>	<b>– 2,305</b>
<b>Carrying amount at 31 December 2016</b>	<b>356</b>	<b>700</b>	<b>67</b>	<b>82</b>	<b>1,205</b>
<b>Carrying amount at 31 December 2017</b>	<b>334</b>	<b>742</b>	<b>69</b>	<b>98</b>	<b>1,243</b>

## Note 12 Financial assets

### Accounting policies

Financial assets are recognised in the balance sheet when the Group becomes a party to the commercial terms and conditions of the instrument. Financial instruments are initially recognised at fair value, which normally corresponds to the acquisition cost. Transaction costs are included in the initial valuation for financial assets not measured at fair value via profit or loss. Common purchases and sales of financial assets are recognised on the settlement date.

Accounts receivable are measured at amortised cost. Impairments (primarily the provision for credit losses) are carried out if management believes there is sufficient objective evidence to indicate that it will not be possible to recover the asset's carrying amount. For current assets such as accounts receivable and cash and cash equivalents, carrying amounts are considered to equal fair value.

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.

Financial instruments are measured at fair value via profit or loss if the Group controls and manages such assets based on fair value. Derivatives are categorised as held for trading unless they are intended for hedge accounting. Financial assets are removed from the balance sheet once the contractual rights to cash flows have ceased or been transferred, and when the risks and benefits associated with ownership of the financial asset have in all significant respects been transferred.

### Total accounts receivable

	Total	Not due	Due ≤ 15 days	Due 16–30 days	Due 31–60 days	Due > 60 days
2017	1,132	920	124	14	60	14
2016	826	706	75	6	28	11

### Accounts receivable, including provisions for decline in value

	Total	Not due	Due ≤ 15 days	Due 16–30 days	Due 31–60 days	Due > 60 days
2017	1,128	916	124	14	60	14
2016	819	705	73	6	28	7

### Estimates and judgements

Management maintains a provision for doubtful receivables relating to anticipated losses arising in cases where customers are unable to settle their debts. Since management evaluates the need for a provision, the assessment is based on an aging analysis of the receivables, impairment history, customers' creditworthiness and changes to payment terms.

The fair value of derivatives is based on listed market prices.

	2017	2016
Accounts receivable	1,132	826
Deduction: Provision for decline in value of accounts receivable	– 4	– 7
<b>Carrying amount</b>	<b>1,128</b>	<b>819</b>

The average period of credit in 2017 was 53 days (69). Accounts receivable as a percentage of sales amounted to 16.8% (18.4%). During the year, the Group reversed SEK 3 million (7) of provisions for decline in value of accounts receivable at 1 January. Provisions for the year totalled SEK 4 million (7). The credit quality of accounts receivable not due and not impaired, and of other financial receivables is deemed to be good.

**Other financial assets per category in 2017**

	Accounts receivable & cash and cash equivalents	Assets available for sale	Derivatives identified for hedge accounting	Derivatives held for trading	2017 Total
Non-current financial assets		2			2
Accounts receivable	1,128				1,128
Other current financial assets (see Note 28)			2	6	8
Cash and cash equivalents	669				669
<b>Carrying amount</b>	<b>1,797</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>1,807</b>
<b>Fair value</b>	<b>1,797</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>1,807</b>

**Other financial assets per category in 2016**

	Accounts receivable & cash and cash equivalents	Assets available for sale	Derivatives identified for hedge accounting	Derivatives held for trading	2016 Total
Non-current financial assets		2			2
Accounts receivable	819				819
Other current financial assets (see Note 28)			1	9	10
Cash and cash equivalents	411				411
<b>Carrying amount</b>	<b>1,230</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>1,242</b>
<b>Fair value</b>	<b>1,230</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>1,242</b>

Financial assets categorised as accounts receivable & cash and cash equivalents have determinable payments and are not listed on any marketplace. The category includes investments for which the Group expects to regain principally the entire initial investment, such as accounts receivable and bank deposits.

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.

**Note 13 Inventories****Accounting policies**

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.

**Estimates and judgements**

The acquisition cost of inventories may need to be adjusted if the acquisition cost exceeds the net market value. The net market value is defined as the selling price after deductions for completion costs and selling expenses. The underlying assumptions used to establish the net market value of inventories can constitute an uncertainty factor. Since actual selling prices and selling expenses are not known at the time the assumption is made, management's assumption is based on current prices and cost levels. Adjustments to the net market value include assessments of technical and commercial obsolescence, which are conducted individually for each subsidiary. When assessing commercial obsolescence, risk factors include turnover rate and age.

	2017	2016
Raw materials and supplies	280	184
Products in manufacturing	61	44
Finished goods and goods for resale	189	165
<b>Total</b>	<b>530</b>	<b>393</b>

During the year, the Group impaired inventories by SEK 24 million (54). 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 32 million (44). The reversal of previously impaired stocks is due to the fact that these items could be sold or were no longer deemed obsolete.

**Note 14 Other current assets**

	2017	2016
Other receivables	127	126
Prepaid expenses and accrued income	43	33
Customer project costs	120	—
<b>Closing balance</b>	<b>290</b>	<b>159</b>

**Note 15 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.:

	2017	2016
Share capital	132	132
Other capital contributed	228	228
Translation reserve	101	107
Hedging reserves	—	— 2
Retained earnings, incl. profit for the year*	1,698	1,385
<b>Total capital attributable to Parent Company shareholders</b>	<b>2,159</b>	<b>1,850</b>

\*The Group has two share warrant programmes: Series 1, which may result in a dilution of the number of shares by 240,500 in 2019, and Series 2, which may result in a dilution of the number of shares by 196,200 in 2020, totalling 436,700 shares. Retained earnings include premiums for Series 1 warrants in the amount of SEK 2 million and Series 2 warrants in the amount of SEK 3 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 2017 is shown below.

	2017		2016	
	Financial targets	Outcome	Financial targets	Outcome
EBITA margin	>10%	11.4%	>10%	10.3%
Cash conversion	>75%	66.0%	>75%	55.0%
Equity/assets ratio	>35%	45.0%	>35%	47.0%

The Board's dividend proposal shall take account of 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 2017, the Board proposes a dividend of SEK 12.50 per share (10.50), corresponding to SEK 329 million (276). The pay-out ratio is 57% (82).

**Note 16 Other reserves**

	Hedging reserves	Translation reserve	Total
<b>Opening balance, 1 January 2016</b>	—	<b>95</b>	<b>95</b>
<i>Cash flow hedges:</i>			
Loss from fair value measurement during the year	- 3	—	- 3
Transfers to the income statement	1	—	1
Translation differences	—	12	12
<b>Closing balance, 31 December 2016</b>	<b>- 2</b>	<b>107</b>	<b>105</b>
<b>Opening balance, 1 January 2017</b>	<b>- 2</b>	<b>107</b>	<b>105</b>
<i>Cash flow hedges:</i>			
Gain from fair value measurement during the year	2	—	2
Tax from fair value measurement	- 1	—	- 1
Transfers to the income statement	2	—	2
Tax on transfers to the income statement	- 1	—	- 1
Translation differences	—	- 6	- 6
<b>Closing balance, 31 December 2017</b>	<b>—</b>	<b>101</b>	<b>101</b>

**Hedging reserves**

Hedging reserves include the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedged transactions regarding sales and costs of goods which have not yet occurred. Transfers to the income statement of cash flow hedges are recognised as other operating income/expenses.

**Translation reserve**

The translation reserve includes all exchange rate differences arising on converting financial statements from foreign operations that 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 17 Financial liabilities****Accounting policies**

Financial liabilities are recognised in the balance sheet when the Group becomes a party to the commercial terms and conditions of the financial instrument. Financial instruments are initially recognised at fair value, which normally corresponds to the acquisition cost. Transaction costs are included in the initial valuation for financial liabilities not measured at fair value via profit or loss. Derivatives are recognised at the trading date.

Loans and other financial liabilities, apart from derivatives, are measured at amortised cost, which is calculated using the effective interest method. For financial liabilities

that are hedging instruments used for hedge accounting, the carrying amount is adjusted for gains or losses attributable to the hedged risks.

Financial liabilities are removed from the balance sheet once they have been settled.

**Estimates and judgements**

Fair value has been provided as a disclosure for financial liabilities and has been calculated using valuation techniques, primarily via discounted cash flows based on observable market information.

	Year of maturity	2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>Non-current financial liabilities</i>					
Bank loan in CHF (fixed rate)	2020	10	10	—	—
Bank loan in CHF (fixed rate)*	2021	463	429	490	445
Bank loan in CHF (fixed rate)	2022	5	5	17	17
Bank loan in CHF (fixed rate)	2023	9	9	10	10
<b>Subtotal of non-current financial liabilities</b>		<b>487</b>	<b>453</b>	<b>517</b>	<b>472</b>
<i>Current financial liabilities</i>					
Accounts payable	2017–2018	666	666	583	583
Bank loan in SEK (variable rate)	< 3 months	70	70	90	90
Bank loan in CHF (fixed rate)	< 3 months	—	—	10	10
Working capital finance USD (zero interest)	N.A.	81	81	—	—
Derivatives identified for hedge accounting (see Note 4)		—	—	4	4
<b>Subtotal of current financial liabilities</b>		<b>817</b>	<b>817</b>	<b>687</b>	<b>687</b>
<b>Total</b>		<b>1,304</b>	<b>1,270</b>	<b>1,204</b>	<b>1,159</b>

\*Comprises financing and also hedging instruments for hedging of net investment in foreign business, concerning Nolato Treff AG. This loan carries a fixed rate of interest until 27/09/2021 and is not being amortised. The fair value has been calculated using the current fixed interest rate and discounting has occurred for the remaining payment flows in CHF up until maturity on 27/09/2021. The discounted value in CHF has then been revalued according to the exchange rate at the balance sheet date.

**Interest-bearing liabilities**

At the end of the year, the Group's interest-bearing liabilities excluding pension liability and including working capital finance amounted to SEK 638 million (617). The average interest rate was 0.7% (0.7). The average remaining fixed-interest term is 47 months (45).

**Terms and repayment periods**

Total credit lines granted in the Group amount to SEK 1,268 million (1,085). Of this amount, SEK 463 million matures on 27/09/2021 and SEK 600 million on

24/04/2022. Credit facilities totalling SEK 1,063 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 205 million (108) mature between 2018 and 2023, according to the table above. Pledged assets for other credit facilities amount to SEK 76 million (80) and concern property mortgages in the Group's subsidiary in Switzerland. 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.

Additional disclosures regarding financial risk management and hedge accounting are provided in Note 28 Financial risk management.

### Operating leases

#### Accounting policies

A lease that, in management's opinion, essentially transfers the economic benefits and risks associated with ownership to the Group, is defined as a finance lease. Operating lease payments are expensed in profit or loss on a straight-line basis over the term of the lease.

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

	Operating leases	
	2017	2016
<i>Non-cancellable lease agreements total:</i>		
Within 1 year	59	54
Between 1 and 5 years	95	63
Over 5 years	3	5
<b>Total</b>	<b>157</b>	<b>122</b>

Operating lease agreements consist mainly of rental contracts for production premises, primarily in China, the UK and Sweden. Expensed lease payments for the year totalled SEK 55 million (58). The variable fees included in these do not add up to any significant amount. The operating lease agreements are in some cases restricted by index clauses and/or such terms that may provide entitlement to extend or acquire the leased items. A more detailed account of leases will be provided from 2019, when IFRS 16 Leases enters into force.

## Note 18 Provisions for pensions and similar obligations

### Accounting policies

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.

For defined benefit schemes, the projected unit credit method is used to calculate the net present value of defined benefit obligations and costs regarding service during the financial year. Unless there have been significant changes to the most important assumptions in the calculation, such as discount rate and inflation, calculations are carried out on a quarterly basis. The schemes are always recalculated annually.

Independent actuaries are used for these calculations and the estimation of obligations and costs involving assumptions. The Group's undertakings are measured at the present value of expected future payments using a discount rate equal to the interest rate of top-rated housing bonds (Sweden) and corporate bonds (Switzerland) with a maturity equal to that of such undertakings.

Revaluations mainly arise in the event of changes to actuarial assumptions and experience-based adjustment, which is the difference between actuarial assumptions and actual outcome. They are recognised directly in other comprehensive income and never restated in profit or loss. For all defined benefit schemes, the actuarial cost, which is charged to earnings, comprises costs relating to service during the financial year, net interest expense and, where appropriate, the cost of service during previous periods, reductions and adjustments. Any cost relating to service during previous periods is recognised immediately. Net interest expenses are classified as financial expenses. Other costs are allocated to the businesses based on the employee's position in the organisation, within manufacturing, sales or administration.

The above-mentioned accounting policies for defined benefit schemes are only applied in the consolidated statements. Subsidiaries continue to use a local calculation for pension provisions and pension costs in their respective local annual accounts.

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 2017 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.

### Estimates and judgements

The significant assumptions used to calculate the obligations and costs vary according to the economic factors that reflect conditions in the countries where the defined benefit schemes are located and are adjusted to reflect market conditions on the calculation date. However, changes in market and economic conditions may mean that the actual costs and obligations generated by the scheme differ substantially from the estimations.

Assumptions are made when estimating obligations and costs, and the most sensitive assumptions may vary between the schemes but primarily concern discount rate, pension indexing, future salary increases and assumptions regarding lifespan. These assumptions are determined separately for each scheme. The discount rate for schemes in Sweden is based on the return on housing bonds, which have maturities that are consistent with the maturity of the obligation. Correspondingly in Switzerland, the return on high quality AA-classified corporate bonds is used. Pension indexing is mainly relevant for retired members of the scheme and is attributable to changes linked primarily to inflation. Assumptions regarding salary increases are relevant for active members of the scheme and reflect previous experience of long-term changes, forecasts for future changes to terms and conditions and anticipated inflation. Assumptions about lifespan reflect the anticipated lifespan of members of the scheme and are determined based on the mortality table applicable to each scheme.

Group	2017	2016
Net present value of defined benefit pension schemes in Sweden	126	121
Net present value of pension scheme in Switzerland	57	80
Other pension schemes	1	1
<b>Total</b>	<b>184</b>	<b>202</b>

### 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, 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:

	2017	2016
Balance on 1 January	201	126
Balance 03/10/2016 after acquisition in Switzerland	—	80
Benefits vested during the period	2	2
Interest expenses	3	4
Benefits redeemed	—	—
Pension payments	– 5	– 5
Exchange rate effect	– 1	—
Actuarial gain (–)/loss (+)	– 17	– 6
<b>Total</b>	<b>183</b>	<b>201</b>

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

	2017	2016
Net present value of pension commitments, funded pension scheme	298	318
Fair value of pension assets	– 241	– 238
<b>Net debt, funded pension scheme*</b>	<b>57</b>	<b>80</b>

\*The net present value of expected net debt for 2018 is SEK 58 million (balance sheet date rate at 31 Dec. 2017).

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

	2017	2016
Cash and cash equivalents	4.4%	4.7%
Shares	31.8%	28.3%
Bonds	44.7%	45.4%
Property funds	15.9%	16.7%
Other investments	3.2%	4.9%



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

	2017	2016
Expenses related to service during the financial year	2	2
Interest expense	3	4
Expense for special employer's contribution	1	2
<b>Total expense for defined benefit pension schemes</b>	<b>6</b>	<b>8</b>
Expense for defined contribution schemes	85	80
Expense for special employer's contribution	9	8
<b>Total pension expense</b>	<b>100</b>	<b>96</b>

Costs relating to defined benefit pension schemes are recognised in the income statement as follows:

	2017	2016
<i>Amounts charged to operating profit:</i>		
Cost of goods sold	2	3
Administrative expenses	1	1
<i>Amounts charged to financial expenses:</i>		
Interest expenses	3	4
<b>Total</b>	<b>6</b>	<b>8</b>

Costs relating to defined benefit pension schemes are recognised in other comprehensive income as follows:

	2017	2016
Actuarial gains (+)/losses (–)	17	6
Special employer's contribution	– 1	2
Deferred income tax	– 2	– 2
<b>Total</b>	<b>14</b>	<b>6</b>

Key actuarial assumptions on the balance sheet date for defined benefit pension schemes in Sweden (weighted average):

	2017	2016
Discount rate	2.30%	2.35%
Inflation	1.60%	1.50%
Future annual salary increases	2.75%	2.75%
Future annual pension increases	1.50%	1.50%
Employee turnover	5.00%	5.00%
Lifespan	DUS 14	DUS 14
Duration regarding pension commitments (years)	16.0	17.0

Key actuarial assumptions on the balance sheet date for pension scheme in Switzerland:

	2017	2016
Discount rate	0.70%	0.40%
Interest on pension credits	1.00%	1.00%
Inflation	0.50%	0.50%
Future annual salary increases	1.00%	1.00%
Future annual pension increases	0.00%	0.00%
Duration regarding pension commitments (years)	18.1	18.8

Sensitivity analysis (net present value of pension commitment in balance sheet):

	Sweden 2017	Switzerland 2017
Discount rate +0.5%	– 10	– 22
Discount rate –0.5%	10	25
Inflation +0.5%	8	3
Inflation –0.5%	– 8	– 3
Salary increase +0.5%	3	4
Salary increase –0.5%	– 3	– 4

Pension commitments within Alecta in Sweden

Charges for the year for pension insurance policies held with Alecta totalled SEK 6 million (5). Alecta's surplus can be allocated to policyholders and/or insured parties. At year-end 2017, Alecta's surplus, as expressed by the collective funding ratio, was a preliminary 154% (149). 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 19 Other provisions

Accounting policies

In general, a provision is recognised when there is a commitment resulting from a past event, where it is likely that an outward flow of resources will be required to settle the commitment and a reliable estimation of the amount can be made. Provisions are made at an amount that is the best estimate of that required to settle the existing obligation at the balance sheet date, and the timing of the settlement is uncertain.

Provisions for product guarantees and customer claims represent management's best estimation of future cash flows required to settle the obligations.

Estimates and judgements

Management is required to make significant judgements when establishing the need for and amount of provisions. Since there is a degree of uncertainty in estimates regarding future events that are outside the Group's control, the actual outcome may differ significantly.

Provisions for product guarantees and customer claims are based on management's best assessment of the future cash flows required to settle obligations, even if the settlement date is uncertain. Nolato does not normally take on full product responsibility, as we are largely a subcontractor of subcomponents for our customers. Nolato has manufacturing responsibility for subcomponents supplied and customer claims may arise over time.

Provisions for:

	2017	2016
Potential restoration of rental property	11	10
Special employer's contribution acc. to IAS 19 for PRI pension liability	9	8
Special employer's contribution regarding endowment insurance	13	13
Product guarantees and customer claims	53	54
Other	1	—
<b>Amount at 31 December</b>	<b>87</b>	<b>85</b>

Note 20 Other current liabilities

	2017	2016
Customer advances, products	1	—
Customer advances in projects	316	61
Other current liabilities	43	66
<i>Accrued expenses and deferred income</i>		
Salary liabilities	117	102
Social security contributions	47	41
Deliveries of goods received, not invoiced	118	76
Energy costs	21	20
Rents	5	9
Restructuring costs	9	—
Claims	41	11
Maintenance	28	25
Tools	13	14
Machinery and spare parts	25	19
Other items	75	41
<b>Subtotal of accrued expenses and deferred income</b>	<b>499</b>	<b>358</b>
<b>Total</b>	<b>859</b>	<b>485</b>

## Note 21 Pledged assets and contingent liabilities

### Accounting policies

If an obligation fails to meet the criteria for recognition in the balance sheet, it may be treated as a contingent liability to disclose. Such obligations derive from past events and such events will only be confirmed by one or more uncertain future events that are not entirely within the Group's control occurring or not occurring. Contingent liabilities also include existing obligations where an outward flow of resources is unlikely, or where it is not possible to produce a sufficiently reliable estimation of the amount.

### Pledged assets

	2017	2016
Property mortgages in Switzerland	76	80

### Contingent liabilities

	2017	2016
Guarantee commitments, FPG/PRI	2	2

## Note 22 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 25.

There are no known transactions with related parties.

## Note 23 Cash flow

The following subcomponents are included in cash and cash equivalents:

	2017	2016
Cash and bank balances	596	336
Credit balance on Group account in Parent Company	73	75
<b>Total cash and cash equivalents reported in the cash flow statement</b>	<b>669</b>	<b>411</b>

### Unutilised credit

At the balance sheet date, unutilised credit within the Group stood at SEK 711 million (468).

### 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. The purchase price transferred for the Polish company was SEK 16 million and cash and cash equivalents acquired totalled SEK 0 million.

### Reconciliation of liabilities attributable to financing activities

	2017	2016
Opening balance for non-current and current financial liabilities	621	155
<i>Changes affecting cash flow</i>		
Borrowings	151	485
Repayment of loans	– 102	– 65
<i>Changes not affecting cash flow</i>		
Translation effects	– 28	6
In new companies on acquisition	—	37
Derivatives	– 4	3
Closing balance for non-current and current financial liabilities	638	621

## Note 24 Events after the end of the financial year

In the first quarter of 2018 Nolato will recognise a distribution from the previous bankruptcy of a customer in 2006. This is estimated to amount to approximately SEK 20 million and will be recognised under other operating income for the Group, but will not have an effect on any business area's earnings. No other significant events have occurred since the end of the period.

## Note 25 Remuneration of senior executives

### Salaries and other remuneration to Nolato's Board, CEO and Group management

#### 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. Senior executives are individuals who, together with the President and CEO, constitute Group management. In 2017, Group management comprised four individuals, in addition to the President and CEO. These are CFO Per-Ola Holmström, President of Medical Solutions Johan Iveberg, President of Integrated Solutions Jörgen Karlsson and President of Industrial Solutions Johan Arvidsson. For further information, see page 46.

Any assignment taken on by individual Board members on behalf of the company in addition to Board work is remunerated at market rates. Assignments should be documented in agreements specifying the type of assignment and agreed remuneration. Remuneration is paid in arrears on completion of the assignment.

#### 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 2017, the outcome for the President and CEO was 50% of base salary (5) and for senior executives it was 24–40% of base salary (1–17).

Participants in Nolato's three incentive programmes are offered the opportunity to receive a bonus payment corresponding to half of the participant's warrant premiums 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, 2017 and 2018.

#### Incentive programmes

At an extraordinary general meeting on 5 December 2016, an issue was approved of a maximum of 798,000 share warrants 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 granting the right to subscribe for as many B shares. Each warrant thus entitles the holder to subscribe for one (1) new B share. The programme was offered to some twenty individuals within Nolato's management. 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.

#### Series 1 Incentive Programme (2016/2019)

Total subscribed warrants amounted to 240,500 and the price per warrant was SEK 7.40. The issue price for a B share is SEK 296.30. The warrants can be exercised to subscribe for shares as of 1 May 2019 up to and including 15 December 2019.

#### Series 2 Incentive Programme (2017/2020)

Total subscribed warrants amounted to 196,200 and the price per warrant was SEK 16.60. The issue price for a B share is SEK 485.10. The warrants can be exercised to subscribe for shares as of 1 May 2020 up to and including 15 December 2020.

#### Pensions

The retirement age for the President and CEO and other senior executives is 65. The President and CEO's pension premium amounted to 24% (25) of pensionable salary, and follows a defined contribution pension scheme. Variable remuneration does not qualify as pensionable income. Former President and CEO Hans Porat had a defined contribution pension scheme up until his retirement in 2016. In addition, a pension premium at a fixed amount of SEK 500,000 per quarter was paid in 2016.

Other senior executives have defined contribution pension schemes. For 2017, 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.

## Gender distribution of Board members and Group management

	2017		2016	
	Men	Women	Men	Women
Parent Company Board incl. CEO	8	3	8	2
Group management incl. CEO	5	—	5	—

## Remuneration to the Board, President and CEO and other senior executives in Group management

SEK thousand	Base salary/ Directors' fee <sup>1)</sup>	Bonus <sup>2)</sup>	Other benefits <sup>3)</sup>	Pension premiums	Other remuneration <sup>4)</sup>	Total
<b>Remuneration and other benefits in 2017</b>						
Chairman of the Board, Fredrik Arp <sup>5)</sup>	– 508	—	—	—	—	– 508
Board member, Dag Andersson	– 194	—	—	—	—	– 194
Board member, Sven Boström-Svensson	– 194	—	—	—	—	– 194
Board member, Lovisa Hamrin	– 194	—	—	—	—	– 194
Board member, Åsa Hedin <sup>5)</sup>	– 194	—	—	—	—	– 194
Board member, Henrik Jorlén	– 236	—	—	—	—	– 236
Board member, Lars-Åke Rydh <sup>5)</sup>	– 257	—	—	—	—	– 257
Board member, Jenny Sjödahl	– 194	—	—	—	—	– 194
President and CEO, Christer Wahlquist	– 3,852	– 2,047	– 169	– 935	– 253	– 7,256
Other senior executives in Group management (four people)	– 10,704	– 3,709	– 399	– 2,490	– 253	– 17,555
<b>Total</b>	<b>– 16,527</b>	<b>– 5,756</b>	<b>– 568</b>	<b>– 3,425</b>	<b>– 506</b>	<b>– 26,782</b>

## Remuneration and other benefits in 2016

Chairman of the Board, Fredrik Arp <sup>5)</sup>	– 497	—	—	—	—	– 497
Board member, Dag Andersson	– 190	—	—	—	—	– 190
Board member, Sven Boström-Svensson	– 190	—	—	—	—	– 190
Board member, Åsa Hedin <sup>5)</sup>	– 190	—	—	—	—	– 190
Board member, Henrik Jorlén	– 231	—	—	—	—	– 231
Board member, Lars-Åke Rydh <sup>5)</sup>	– 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) <sup>6)</sup>	– 3,259	– 148	– 147	– 812	– 61	– 4,427
Other senior executives in Group management (four people)	– 9,627	– 483	– 352	– 2,169	– 134	– 12,765
<b>Total</b>	<b>– 16,055</b>	<b>– 631</b>	<b>– 549</b>	<b>– 4,105</b>	<b>– 1,037</b>	<b>– 22,377</b>

<sup>1)</sup> Including remuneration for committee work.

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

<sup>3)</sup> 'Other benefits' primarily pertains to company cars.

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

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

<sup>6)</sup> Relates to remuneration received during period as CEO. Other remuneration during period as President of Medical Solutions is included under the heading 'Other senior executives'.

## Note 26 Information on remuneration to auditors

## The company's auditing firm has received remuneration:

SEK thousand	2017	2016
<b>EY</b>		
Auditing	– 2,813	– 3,078
Taxation assignments	– 209	– 168
Other assignments	– 66	– 937
<b>Total</b>	<b>– 3,088</b>	<b>– 4,183</b>

Auditing relates to reviewing the annual accounts and financial statements 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 227,000 (226,000).

**Note 27** Average number of employees

	2017		2016	
	Number	Of which men	Number	Of which men
<b>Parent Company in Sweden</b>				
Nolato AB, Torekov, Sweden	11	82%	11	82%
<b>Subsidiaries in Sweden</b>				
Nolato Cerbo AB, Trollhättan, Sweden	131	66%	127	65%
Nolato Gota AB, Götene, Sweden	182	76%	159	75%
Nolato Hertila AB, Åstorp, Sweden	28	68%	28	64%
Nolato Lövepac AB, Skånes Fagerhult, Sweden	41	61%	39	62%
Nolato MediTech AB, Hörby, Sweden	226	69%	192	67%
Nolato MediTor AB, Torekov, Sweden	74	53%	52	50%
Nolato Plastteknik AB, Gothenburg, Sweden	114	71%	111	70%
Nolato Polymer AB, Torekov, Sweden	59	78%	56	80%
Nolato Silikonteknik AB, Hallsberg, Sweden	63	70%	59	66%
	<b>918</b>	<b>69%</b>	<b>823</b>	<b>68%</b>
<b>Subsidiaries abroad</b>				
Cerbo France Sarl, France	1	0%	1	0%
Lövepac Converting Ltd, China	223	47%	288	44%
Lövepac Converting Private Ltd, India	2	100%	2	100%
Nolato Beijing Ltd, China	4,535	51%	4,029	47%
Nolato Contour, Inc., US	208	58%	193	59%
Nolato EMC Production Center SDN BHD, Malaysia	96	58%	93	57%
Nolato Hungary Kft, Hungary	636	53%	574	45%
Nolato Jaycare Ltd, UK	240	77%	255	76%
Nolato Medical Device Co. Ltd, China	50	56%	27	56%
Nolato Romania Srl, Romania	48	40%	36	33%
Nolato Stargard Sp. zo.o., Poland*	118	23%	34	21%
Nolato Treff AG, Switzerland*	163	70%	52	69%
	<b>6,320</b>	<b>52%</b>	<b>5,584</b>	<b>48%</b>
	<b>7,249</b>	<b>55%</b>	<b>6,418</b>	<b>51%</b>

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

**Note 28** 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. Within the framework of the financial policy, there is the opportunity to utilise foreign exchange and fixed income instruments. During the year, trading was only carried out in currency derivatives.

**Market risk – foreign exchange risk**

The Group is exposed to exchange rate fluctuations in future payment flows attributable to both contracted and anticipated commercial undertakings, as well as loans and investments in foreign currency – transaction exposure. The Group's financial statements are also affected by translation effects when translating the earnings and net assets of foreign subsidiaries into Swedish kronor – translation exposure.

**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 2017, Nolato's sales to countries outside Sweden accounted for 82% (76) 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 50 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 in a net amount of SEK –20 million (17) 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 –8 million (–2) in net financial income/expense.

At the end of 2017, the Group had the following currency hedges in relation to anticipated payment flows in EUR, GBP and USD for 2018. 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 2017 was SEK 8 million (6). The fair value of contracts identified as cash flow hedges that meet the conditions for hedge accounting was SEK 1 million (–3).

### Currency forward contracts (cash flow & loan hedging)

SEKm	Nominal value according to contract	Average rate (SEK)	Fair value	Reported in profit/loss	Reported in other comprehensive income
EUR (net purch.)	29	9.79	—	—	1
GBP (net sales)	– 66	11.21	2	– 1	—
USD (net sales)	– 254	8.22	6	– 1	1
<b>Total</b>	<b>– 291</b>		<b>8</b>	<b>– 2</b>	<b>2</b>

Gains and losses in other comprehensive income in relation to currency forward contracts at 31 December 2017 will be transferred to the income statement at various dates within one year of the balance sheet date.

### Net exposure of sales and purchasing in foreign currency (cash flow hedges)

SEKm	12 mth estimated net flows	Total hedges	Percentage	Average rate
EUR	66	29	44%	9.79
USD	173	77	45%	8.21
<b>Total</b>	<b>239</b>	<b>106</b>	<b>44%</b>	

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 2017, the effect of the currency derivatives on operating profit was SEK 2 million (–1).

### Transaction exposure at 31 December 2017 (cash flow hedges)

SEKm	12-month unhedged estimated net flows	Exchange rate change	Impact on earnings
EUR	37	+/- 5%	2
USD	96	+/- 5%	5
<b>Total</b>	<b>133</b>		<b>7</b>

At the end of the year, the Group had SEK 133 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 7 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 are not normally currency-hedged, but may be in some cases following a separate decision. Translation differences reported in other comprehensive income are detailed in Note 16, 'Other reserves'.

### Translation exposure in foreign subsidiaries

SEKm	Net assets	5% increase in value of krona
Nolato Romania, RON	– 2	—
Nolato Holding USA, USD	33	– 2
Nolato Holdings UK, GBP	120	– 6
Nolato Beijing Automotive, CNY	– 1	—
Nolato Beijing Medical, CNY	– 25	1
Nolato Beijing Mobile, CNY	485	– 24
Nolato Lövepac Converting, CNY	26	– 2
Nolato Lövepac Converting India, INR	– 21	1
Nolato EMC Prod. Center, MYR	2	—
Nolato Hungary, EUR	370	– 18
Nolato Stargard, PLN	11	—
Cerbo France, EUR	—	—
<b>Total</b>	<b>998</b>	<b>– 50</b>

The Group has SEK 998 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 –50 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.

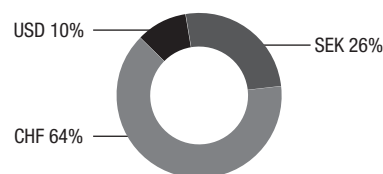
### Interest rate risk

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 638 million (617). The fixed interest term on the Group's loans and investments determines how quickly interest rate changes affect earnings. 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:

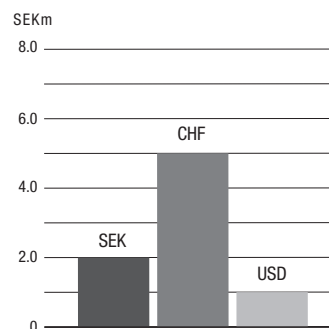
- Up to one year: 35–65%
- More than one year: 35–65%

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.

### 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.

### 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 granted credit lines of SEK 1,268 million, of which SEK 463 million matures on 27/09/2021, SEK 600 million matures on 24/04/2022 and SEK 205 million between 2018 and 2023.



## Interest-bearing net debt at 31 December

	Outstanding amount (SEKm)	Future interest expense during the term outst.	Term out- standing (mths)	Fixed interest period outst. (mths)	Average interest (%)
<b>Interest-bearing liabilities</b>					
Bank loans, SEK	– 70	—	1	1	0.4
Bank loans, CHF	– 487	14	45	45	0.7
Working capital finance	– 81				—
Pension liability, SEK	– 127				3.1
Pension liability, CHF	– 57				1.8
<b>Total</b>	<b>– 822</b>	<b>14</b>			<b>1.1</b>
<b>Interest-bearing assets</b>					
Cash and cash equivalents	669				0.8
<b>Total net financial liabilities</b>	<b>– 153</b>				

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	8.2262	14 Dec. 2018
Nolato Holdings UK Ltd, UK	GBP 6 million	11.2115	14 Dec. 2018
Nolato EMC, Malaysia	USD 2 million	8.2262	14 Dec. 2018

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 4.8038, maturing on 14 December 2018.

At year-end, the Group's financial liabilities amounted to SEK 1,488 million (1,406). 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	1–3 months	4–12 months	> 1 year	Total
Accounts payable	418	220	28	—	<b>666</b>

**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 1,807 million (1,242) at the balance sheet date. The exposure comprises the carrying amount of all financial assets.

**Credit risk (SEKm)**

	2017	2016
Accounts receivable	1,128	819
Other receivables	2	2
Derivatives	8	10
Cash and cash equivalents	669	411
<b>Total</b>	<b>1,807</b>	<b>1,242</b>

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.

The Nolato Group has entered into ISDA contracts (International Swaps and Derivatives Association, Inc.) with essentially all of these financial institutions. An ISDA contract is classified as an enforceable netting arrangement. One function of an ISDA contract

is that it allows the Nolato Group to calculate credit exposure on a net basis, i.e. the difference between the Group's claims and liabilities per counterparty. The agreement between the Group and the counterparty enables net payment of derivatives when both parties choose this method. In the event of failure to pay by either party, the counterparty is able to choose to pay net. Transactions are undertaken within set limits and credit exposure per counterparty is continually analysed. At the balance sheet date, the Group had derivative assets of SEK 8 million (10) and derivative liabilities of SEK 0 million (4) included in enforceable netting arrangements.

**Hedge accounting**

The Group applies hedging to reduce risks attributable to volatility in balance sheet items and future cash flows, which would otherwise affect profit or loss. A distinction is made between cash flow hedging, fair value hedging and hedging of net investments in foreign operations, based on the nature of the hedged item.

Derivatives that constitute effective financial hedges, but that either do not qualify for hedge accounting according to IAS 39 or that the Group chooses not to apply hedge accounting for, are recognised in the same way as instruments held for trading. In such cases, changes to the fair value of financial hedges are recognised immediately in profit or loss as financial income or expense, or in operating profit depending on the nature of the hedged item.

**Cash flow hedging**

Hedge accounting has been applied to derivative instruments that effectively counteract variations in the cash flow from forecast sales. Changes in the fair value of such derivative instruments identified as hedging instruments and that satisfy the criteria for hedging of future cash flows are recognised in hedging reserves in shareholders' equity via other comprehensive income.

**Fair value hedging**

Hedge accounting has been applied to derivative instruments that effectively counteract exposure to changes in fair value for internal lending by the Parent Company in foreign currency. Changes in the fair value of such derivative instruments identified as hedging instruments and that satisfy the requirements for fair value hedging are recognised as financial income or expense in profit or loss.

**Hedging of net investments**

Hedge accounting has been applied to financial instruments that effectively counteract the Group's exposure to effects arising on conversion of Nolato Treff AG's net assets into the Parent Company's functional currency. Gains and losses in hedging instruments that satisfy the requirements for hedging of net investments are recognised in the translation reserve in shareholders' equity via other comprehensive income.

At the balance sheet date, the Group hedged a nominal amount of CHF 55 million (55) of net investment in foreign operations against changes to the CHF/SEK exchange rate. A CHF loan in the amount of CHF 55 million (55) was used as a hedging instrument.

The result of the hedge amounted to SEK 27 million (–5) before tax for 2017 and was recognised directly in the translation reserve via other comprehensive income. During the year, no gains/losses from hedging reserves were reclassified via other comprehensive income to profit or loss to match the reclassification of the accumulated currency translation difference in the hedged subsidiary's equity.

## Note 29 Acquisitions

### Acquisition of Treff AG in 2016

#### Description of the company

Nolato acquired the Swiss company Treff AG in 2016. The company provides a strengthened customer base and geographical expansion for both Medical Solutions and Industrial Solutions.

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.

#### 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 2016 and was consolidated by Nolato as of 3 October 2016. 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 Industrial Solutions, and one-third within Medical Solutions. Had the acquisition taken place on 1 January 2016, it would have contributed SEK 509 million to the Nolato Group's revenue in 2016.

### 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
<b>Goodwill</b>	<b>251</b>

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 Medical Solutions and Industrial Solutions business areas.

	Balance sheet at time of acquisition	Adjustment to fair value	Fair value
Non-current intangible 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
<b>Net assets acquired</b>	<b>183</b>	<b>51</b>	<b>234</b>

Non-current intangible 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
<b>Net cash flow from acquisition</b>	<b>382</b>

### Acquisition of Grizzly Medical Sp.zo.o. in 2016

#### Description of the company

In 2016, Nolato acquired the Polish company Grizzly Medical, which strengthens our capacity for low-volume production within Medical Solutions.

#### 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 2016 and was consolidated by Nolato as of 1 September 2016. The purchase price for the asset acquisition, excluding cash and cash equivalents, amounted to SEK 16 million. Goodwill totalled SEK 8 million and customer relationships amounted 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 for 2016.

## Five-year review key ratios

	2017	2016	2015	2014	2013
<b>Performance measures according to IFRS<sup>1)</sup></b>					
Operating profit (EBIT) (SEK million)	749	443	556	454	411
<b>Performance measures (alternative performance measures)<sup>1)</sup></b>					
Reversal of amortisation of intangible assets arising in connection with acquisitions.	14	14	14	16	16
Operating profit (EBITA) (SEK million)	763	457	570	470	427
<b>Performance measures per share according to IFRS<sup>1)</sup></b>					
Basic earnings per share after tax (SEK)*	21.74	12.77	15.97	13.84	11.94
<b>Performance measures per share (alternative performance measures)<sup>1)</sup></b>					
Profit/loss after tax for the year (SEKm)	572	336	420	364	314
Reversal of amortisation of intangible assets arising in connection with acquisitions	14	14	14	16	16
Tax on reversal of amortisation of intangible assets arising in connection with acquisitions.	- 3	- 3	- 4	- 4	- 4
Adjusted profit/loss after tax (SEKm)	583	347	430	376	326
Average number of shares before dilution*	26,307,408	26,307,408	26,307,408	26,307,408	26,307,408
Adjusted basic earnings per share after tax (SEK)*	22.16	13.19	16.35	14.29	12.39
<b>Sales and profit (alternative performance measures)<sup>1)</sup></b>					
Net sales (SEK million)	6,720	4,447	4,726	4,234	4,522
Sales growth (%)	51	- 6	12	- 6	17
Profit after financial income and expense (SEK million)	731	438	555	462	403
Profit for the year (SEK million)	572	336	420	364	314
<b>Cash flow (alternative performance measures)<sup>1)</sup></b>					
Cash flow from operations (SEK million)	773	466	532	330	512
Investing activities (SEK million)	- 277	- 619	- 244	- 203	- 144
Cash flow before financing activities (SEK million)	496	- 153	288	127	368
Cash flow from operating activities per share, before dilution (SEK)*	29.38	17.71	20.22	12.54	19.46
Cash flow before financial activities per share, excluding acquisitions & disposals, before & after dilution (SEK)*	18.85	9.31	10.95	4.83	13.76
Cash conversion (%)	66	55	52	28	82
<b>Financial position (alternative performance measures)<sup>1)</sup></b>					
Total assets (SEK million)	4,752	3,924	3,233	2,914	2,573
Shareholders' equity (SEK million)	2,159	1,850	1,759	1,567	1,348
Interest-bearing liabilities and provisions (SEK million)	- 822	- 819	- 281	- 197	- 196
Net financial liabilities (-)/net financial assets (+) (SEK million)	- 153	- 408	122	59	122
<b>Key ratios (alternative performance measures)<sup>1)</sup></b>					
Return on total capital before tax (%)	17.1	13.7	18.3	17.1	15.9
Return on capital employed before tax (%)	26.6	20.6	29.6	28.4	26.7
Return on operating capital before tax (%)	32.1	24.4	35.3	33.0	32.6
Return on net shareholders' equity (%)	29.4	19.0	25.3	25.0	24.9
EBITA margin (%)	11.4	10.3	12.1	11.1	9.4
Profit margin (%)	10.9	9.8	11.7	10.9	8.9
Equity/assets ratio (%)	45	47	54	54	52
Debt/equity ratio (times)	0.4	0.4	0.2	0.1	0.1
Interest coverage ratio (times)	56	67	78	58	37
Average number of employees	7,249	6,418	7,759	8,020	9,357

<sup>1)</sup> 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. For definitions of financial measures, see page 80.

\*The Group has had two share warrant programmes since 2016: Series 1 and Series 2. Series 1 has redemptions from 01/05/2019 to 15/12/2019 and Series 2 from 01/05/2020 to 15/12/2020. The subscription price is SEK 296.30 for Series 1 and SEK 485.10 for Series 2. The programmes have been taken into account in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 436,700 new class B shares.

## Definitions – IFRS measures

### ▶ Earnings per share

Earnings for the period that are attributable to the parent company's owners divided by the average number of outstanding shares.

### ▶ Operating profit (EBIT)

Earnings before interest and taxes.

## Definitions – Alternative performance measures

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.

### ▶ Average number of shares

The average basic number of shares comprises the Parent Company's weighted average number of outstanding shares during the period. After dilution, a weighted average of the shares that may be issued under the ongoing share warrant programme is added, but only insofar as the average listed share price for the period exceeds the subscription price of the warrants.

### ▶ 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.

### ▶ 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.

### ▶ Net financial liabilities/net financial assets

Interest-bearing assets less interest-bearing liabilities and provisions.

### ▶ 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.

Some of the items reported relate to future events and actual outcomes may differ materially. In addition to those factors explicitly commented on, other factors may also materially affect the actual outcome, such as economic conditions, exchange rates and interest rate levels, political risks, competition and pricing, product development, commercialisation and technical difficulties, supply problems and customer credit losses.

## Parent Company income statement

SEKm	Note	2017	2016
Net sales	2	50	46
Selling expenses	6, 12	– 6	– 5
Administrative expenses	3, 6, 12	– 51	– 44
Other operating income	4	6	2
Other operating expenses	5	– 25	– 27
	12	<b>– 76</b>	<b>– 74</b>
<b>Operating profit</b>		<b>– 26</b>	<b>– 28</b>
Profit from investments in Group companies	7	260	92
Financial income	8	46	20
Financial expenses	9	– 5	– 14
		<b>301</b>	<b>98</b>
<b>Profit after financial income and expenses</b>		<b>275</b>	<b>70</b>
Appropriations	10	244	241
Tax	11	– 66	– 49
<b>Profit for the year</b>		<b>453</b>	<b>262</b>

## Parent Company comprehensive income

SEKm	2017	2016
Profit for the year	453	262
<b>Comprehensive income for the year</b>	<b>453</b>	<b>262</b>

## Parent Company balance sheet

SEKm	Note	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Non-current intangible assets		3	—
Property, plant and equipment		1	1
Investments in Group companies	13	1,226	1,218
Receivables from Group companies	16	396	433
Other non-current receivables		3	2
Deferred tax assets	11	5	13
<b>Total non-current financial assets</b>		<b>1,630</b>	<b>1,666</b>
<b>Total non-current assets</b>		<b>1,634</b>	<b>1,667</b>
<b>Current assets</b>			
Receivables from Group companies		690	474
Other receivables		7	16
Prepaid expenses and accrued income		8	8
<b>Total current assets</b>		<b>705</b>	<b>498</b>
Cash and bank balances		73	75
<b>Total assets</b>		<b>2,412</b>	<b>2,240</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
<i>Restricted equity</i>			
Share capital (26,307,408 shares)	14	132	132
Statutory reserve		228	228
<b>Total restricted equity</b>		<b>360</b>	<b>360</b>
<i>Unrestricted equity</i>			
Translation reserve		– 3	– 3
Retained earnings		485	499
Profit for the year		453	262
<b>Total unrestricted equity</b>		<b>935</b>	<b>758</b>
<b>Total shareholders' equity</b>		<b>1,295</b>	<b>1,118</b>
<b>Untaxed reserves</b>	19	<b>200</b>	<b>163</b>
<b>Other provisions</b>	17	<b>13</b>	<b>13</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	15	464	490
Liabilities to Group companies	16	55	55
<b>Total non-current liabilities</b>		<b>519</b>	<b>545</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	15	70	90
Accounts payable		7	7
Liabilities to Group companies		291	289
Other liabilities		2	6
Accrued expenses and deferred income	18	15	9
<b>Total current liabilities</b>		<b>385</b>	<b>401</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,412</b>	<b>2,240</b>



## Parent Company changes in shareholders' equity

SEKm	Restricted equity		Unrestricted equity		Total shareholders' equity
	Share capital	Statutory reserve	Translation reserve	Retained earnings	
<b>Opening balance, 1 Jan. 2016</b>	<b>132</b>	<b>228</b>	<b>- 3</b>	<b>762</b>	<b>1,119</b>
Profit for the year			—	262	262
Other comprehensive income for the year			—	—	—
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>262</b>	<b>262</b>
Dividend for 2015			—	- 263	- 263
<b>Closing balance, 31 Dec. 2016</b>	<b>132</b>	<b>228</b>	<b>- 3</b>	<b>761</b>	<b>1,118</b>
<b>Opening balance, 1 Jan. 2017</b>	<b>132</b>	<b>228</b>	<b>- 3</b>	<b>761</b>	<b>1,118</b>
Profit for the year			—	453	453
Other comprehensive income for the year			—	—	—
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>453</b>	<b>453</b>
Dividend for 2016			—	- 276	- 276
<b>Closing balance, 31 Dec. 2017</b>	<b>132</b>	<b>228</b>	<b>- 3</b>	<b>938</b>	<b>1,295</b>

## Parent Company cash flow statement

SEKm	2017	2016
<b>Operating activities</b>		
Operating profit	- 26	- 28
Adjustments for items not included in cash flow	—	2
Dividends from subsidiaries	77	68
Interest received	20	20
Interest paid	- 5	- 3
Realised exchange rate differences	17	- 13
Income tax paid	- 51	- 77
<b>Cash flow from operating activities before changes in working capital</b>	<b>32</b>	<b>- 31</b>
<b>Changes in working capital</b>		
Changes in operating receivables and operating liabilities	- 21	168
<b>Cash flow from operating activities</b>	<b>11</b>	<b>137</b>
<b>Investing activities</b>		
Acquisition of non-current intangible assets	- 3	—
Acquisition of non-current financial assets	—	- 489
Shareholders' contribution	- 9	- 1
<b>Cash flow from investing activities</b>	<b>- 12</b>	<b>- 490</b>
<b>Cash flow before financing activities</b>	<b>- 1</b>	<b>- 353</b>
<b>Financing activities</b>		
Borrowings	15 70	490
Repayment of loans	15 - 90	- 50
Change in long-term intra-Group transactions	20	- 16
Dividend paid	- 276	- 263
Group contributions received	281	235
Group contributions paid	- 6	- 5
<b>Cash flow from financing activities</b>	<b>- 1</b>	<b>391</b>
<b>Cash flow for the year</b>	<b>- 2</b>	<b>38</b>
<b>Cash and cash equivalents, opening balance</b>	<b>75</b>	<b>37</b>
<b>Cash and cash equivalents, closing balance*</b>	<b>73</b>	<b>75</b>

\*Credit balance on Group account in Parent Company.

## 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 any value of outstanding currency forwards/currency swaps in the balance sheet. Outstanding derivative instruments at 31 December 2017 are described in Note 28 of the consolidated statements.

#### **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 341,000 (298,000). 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

	2017	2016
Sales of services to subsidiaries	50	46
Purchase of services from subsidiaries	– 5	– 4

### Note 3 Information on remuneration to auditors

The company's auditing firm has received remuneration:

SEK thousand	2017	2016
<b>EY</b>		
Auditing	– 606	– 728
Taxation assignments	– 209	– 152
Other assignments	– 22	– 830
<b>Total</b>	<b>– 837</b>	<b>– 1,710</b>

Auditing relates to reviewing the annual accounts and financial statements 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

	2017	2016
Effect of exchange rate on receivables/liabilities	6	2

### Note 5 Other operating expenses

	2017	2016
Effect of exchange rate on receivables/liabilities	– 4	– 6
Costs for personnel who are not employed by the Parent Company and their overheads	– 21	– 21
<b>Total</b>	<b>– 25</b>	<b>– 27</b>

### Note 6 Personnel

#### Average number of employees

	2017		2016	
	Number	Of which men	Number	Of which men
Nolato AB, Torekov, Sweden	11	82%	11	82%

#### Employee benefits expense

	2017	2016
Salaries and remuneration	– 25	– 21
Pension expenses, defined contribution schemes	– 4	– 5
Social security contributions	– 9	– 7
<b>Total</b>	<b>– 38</b>	<b>– 33</b>

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 25 million (21), of which SEK 5 million (1) relates to bonuses. Of the Parent Company's pension expenses, SEK 1 million (2) 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

	2017		2016	
	Men	Women	Men	Women
Board members	7	3	7	2
President and CEO	1	—	1	—
Other senior executives	4	—	4	—

#### Note 7 Profit from investments in Group companies

	2017	2016
Dividend received from Group companies	77	68
Anticipated dividend from Group companies	183	29
Impairment of investments in Group companies	—	— 5
<b>Total</b>	<b>260</b>	<b>92</b>

#### Note 8 Financial income

	2017	2016
Interest income, Group companies	20	20
Exchange rate differences	26	—
<b>Total</b>	<b>46</b>	<b>20</b>

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

#### Note 9 Financial expenses

	2017	2016
Interest expenses, credit institutions	— 4	— 1
Other financial expenses	— 1	— 1
Exchange rate differences	—	— 12
<b>Total</b>	<b>— 5</b>	<b>— 14</b>

All interest expenses are attributable to financial liabilities, which are measured at accumulated acquisition value.

#### Note 10 Appropriations

	2017	2016
Group contributions received	287	281
Group contributions paid	— 6	— 6
Reversal of tax allocation reserve	47	35
Provision for tax allocation reserve	— 84	— 69
<b>Total</b>	<b>244</b>	<b>241</b>

#### Note 11 Tax

##### Recognised in the income statement

	2017	2016
<b>Current tax expense (–)/income (+)</b>		
Tax expenses for the period	— 58	— 55
	<b>— 58</b>	<b>— 55</b>
<b>Deferred tax expense (–)/income (+)</b>		
Deferred tax in relation to temporary differences	— 8	6
<b>Total recognised tax expense</b>	<b>— 66</b>	<b>— 49</b>

##### Reconciliation of effective tax

The tax rate applicable is 22%.

	2017	2016
<b>Profit before tax</b>	<b>519</b>	<b>311</b>
Tax according to applicable Parent Company tax rate	— 114	— 68
Coupon tax on anticipated dividends	— 9	—
Non-deductible expenses	—	— 3
Non-taxable income	57	22
<b>Recognised effective tax</b>	<b>— 66</b>	<b>— 49</b>
<b>Recognised in the balance sheet</b>		
Other provisions	3	3
Other	2	10
<b>Total</b>	<b>5</b>	<b>13</b>

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

	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
<b>Total</b>	<b>7</b>	<b>6</b>	<b>—</b>	<b>13</b>

	Balance at 1 Jan. 2017	Recognised in profit for the year	Recognised in shareholders' equity	Balance at 31 Dec. 2017
Other provisions	3	—	—	3
Other	10	— 8	—	2
<b>Total</b>	<b>13</b>	<b>— 8</b>	<b>—</b>	<b>5</b>

#### Note 12 Expenses allocated by type of cost

	2017	2016
Employee benefits expense	— 38	— 33
Insurance	— 1	— 2
Consulting expenses	— 5	— 5
Travel expenses	— 1	— 1
Advertising and PR	— 5	— 4
Effect of exchange rate on receivables/liabilities, net	2	— 4
Costs for personnel who are not employed by the Parent Company and their overheads (re invoiced)	— 21	— 21
Other costs	— 7	— 4
<b>Total</b>	<b>— 76</b>	<b>— 74</b>

**Note 13** Investments in Group companies

	2017	2016
Acquisition cost at 1 January	1,578	1,088
Acquisitions	—	489
Shareholders' contribution	8	1
<b>Accumulated acquisition cost at 31 December</b>	<b>1,586</b>	<b>1,578</b>
Accumulated impairment losses at 1 January	– 360	– 355
Impairment losses for the year	—	– 5
<b>Accumulated impairment losses at 31 December</b>	<b>– 360</b>	<b>– 360</b>
<b>Carrying amount</b>	<b>1,226</b>	<b>1,218</b>

	Participating interest		Carrying amount	
	2017	2016	2017	2016
AB Cerbo Group, Trollhättan, Sweden	100%	100%	117	117
Nolato Cerbo AB, Trollhättan, Sweden	100%	100%		
A/S Cerbo Norge, Norway	—	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%	1	1
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%	100%	—	—
Nolato Lövepac AB, Skånes Fagerhult, Sweden	100%	100%	10	10
Nolato Medical Device (Beijing) Co. Ltd, China	100%	100%	—	—
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%	100%	9	1
Nolato Torekov AB, Torekov, Sweden	100%	100%	12	12
Nolato Treff AG, Switzerland	100%	100%	488	488
<b>Carrying amount</b>			<b>1,226</b>	<b>1,218</b>

**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. 2016	26,307,408	SEK 5	SEK 131,537 k
Share capital, 31 Dec. 2017	26,307,408	SEK 5	SEK 131,537 k

**Note 15 Borrowings**

	Maturity date	2017	2016
Short-term bank loan in SEK (variable rate)	< 3 months	70	90
Long-term bank loan in CHF (fixed rate)	2021	464	490
<b>Total</b>		<b>534</b>	<b>580</b>

**Reconciliation of liabilities attributable to financing activities**

	2017	2016
Opening balance for non-current and current financial liabilities	580	140
<i>Changes affecting cash flow</i>		
Borrowings	70	485
Repayment of loans	– 90	– 50
<i>Changes not affecting cash flow</i>		
Translation effects	– 26	5
Closing balance for non-current and current financial liabilities	534	580

**Note 16 Receivables and liabilities, Group companies****Receivables from Group companies**

<b>At 1 January 2016</b>	<b>416</b>
Change	17
<b>At 1 January 2017</b>	<b>433</b>
Change	– 37
<b>At 31 December 2017</b>	<b>396</b>

**Liabilities to Group companies**

<b>At 1 January 2016</b>	<b>55</b>
Change	—
<b>At 1 January 2017</b>	<b>55</b>
Change	—
<b>At 31 December 2017</b>	<b>55</b>

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**

	2017	2016
Amount at 1 January	13	11
Provisions for the year	1	2
Amounts claimed	– 1	—
<b>Amount at 31 December</b>	<b>13</b>	<b>13</b>

Relates to future salary tax for endowment insurance.

**Note 18 Accrued expenses and deferred income**

	2017	2016
Salary liabilities	8	4
Social security contributions	5	3
Other items	2	2
<b>Total</b>	<b>15</b>	<b>9</b>

**Note 19 Untaxed reserves**

	2017	2016
Provision for tax allocation reserve (taxation year 2012)	—	47
Provision for tax allocation reserve (taxation year 2013)	47	47
Provision for tax allocation reserve (taxation year 2016)	69	69
Provision for tax allocation reserve (taxation year 2017)	84	—
<b>Total</b>	<b>200</b>	<b>163</b>

**Note 20 Contingent liabilities**

	2017	2016
Guarantees on behalf of subsidiaries	116	141

**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 50 million (46), 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 396 million (433) 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 260 million (97), of which SEK 183 million (29) refers to anticipated dividend.

**Note 22 Appropriation of profit****Proposed allocation of earnings**

	2017	2016
The Board proposes that unappropriated funds:		
Retained earnings	482	496
Profit for the year	453	262
	<b>935</b>	<b>758</b>
be allocated as follows:		
Dividend to the shareholders	329	276
To be carried forward	606	482
	<b>935</b>	<b>758</b>



## 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 8 March 2018. 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 24 April 2018.

Torekov, Sweden, 8 March 2018



Fredrik Arp  
Chairman of the Board



Sven Boström-Svensson  
Board member



Henrik Jorlén  
Board member



Lovisa Hamrin  
Board member



Dag Andersson  
Board member



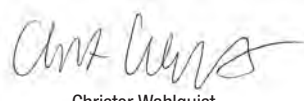
Åsa Hedin  
Board member



Lars-Åke Rydh  
Board member



Jenny Sjö Dahl  
Board member



Christer Wahlquist  
President and CEO

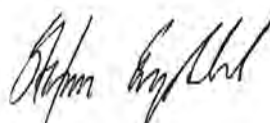


Björn Jacobsson  
Employee representative



Håkan Svensson  
Employee representative

Our auditor's report was submitted on 12 March 2018.  
Ernst & Young AB



Stefan Engdahl  
Authorised public accountant

# Auditor's report

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 2017. The annual accounts and consolidated accounts of the company are included on pages 47–87 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 2017 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 2017 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.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Valuation of goodwill and

Description	How our audit addressed this key audit matter
<p>Goodwill is recognised at SEK 754 million and investments in Group companies are recognised at SEK 1,226 million at 31 December 2017. Nolato conducts an annual review and in the event of an indication of impairment, to ensure that the carrying amounts do not exceed the estimated recoverable amounts for these assets. Recoverable amounts are determined via a present value computation of future cash flows for each cash generating unit and are based on the anticipated outcome of several factors based on management's business plans and forecasts.</p> <p>The impairment test for 2017 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 10.</p>	<p>In our audit, we have evaluated and audited management's process to establish the impairment test, including by evaluating past accuracy of forecasts and assumptions. With the support of our valuation specialists we have audited the company's model and method for preparing the impairment test. We have evaluated the company's sensitivity analysis and also carried out our own sensitivity analysis of key assumptions and possible influencing factors. With the support of our valuation specialists we have also audited the reasonableness of assumptions regarding discount rates and long-term growth. We have also assessed whether the information disclosed in the financial statements is appropriate.</p>

### 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 1–46. 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.

## 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 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) 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.

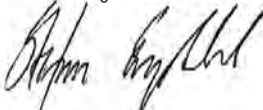
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's 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.

Ernst & Young AB, Box 7850 103 99 Stockholm, was appointed auditor of Nolato AB by the general meeting of the shareholders on 26 April 2017 and has been the company's auditor since 29 April 2015.

Torekov, 12 March 2018

Ernst & Young AB



Stefan Engdahl

Authorized Public Accountant

## A few specialist terms used within the Nolato Group



### ► Polymer materials

Materials such as plastic, silicone, rubber and thermoplastic elastomers (TPEs).



### ► 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.



### ► 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.



### ► Extrusion

This is a method for continuously manufacturing products in strands, such as medical tubing.



### ► 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.



### ► Haptic technology/haptics

Designing a surface so that a function or cosmetic effect can be felt.



### ► 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.



### ► 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.

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# Nolato's history

**1938**

Nordiska 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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