

# ANNUAL REPORT 2018

---

*Strong performance  
by Nolato*



*“A record year means a strong financial position and a proposed increase in dividend”*

#### Our offering

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

Our customer offering comprises most technologies in the field of polymers and spans the entire value chain, from solutions-oriented development to product delivery.



#### We are One Nolato

One Nolato means our customers benefit from end-to-end solutions using technologies and products that leverage the skills and resources of all three business areas.



#### Contents

Nolato in brief	3
2018 in brief	4
CEO's comments	6
Nolato's strategic focus	8
Nolato's operating environment	9
Nolato's vision	10
Nolato's values	11
Targets and strategy	12
Mission and business model	14
Production technologies	16
Sustainable development	18
Nolato's business areas	26
Shareholder information	40
Corporate governance	42
Board of Directors	44
Group management	46
Directors' report and financial statements*	47



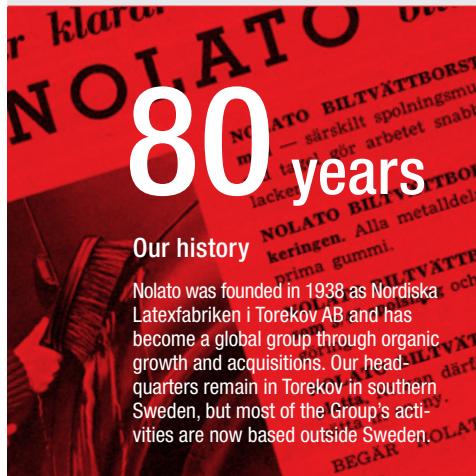
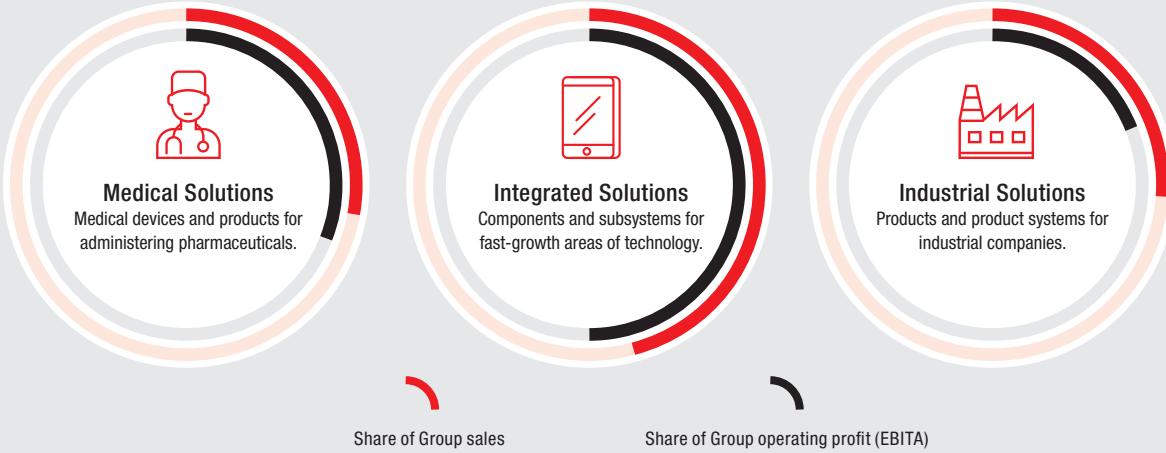
The printed annual report is sent by post to those shareholders who have notified the company that they wish to receive a copy. It can also be ordered at [www.nolato.com](http://www.nolato.com), where a digital version is also available. New shareholders are offered the opportunity in a welcome letter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

#### Our shares

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

# The Nolato Group in brief

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



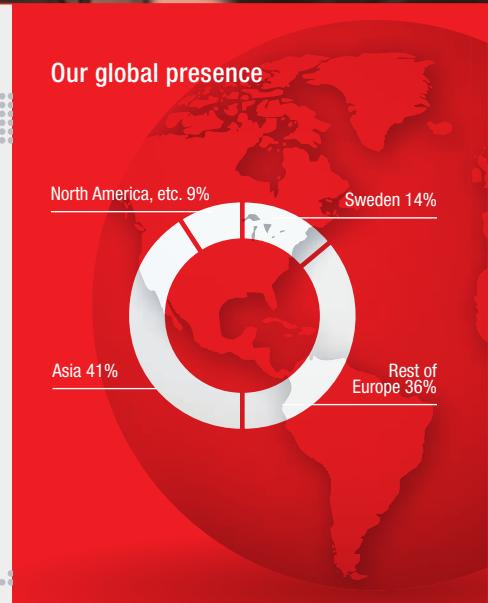
## Our values



Nolato has a long tradition of responsible business practice. Our basic principle is that effective business operations must be combined with ethics, corporate responsibility and environmental awareness.



## Our global presence



# Significant events in 2018

- » 2018 was a record year, combining very strong growth with an improved margin.
- » In 2018, Nolato's sales increased by 21% to SEK 8,102 million (6,720).
- » Operating profit (EBITA) rose by 24% to SEK 949 million (763).
- » Operating margin (EBITA) of 11.7% (11.4).
- » Basic earnings per share increased to SEK 27.44 (21.74).

## Sustainable development

- » Focus on greater use of bio-based and recycled plastic raw materials.
- » Energy consumption decreased to 0.022 GWh/SEKm net sales (0.028).
- » Emissions of the greenhouse gas carbon dioxide fell to 4.5 tonnes/SEKm net sales (7.3).
- » Low number of occupational accidents – 4.1 accidents resulting in absence/million hours worked (3.7).



## Medical Solutions

Financial highlights:	2018	2017
Sales, SEKm	2,270	1,955
Operating profit (EBITA), SEKm	295	257
EBITA margin, %	13.0	13.1
Average no. of employees	1,497	1,395

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



## Integrated Solutions

Financial highlights:	2018	2017
Sales, SEKm	3,720	2,810
Operating profit (EBITA), SEKm	473	332
EBITA margin, %	12.7	11.8
Average no. of employees	3,868	4,928

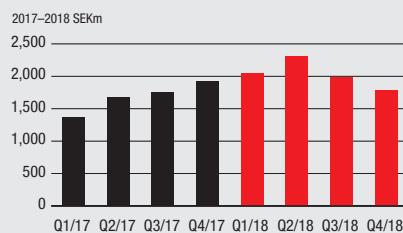
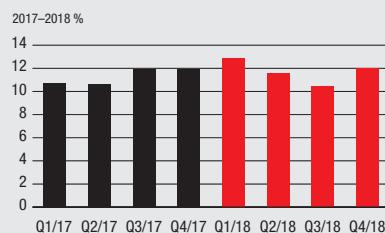
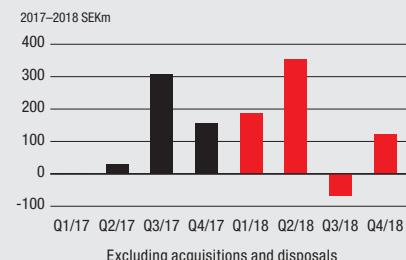
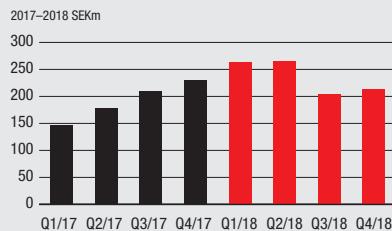
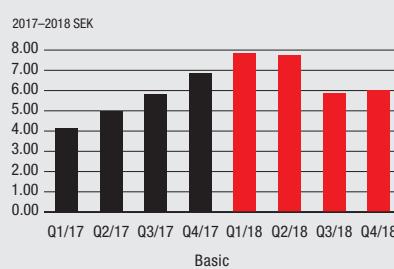
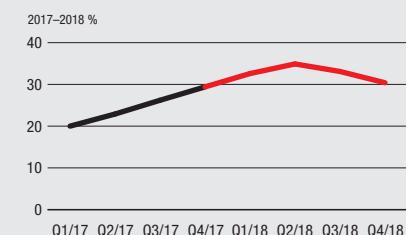
Design, development and manufacture of advanced components, subsystems and ready-packaged products for consumer electronics. EMC & Thermal develops and manufactures shielding and heat dissipation products and systems for electronics.



## Industrial Solutions

Financial highlights:	2018	2017
Sales, SEKm	2,119	1,968
Operating profit (EBITA), SEKm	186	195
EBITA margin, %	8.8	9.9
Average no. of employees	1,078	920

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

**Sales per quarter****EBITA margin per quarter****Cash flow after investment per quarter****Operating profit (EBITA) per quarter****Earnings per share per quarter****Return on equity per quarter****Financial highlights****SEKm (unless otherwise specified)**

	2018	2017	2016	2015	2014
Net sales	8,102	6,720	4,447	4,726	4,234
Operating profit (EBITDA) <sup>1)</sup>	1,189	980	636	737	619
Operating profit (EBITA) <sup>2)</sup>	949	763	457	570	470
EBITA margin, %	11.7	11.4	10.3	12.1	11.1
Profit after financial income and expenses	921	731	438	555	462
Profit after tax	722	572	336	420	364
Basic earnings per share <sup>3)</sup> SEK	27.44	21.74	12.77	15.97	13.84
Adjusted basic earnings per share <sup>3) 4)</sup> SEK	27.67	22.16	13.19	16.35	14.29
Cash flow after investment, excl. acquisitions and disposals	593	496	245	288	127
Return on capital employed, %	29.7	26.6	20.6	29.6	28.4
Return on shareholders' equity, %	30.4	29.4	19.0	25.3	25.0
Cash conversion, %	60	66	55	52	28
Equity/assets ratio, %	50	45	47	54	54
Net financial assets (+) / net financial liabilities (-)	159	-153	-408	122	59
Dividend per share (2018 proposal) SEK	14.00	12.50	10.50	10.00	8.50
Average no. of employees	6,449	7,249	6,418	7,759	8,020

<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 three share warrant programmes, Series 1, Series 2 and Series 3. Series 1 has redemptions from 01/05/2019 to 15/12/2019, Series 2 from 01/05/2020 to 15/12/2020, and Series 3 from 01/05/2021 to 15/12/2021. The subscription price for Series 1 is SEK 296.30 each, for Series 2 SEK 485.10 each and for Series 3 SEK 502.00 each. The programmes have been included in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 630,200 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.

# Highest ever sales in Nolato's history

► **Things went well for Nolato in 2018. What do you think was the main reason for these record earnings?**

"I think there were a number of factors. First, it's pleasing to see us achieving strong growth across all three business areas. Sales growth for Medical Solutions was a strong 12% and for Industrial Solutions it was a good 6%, compared with 2017. Integrated Solutions stood out by delivering growth of 28%, with Vaporiser Heating Products (VHP) in particular delivering high launch volumes together with an extensive build-up of inventory by a customer."

"We're also demonstrating we can be agile in meeting changes in customer needs through an ability to provide additional resources, accompany customers into new markets and, in particular, by having the strength and commitment to invest in expanding our production capacity. Our success has also been helped by effective acquisitions that have exceeded expectations and numerous synergies identified between our business areas, which not only bolsters our offering but also generates real customer value. Last, but not least, Nolato's employees have played a key role. They are the people who make Nolato what it is today. It's great to be leading a business full of committed, motivated employees, whose know-how and skills enable us to meet each customer's challenges and turn them into a business opportunity."

► **What strategic and commercial choices stood out in 2018?**

"Over the year we continued our conscious strategic progression towards being a global development and production partner for our customers. Part of this progression has been

investment in product development support by means of increased prototype and pilot production capacity, combined with digitalisation for virtual product development. This investment allows us to help our customers with more efficient product development and minimise development time for new products. Over the year we also expanded a number of our existing production units and established Nolato in several new geographical areas."

"For example, Industrial Solutions is now accompanying one of its customers into a new market and setting up its first production unit in the United States. Integrated Solutions has established a production unit in Hungary, and in the second half of the year a production unit was opened in Suzhou in order to transfer some production from Beijing. This is a move that broadens our geographical presence, and provides greater flexibility and diversification."

► **In terms of Nolato progressing to being a solutions provider for customers, what demands does this make on Nolato and how have you performed so far?**

"Being a solutions provider for customers involves us being a key part of customers' product development and taking responsibility for an efficient and stable production process for customer products, which obviously places significant demands on our capabilities and efficiency. Our aim is always for the quality and innovation we can provide to be reflected in customers' opportunities to grow their business on their markets."

"On the whole, all our business areas have progressed from being a supplier to being a strategic cooperation partner for customers. A current example is development in the VHP

product area, in which Integrated Solutions has become established as a strategic partner for one of the market's leading operators."

► **With regard to 'One Nolato', can you describe what's involved in developing synergies between the three business areas?**

"We operate in three completely different market segments with different conditions and characteristics, but they share a large number of fundamental similarities. We believe these different conditions and characteristics provide us with competitive advantages as we can transfer sector-specific capabilities between our business areas. This includes Integrated Solutions' unique know-how and experience of short lead times, Industrial Solutions' expertise in efficient production systems and Medical Solutions' world-leading standards in computer simulation of quality outcomes in early-phase development. Combining these unique capabilities makes for long-term partnerships with our customers. In addition, there are abundant opportunities to share both design solutions and investment costs to address shared needs for expansion. As synergies increase we want to create unique customer offerings that are available to a global market."

► **Going forward, what are Nolato's priorities in its strategic sustainability work?**

"Our sustainability efforts are guided by the 10 principles of the UN Global Compact, to which Nolato has been a signatory since 2010. The objectives for those areas we have identified as most important for us to address and highlight also provide a good indication of our priorities. We have also linked our goals



*“Our task is to generate a long-term healthy return for our shareholders. We do this by building on our successful business model and developing our role as the customer’s first choice of cooperation partner.”*

to the relevant UN Sustainable Development Goals as part of the 2030 Agenda for Sustainable Development. Requirements and expectations on both us and our customers to conduct sustainable, responsible business operations are constantly increasing. Active sustainability work by us is becoming an increasingly important part of customers’ value chains, both in terms of resource-efficient production and environmentally sustainable products.”

“Our strategy remains in place, but with a greater emphasis on making products more environmentally sustainable.”

► **The future of plastic is becoming a growing point of debate. What does this mean for Nolato’s business?**

“The continued role of plastic in society is key for us as it is our main raw material. It’s clear that the rate of production and recycling of plastic products, particularly single-use items, are completely out of sync with one another. In many cases this results in plastic ending up where it shouldn’t be,

such as in the oceans and elsewhere in the natural environment. From Nolato’s point of view, a large percentage of the products we produce are long-lasting and are used, for instance, in vehicles, gardening machinery, mobile phones and medical equipment. We have also made significant progress on phasing out harmful additives and are mindful to minimise waste and scrap. Clearly there’s a lot more to do and our responsibility going forward is to eliminate those product areas we believe are unacceptable from an environmental point of view and for which better alternatives are available. But we’re also endeavouring to continually increase the proportion of recycled plastic and bioplastics in our products.”

“It’s entirely consistent with our customers’ need for a more sustainable value chain and a transition to products that can be part of a circular economy.”

► **Looking ahead, what can we expect from Nolato in 2019?**

“Our task is to generate a long-term healthy

return for our shareholders. We do this by building on our successful business model and developing our role as the customer’s first choice of cooperation partner. Our well-balanced business areas of similar size offer a significant strength as they can meet customer needs in most industries using the same key technology. I look forward to continuing this exciting journey together with all our talented and committed employees, united in our ambition of developing offerings based on the specific needs of each customer.”

Torekov, March 2019

Christer Wahlquist  
President and CEO

# 9

## Operating environment

Drivers and trends creating challenges and opportunities.

# 10

## Vision

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



# 11

## Values

Nolato's business is based on shared values of being Professional, Well Organised and Responsible.

# 12

## Financial targets

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.

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

# 13

## Strategy

Nolato's strategy for achieving growth targets.

# 14

## Mission

The basis of our business, defining how we address customer needs.



## Business model

Our business model is based on considerable insight into customer needs and preferences, our vision and our financial targets, which together create job security for our employees and generate lasting value for our owners.

# 16

## Nolato's production technologies



## Nolato's operating environment

# Our customer's challenges and opportunities are also ours

Globalisation, digitalisation, corporate responsibility requirements and fierce competition are some of the main drivers constantly changing the landscape for Nolato's customers. As a high-tech innovative partner, our task, together with our customers, is to turn each challenge into a competitive business opportunity.

Meeting the needs posed by the major global megatrends along with ever faster product cycles and changing consumer behaviours is business critical for our customers. One effect of this is that they increasingly need to focus on their own core business. A common solution is to outsource parts of business operations to subcontractors and partner companies. Speed-to-market needs are increasing in step with rapid technological developments and constantly changing consumer behaviour. Ever shorter product life cycles have to be met through both parallel development projects and efficient production processes. General pricing pressure combined with the constant emergence of new operators on the market underscores

the need for competitive, differentiated products to strengthen market position.

Conducting sustainable, responsible business is now a hygiene factor. This in turn leads to our customers being expected to manage their value chains in a way that maximises the positive impact of the business while minimising its negative effects.

### Nolato is well placed to meet customer needs

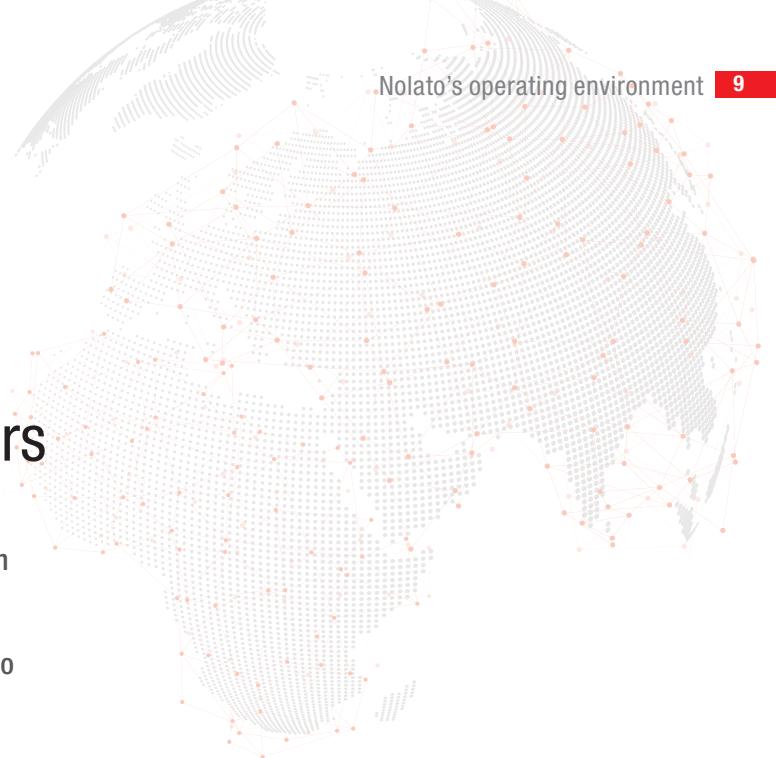
For Nolato this offers an opportunity to adopt a clear role as a global supplier and high-tech partner. We're doing this by meeting development needs early on in customers' development processes and by increasing the level of innovation as a

cooperation partner. We help simplify and shorten customers' logistics chains by supplying integrated solutions either in the form of subsystems or finished products. Our global presence allows us to meet customers' needs to improve time to market for new products and cost-effective production closer to end-customers for shorter lead times.

In addition, sustainable, responsible business practice forms the basis for everything Nolato does. It's about meeting the expectations on both us and our customers for a high level of business ethics and transparency, and leading product development and manufacturing that contribute to a more sustainable future.

A constantly changing operating environment provides Nolato with new business opportunities and the ability to develop our customer relationships. In many areas our organisation has moved from being a contract manufacturer to being a high-tech partner for our customers.

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



## Vision

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

Our vision is for Nolato to be regarded as the natural choice when customers need a high-tech cooperation partner and supplier. We define being the customer's first choice as customers experiencing the delivery of high quality in all aspects of projects. We aim to be a highly credible partner by delivering what we promise, on schedule. We target long-term cooperation and value transparent, close customer relationships. We always endeavour to exceed customer expectations and constantly look for ways to be even better.

The key factors in achieving our vision are:



### Broad customer offering

More and more customers are using fewer suppliers, prioritising those that have the resources and expertise to be involved from concept to delivery. That's why our broad customer offering in developing and producing polymer-based products comprises everything from concept development, product design and process optimisation to high-volume production, post-processing, assembly and logistics.



### High productivity

The things that create value for our customers and that are important to them in the long term also create value for us. So high productivity and continual focus on costs are key elements of our business. Lean manufacturing helps us maximise business benefit for both us and our customers, streamline processes, reduce scrap, cut lead times and develop innovative solutions.



### Long-term customer relationships

Long-term, close cooperation is the objective for all our customer relationships. Better understanding and knowledge of their processes and needs allow us to create value for them.



### Ethical & sustainable

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 well integrated into our business.



### 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. One Nolato creates positive synergies between our business areas to increase value for our customers.



### Local yet global presence

Proximity to our customers and their markets is key for us. It's about achieving the most efficient logistics possible, along with short lines of command and the ability to make quick decisions.



### Stable finances

A strong financial position provides us with a stable foundation and is essential for our business. Ensuring stable finances also makes us a reliable supplier and cooperation partner in more challenging economic times.

## Values embedded in our business

Nolato's Basic Principles are the company's shared values, which have developed over a long period and set out what we stand for. Our values 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

## Target

# Financial targets and outcomes

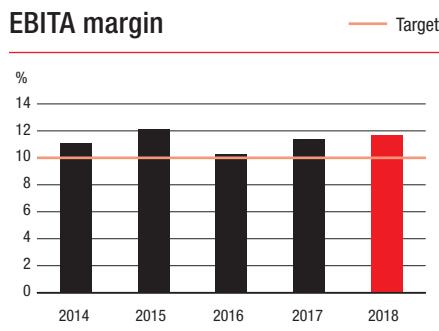
Nolato's financial targets ensure the Group is managed with the aim of achieving healthy earnings, generating adequate cash flow and maintaining a healthy level of financial risk. These financial targets reflect Nolato's strategic focus on a well-balanced Group structure with three business areas and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

**57%**

### Dividend policy

Nolato's dividend policy is to 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 2018 Annual General Meeting (AGM) approved a dividend corresponding to 57% of profit after tax.

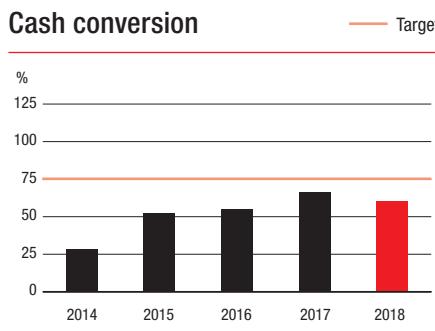
#### EBITA margin



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

The outcome for 2018 was a strong 11.7% (11.4). This was mainly due to Integrated Solutions increasing its margin to a strong 12.7% (11.8) owing to high volumes, especially in the first half of the year, and efficient production. Medical Solutions' margin was essentially unchanged at a high 13.0% (13.1). The margin for Industrial Solutions decreased from 9.9% to 8.8%. The lower margin has been affected by uneven capacity utilisation and unsatisfactory efficiency in the second half of the year. Over the last five years, the EBITA margin has averaged 11.3%.

#### Cash conversion

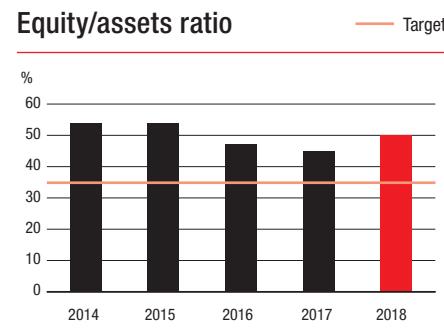


The target is to achieve cash conversion of more than 75% of EBIT over a business cycle, measured as the ratio of cash flow after investment and EBIT.

Cash flow after investment 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 2018 was 60% (66). Cash conversion was negatively affected by continued high investment during the year, including for the expansion of production plants. It has been a conscious choice to continue investing in growth opportunities. Over the past five years, cash conversion has averaged 52%.

#### Equity/assets ratio



The target for the equity/assets ratio is for it to exceed 35% over a business cycle.

Nolato has a sustained strong financial position. The equity/assets ratio was 50% (45) at year-end 2018. The high earnings for the year increased equity more than the dividend paid, while total assets grew less in relative terms, despite increased activity and higher sales. Over the last five years, the equity/assets ratio has averaged 50%.

## Growth targets

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

**12%**

► Medical Solutions sales growth in 2018 was 12%, adjusted for currency. Long-term volume growth for this business area's market segments and applications is assessed to remain around 4–5%. There was strong growth in both the Medical Devices and Pharma Packaging sectors, but especially in Medical Devices in which new customer projects made a positive contribution.

**28%**

► Integrated Solutions sales growth in 2018 was 28%, adjusted for currency. This exceptionally strong growth was achieved through very high volumes being delivered by the Vaporiser Heating Products (VHP) product area. Heating Devices in particular enjoyed high launch volumes and inventory build-up over the first nine months of the year. Mobile phone volumes were relatively weak, while the EMC area showed good growth.

**6%**

► Industrial Solutions sales growth in 2018 was 6%, adjusted for currency and Group structure. This good growth took place across almost all product areas, but particularly in automotive and hygiene. Advanced market positions contributed to the growth.

## Strategy

# Nolato's strategic focus

The following overarching strategy has been established in order to achieve our growth targets



### Market positioning and progression along the value chain

We aim to be a high-tech cooperation partner with a global presence, with the objective of long-term growth and stable returns for our shareholders.

### World-class expertise and offering

We invest in employees and a high level of expertise and development of cutting-edge technology, together with global competitive lean manufacturing. This provides us with the strength to offer end-to-end solutions in which sustainability is key.

### A decentralised organisation that generates synergies

A corporate culture based on a decentralised business model that gives the business areas' companies the freedom to develop and tailor their offerings to customer-specific needs.

The similarity of the technologies used by the three business areas generates synergies and cooperation that provide additional customer value.

### Customer-oriented strategy provides the focus for organic growth

A customer-oriented strategy means we look for large customers in product areas with organic growth and the opportunity to grow and develop alongside their market offerings.

### Expansion on priority geographic markets

We are achieving expansion both by accompanying our customers into new markets and by acquiring companies with a corporate culture that matches Nolato's culture and that complement the existing customer base, in addition to expertise that further broadens our offering.

### Business areas' strategic growth markets

**Medical Solutions** – express aim of growing on the American, European and Asian markets, both organically and through acquisitions. Operates in a sector with stable growth driven mainly by population growth, an aging population and lifestyle diseases. Growing demand for outsourcing services and medical devices that make life easier for patients.

**Integrated Solutions** – continued focus on the American, European and Asian markets. Continual demand for advanced components and subsystems for consumer electronics products, in addition to a growing need for shielding and heat dissipation for electronics.

**Industrial Solutions** – continued emphasis on the Nordic market and selected Central European markets, with the possibility of bolt-on acquisitions. The establishment in the US in spring 2019 will add a valuable increase in capacity and new business opportunities. Our ability to supply high-quality cost-effective products with short lead times based on customer requirements is a key growth driver.

## Our strategic progression

Nolato's progression is aimed at gaining a position as an advanced high-tech cooperation partner for our customers.

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
<b>Low added value</b>		<b>High added value</b>

## Nolato's mission

Our mission is our reason for existing, the basis for our business and provides a clear approach to how we meet customer 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.”

① Being a **high-tech developer** is key for Nolato. Customers come to us with a concept and perhaps an initial design sketch of often complex products to be launched on their markets. Our involvement at an early stage of development allows us to help develop a functional and cost-effective product 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. Our 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, longstanding customer relationships in which we offer the customer a range of approaches and constantly endeavour to improve. For Nolato it's also essential that we conduct responsible business, in which we aim to minimise the negative impact of our activities and maximise the positive effects.



### Nolato's business model

Our business model is based on three decentralised business areas, which with their own decision-making and shared ambitions endeavour to fulfil our vision and financial targets. This enables us to create job security for our employees and generate value for our owners.

Our extensive experience and wide-ranging expertise allow us to develop close, long-term and innovative cooperation with our customers.

We create added value for both customers and owners through progressive, leading technology, extensive expertise in development and design, advanced project management, and highly efficient production.

Our shared values of being professional, well organised and responsible are reflected in everything we do.

### A revenue model

Nolato's revenue is mainly generated from customer production assignments. Manu-

facturing and supply of products take place in accordance with customer orders and other preferences and are then billed. Our manufacturing is based on short production and turnaround times, resulting in low risk exposure for warehousing and obsolescence.

An important part of Nolato's value creation for customers and owners is the ability to provide in-depth expertise in leading technologies, design and advanced project management at an early stage of product development.

## From concept to finished product



### Concept development

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

### Customer-oriented solutions

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

### Design

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

### 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.

### Quality assurance

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

## Nolato's business

Nolato's business consists of developing and manufacturing mainly customer-specific products, and in some areas standard products, in polymer materials such as plastic, silicone and TPE. Our customers can be found in the medical technology, pharmaceutical, consumer electronics, telecom, automotive and other selected industrial sectors.

### Customer-specific products

Customer needs and requirements form the basis for all of Nolato's product development. We are able to create customer-specific products and solutions by leveraging our expertise in advanced technologies and cost-effective manufacturing. We support customers from concept development to high-volume production.

► Medical Solutions supports its medical technology and pharmaceutical customers from idea, concept and design to validation, quality assurance and full-scale production. Products include injection systems for pharmaceutical and medical technology applicators.

► Integrated Solutions offers 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. These include components and subsystems for integrated products such as speaker systems, fitness trackers, mobile phones and Vaporiser Heating Products (VHPs).

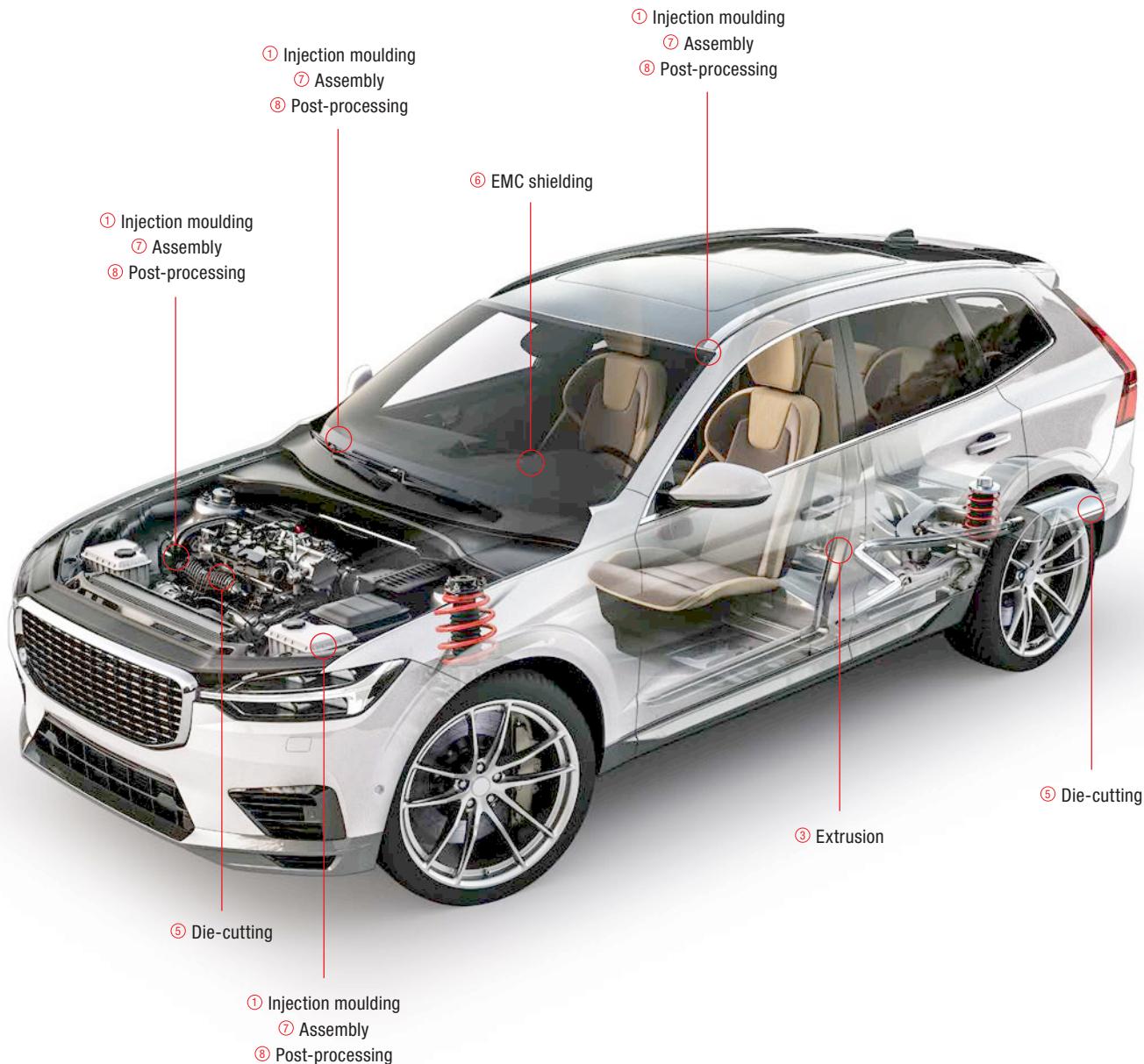
► Industrial Solutions is a high-tech partner for customers in the automotive and general industry sectors, from concept development through the entire production process, with an emphasis on high productivity

and lean manufacturing. Products include interior details for vehicles and components for strimmers and chainsaws.

### Standard products

The standard range of own products that Nolato develops and manufactures includes pharmaceutical packaging, laboratory products and process and materials solutions for shielding and heat dissipation for electronics.

# 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 Injection blow moulding

Technology for manufacturing plastic containers and bottles.

We use this method for the manufacture of pharmaceutical packaging.

## ③ Extrusion

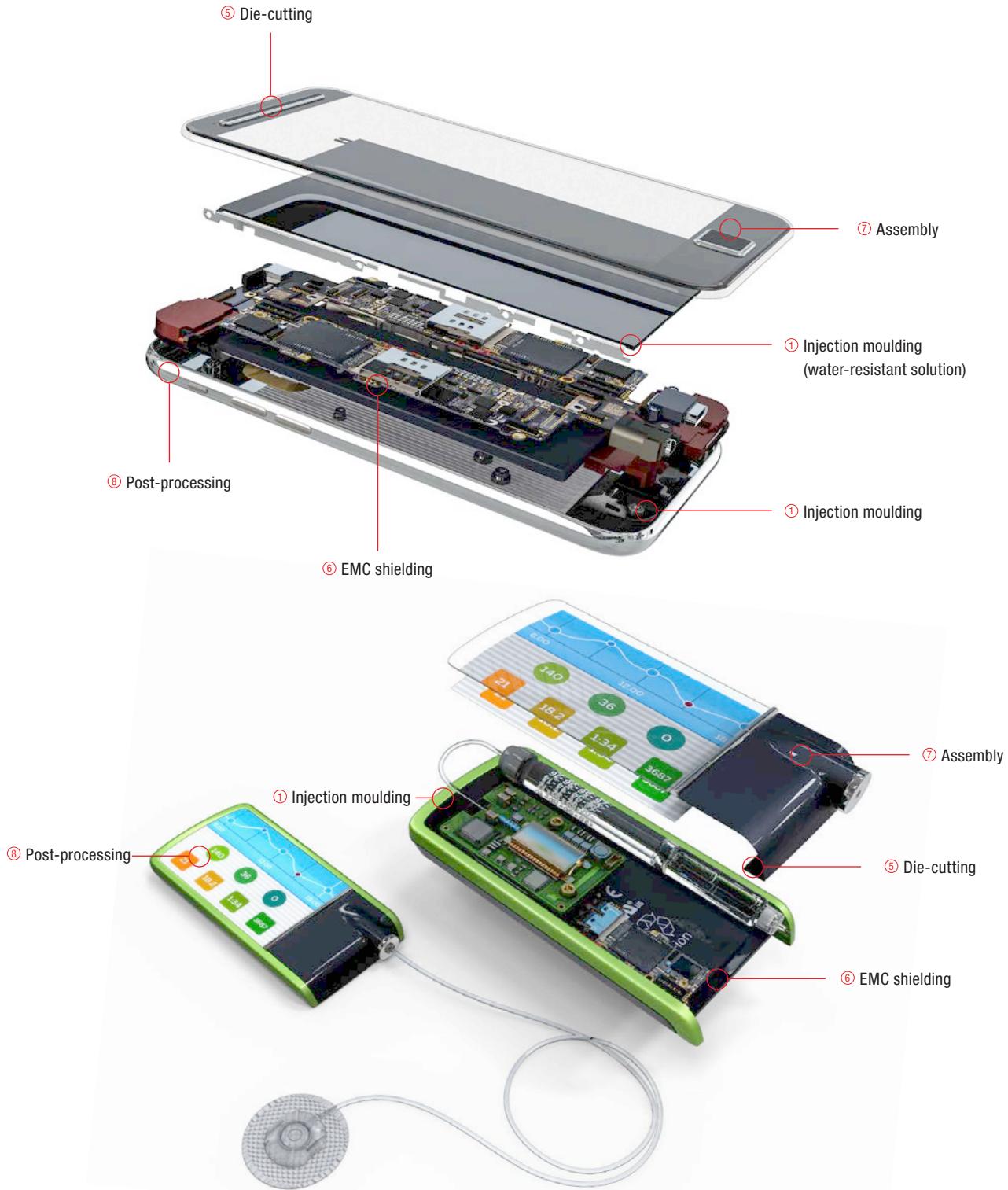
Technology for the production of tubing and other tubular products.

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

## ④ 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.



## 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 fully automated, semi-automated or fully manual basis. Automated assembly is mainly carried out for medical devices such as autoinjectors, for which assembly is performed on a fully automated basis at high volumes.

## 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.

# 2018

Interest in sustainable development grew in many of the countries in which Nolato operates. Climate and the role of plastics in the environment were just two of the issues that Nolato's stakeholders engaged in. We continued to work on reducing the Group's climate impact, and in 2018 we implemented several interesting projects that could mean greater use of bio-based plastics and recycled plastic raw material in the long term. Positive results were also achieved in other strategic areas such as energy, waste, health and safety, social responsibility and business ethics.



*“Sustainability issues are a key component of Nolato’s long-term business strategy. Expectations of specific results are clear and by taking a responsible and innovative approach I see significant opportunities for us to generate good business through resource-efficient production and environmentally sustainable products.”*

Christer Wahlquist  
President and CEO

Financial highlights:	2018	2017
Energy (GWh/SEKm)	0.022	0.028
Carbon dioxide emissions (tonnes/SEKm)	4.5	7.3
Waste (tonnes/SEKm)	0.9	1.0
Occupational accidents (number of cases per 1 million hours worked)	4.1	3.7
Business ethics and human rights – number of recorded breaches	0	0

## 154,000

Over the year, 154,000 hours of training were undertaken at Group companies, corresponding to approximately 24 hours per employee. Issues regarding the environment, health and safety, and business ethics featured as important aspects of training.



## Value creation

In 2018 Nolato generated economic value for stakeholders, including through a dividend for shareholders (SEK 329 million), wages for employees (SEK 1,645 million), suppliers (SEK 5,757 million), interest to lenders (SEK 24 million), and income tax (SEK 199 million). The value creation also includes engagement in the local communities in those countries in which Nolato operates, such as activities like the Employee Care Programme and Building Hope Together in China.

## ISO 14001

All production units except one are certified in accordance with the ISO 14001 environmental management standard.

# Nolato and sustainable development

Responsible business, transparency and good business ethics are key for Nolato. We also constantly endeavour to develop environmentally sustainable 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.

## Our view of corporate citizenship

Nolato has a long tradition of corporate citizenship and a carefully designed sustainable development strategy. The strategy covers activities within three areas: social responsibility, business ethics and the environment. We are seeing positive results in all these areas, but there is scope for improvement in the environmental area, chiefly with regard to the environmental attributes of our products. Contributing towards sustainable solutions will make us the partner of choice for customers within sustainable development. This is what we mean by corporate citizenship:

- Proactive approach – We will be the experts regarding the impact of our business on people, the environment and society. We reduce risk and cost through preventive measures, risk analysis and investments in modern technology.
- Business opportunities – Through resource-efficient production and greater use of environmentally sustainable raw materials, we generate both business opportunities and environmental benefits.
- Credibility and transparency – Nolato complies with international conventions and principles for sustainable development, including via being a signatory to the Global Compact. The long-term targets set out the road map for our sustainability work and we openly report on both our progress and setbacks encountered, according to international standards for



sustainability reporting (Global Reporting Initiative, GRI).

## Active measures for sustainable development

Nolato is a key operator within the polymer industry and it is time for us to make a clearer contribution to sustainable development. We will therefore be increasing our environmental activities and focus on customer interaction. Nolato will actively present sustainable solutions relating to choice of raw materials, product design, production technologies and transportation. Greater use of bio-based and recycled polymers will provide good opportunities for reducing our carbon footprint from a life cycle perspective. Product design for sustainable development can, for example, help make the products easier to recycle. We are also prepared to decline

assignments that are incompatible with our environmental ambitions.

## The principles of our sustainability work

Nolato's Basic Principles and Code of Conduct provide guidance on issues regarding the environment, social responsibility and business ethics. Based on a materiality analysis, long-term targets and key performance indicators are set and Group companies refer to these in their own detailed goals. Certified management systems concerning the environment (ISO 14001), energy (ISO 50001) and health and safety (ISO 45001), and concepts such as lean manufacturing, Medical Excellence and 5S help us create a systematic approach and credibility in our sustainability work. Sustainable development is part of strategic planning and Group management monitors how this work is progressing.

## Sustainability Report

For detailed information about Nolato's work concerning sustainable development please see Nolato's Sustainability Work 2018, [www.nolato.com/sustainability](http://www.nolato.com/sustainability)

## Sustainable development key indicators

Nolato has a target-based approach to sustainable development. We believe this creates benefits for society and the Group's business operations. The group-wide goals are long-term and linked to the UN's 2030 Agenda and Sustainable Development Goals. Below are key performance indicators (KPIs) on environmental responsibility, social responsibility and business benefit.

# > Environmental responsibility

Climate change concerns Nolato in a number of ways, with the transition to a society with a smaller carbon footprint creating 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 carbon-emitting operations. Greater use of recycled and bio-based raw materials are other initiatives that are positive with regard to carbon emissions and may create business opportunities. So 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, and up until 2020 usage should decrease by 20% compared with the average for 2011–2012. The group-wide key performance indicator (KPI) is GWh/net sales and production units use locally adapted targets and KPIs.

### OUTCOME:

- Work involving energy audits and measures in line with the EU energy efficiency directive continued during the year. Specific measures include investments in more energy-efficient production equipment (electric injection moulding machines), infrastructure and lighting (LED bulbs). We believe the target is achievable.



## Carbon emissions

### TARGET:

- A 20% reduction in emissions of the greenhouse gas carbon dioxide (CO<sub>2</sub>) up to the year 2020 compared with the average for 2011–2012. The target relates to CO<sub>2</sub> emissions from energy consumption. The group-wide KPI is tonnes of CO<sub>2</sub>/net sales and there are also different types of local targets.

### OUTCOME:

- Measures are based on more efficient energy consumption, more environmentally sustainable transportation and the purchase of electricity from renewable sources, which has increased in recent years. 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. A change to production at one of the plants in China resulted in a significant reduction in carbon dioxide emissions. We believe the target is achievable.

## Waste

### TARGET:

- The amount of waste should continually decrease in relation to net sales. The percentage of recycled waste should increase. This target is part of the Group's continual improvement measures and has no specific deadline. All Group units use targets regarding scrap and waste management.

### OUTCOME:

- The volume of production increased during the year at a number of the Group's production plants. This resulted in a rise in the total amount of waste. However, we are seeing a positive trend over the long term, with the percentage of waste disposed of in landfill declining and the percentage that is recycled rising. Nolato's plants are working on initiatives to cut scrap and improve 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.

## Environmental management systems

### TARGET:

- All units to be ISO 14001-certified. Acquired companies should be certified within two years.

### OUTCOME:

- All production units, with the exception of one facility that is in the start-up phase, are certified to ISO 14001 standard. The updating of ISO 14001:2015 has been completed. Certified health and safety management systems (OHSAS 18001/ISO 45001) are in place at five plants. A few units are working on introducing the system. An energy management system (ISO 50001) is in place at two plants. A quality management system (ISO 9001) is in place at all except one plant. Opportunities for achieving the target are considered to be very good.



## Chemicals, raw materials and environmentally sustainable products

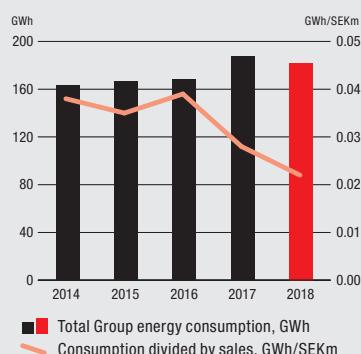
### TARGET:

- Hazardous chemical substances should be identified and, where possible, phased out. The percentage of recycled and bio-based raw materials should increase. Nolato will take part in projects with customers and other stakeholders aimed at reducing the environmental impact of existing or new products.

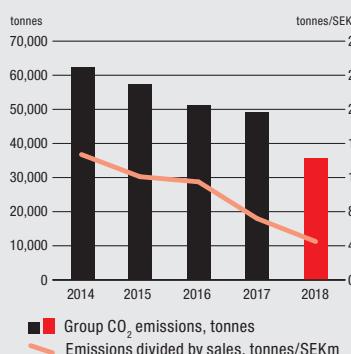
### OUTCOME:

- Over the year, approximately 42,500 tonnes of polymer raw materials were used. The percentage of bio-based and recycled raw materials was low (around 1%) but we are seeing growing interest from customers. We have tested bio-based plastics in various production processes with good results.
- There is significant potential to reduce Nolato and customers' carbon footprint. Work on phasing out hazardous chemicals continued during the year. We believe there are realistic opportunities for achieving the target, but that it will take time before bio-based and recycled raw materials constitute a significant element of our product portfolio.

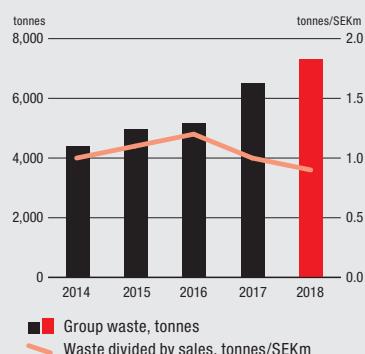
### Energy consumption



### Carbon dioxide emissions



### Waste volume



# > Social responsibility

The Code of Conduct (The Nolato Spirit) is applied uniformly around the world and these values help attract, retain and develop committed, talented employees. Our long-term goals on social responsibility include initiatives that contribute to good health and safety, employee training and respect for human rights. 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 (ISO 45001).

### OUTCOME:

► From an industrial perspective, the accident rate is low and over the past five years has averaged 3.6 accidents resulting in sickness absence per million hours worked. In 2018, 47 accidents occurred and the key performance indicator was 4.1. Systems for recording near misses have been introduced at 90% of units. Certified health and safety systems are in place at five plants. Continued technical and organisational initiatives are required to ultimately eliminate all accidents.

## Human rights and gender equality

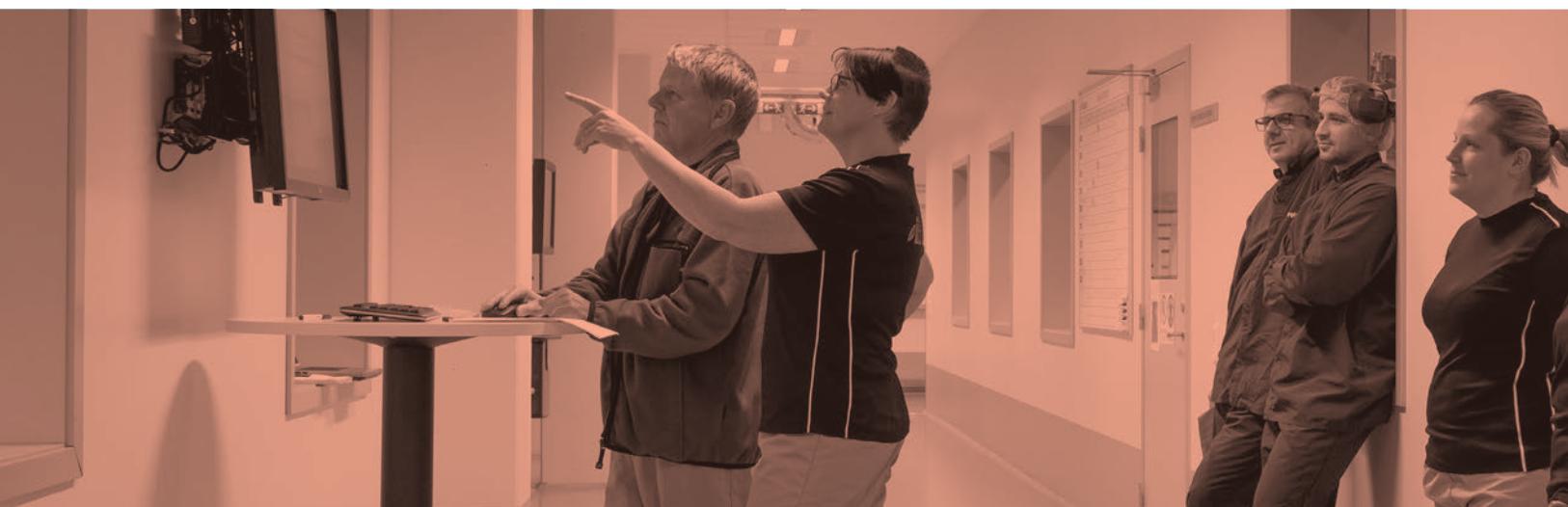
### TARGET:

► 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.

### 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 6,400 (7,200) employees, 46% (45) are women.

► 30% (30) of the Board of Directors are women, and 0% (0) of senior executives are women. The percentage of women in Group companies' management teams is 23% (20) and the recruitment of female managers remains an important issue for Nolato. The unit in Hungary continued its recruitment of people with disabilities.



# > Business benefit

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.

### 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. Senior executives and employees involved in commercial relations working in sales and marketing participated in a training course focused on business ethics and Nolato's Code of Conduct. The Group has introduced a 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 shall be met by a comfortable margin.

### OUTCOME:

- A large proportion of Nolato's customers stipulate detailed sustainable development requirements. These requirements include ISO 14001, the phasing-out of hazardous substances, conflict minerals and the Code of Conduct. Evaluations and audits were carried out during the year at more than half of production facilities. Customers were highly satisfied with Nolato's efforts within sustainable development. Two plants in China and one in Malaysia have been approved as Sony Green Partners.

## Suppliers

### TARGET:

- Improved evaluation of suppliers' sustainability work.

### OUTCOME:

- In 2018, Group companies conducted 247 (235) evaluations of suppliers' sustainability work. The suppliers satisfied Nolato's requirements at an acceptable or good level.



# Nolato, plastics and the environment

Plastic materials make life easier for most people. Plastics have fantastic properties and it is possible to make almost anything from them. They are everywhere, and it is almost impossible to try and avoid them in everyday life. Usage is growing, and global annual production totals around 300 million tonnes, which is an increase of 100% in 15 years.

Plastics are often climate-smart and save energy. The fact that they replace metals and other heavy materials in the automotive and aviation industries means a reduction in weight and fuel consumption, and thus carbon dioxide emissions. In the construction industry, plastics are used as an insulation material, which is positive from an energy perspective. Plastics as packaging material in retail reduce weights and fuel consumption.

However, there is another side to the coin and plastics are associated with several environmental problems. They can contain hazardous additives that can cause harm to people and the environment. The majority of plastics are made from fossil crude oil – a non-renewable raw material that has a negative climate impact. One particular environmental problem that has come to

the fore in recent years is contamination of our oceans. It is mainly caused by plastic used in consumer products with a short lifespan in countries with underdeveloped collection and recycling systems. Large quantities of plastic rubbish end up in the ocean, where it can take hundreds of years to break down.

## ► What is Nolato's view of plastics in the environment?

We share the view that plastics have both positive and negative qualities from an environmental perspective. We use somewhere in the region of 40,000 tonnes of plastic a year and our product range contains products that have both a long and a short lifespan. Long-lasting products are used as components in items such as vehicles,

mobile phones, household appliances and medical devices. Most of the time there are efficient systems in place for collecting and recycling the plastic in products such as these. Short-lived products include pharmaceutical packaging and single-use products within health care. Many of these products are recycled, but we cannot rule out the possibility of some of them ending up littering the environment.

## ► What is Nolato doing to reduce the environmental impact of plastics?

We have taken action to reduce or completely phase out the use of hazardous additives in the plastic. This move is being conducted actively and clear customer requirements constitute a process that will likely continue for several years. We are

following developments closely. Another example of environmental adaptation is cutting the proportion of fossil raw materials used in products. For example, we have developed pharmaceutical packaging in which reduced weight generates environmental benefit while bringing costs down. Increasing the content of the filler material chalk is also a solution that is being applied in a number of products. We use around 600 tonnes of recycled plastic a year and are taking active measures to increase this.

#### ► How interested are customers in environmentally sustainable plastics?

We are seeing increased customer interest in our environmentally sustainable plastics. There is a marked interest in the automotive industry, where one key customer has established a target of all new vehicles containing 25% recycled plastics by the year 2025. There is also growing interest among customers in the hygiene and furniture sectors. We have a number of ongoing or initiated projects with such customers. Interest within pharmaceuticals and medical devices is less pronounced. This is most likely to do with the fact that it is costly and complicated to register changes in technical specifications with the pharmaceutical regulatory authorities.

#### ► What is bioplastic and is it biodegradable?

Bioplastic is a concept that is being increasingly used, but that can have many meanings:

- Bioplastic is a plastic that is entirely or partially based on renewable raw material. However, the concept says nothing about how much of the plastic comes from renewable material. Is it the polymer, filler, plasticiser and/or the other components that are renewable?
- Bioplastics can be made from alcohols and acids that are found in nature; for example it is possible to make polyethylene from ethanol that comes from sugarcane. In practice, a monomer is taken from a biorefinery and polymerised using a similar technique as when making fossil-based plastics. However, issues relating to the environment and health and safety when growing the sugarcane and other plants are still important in assessments from a life cycle perspective.
- Bioplastics can also be made from macromolecules from the plant kingdom, for example polysaccharides, proteins and lignin. Cellulose-based plastics have been around for some time, but unfortunately the manu-

facturing processes are not particularly good for people or the environment.

- The fact that a plastic is based on a biological material does not necessarily mean that it breaks down easily in the natural environment. There are fossil plastics that are easily biodegradable and bioplastics that are difficult to break down.

#### ► It seems to be a complicated issue. So which way is Nolato heading?

Our choices are made in cooperation with our customers, but in order to achieve commercial success we need to have a good knowledge of different environmentally sustainable materials. Nolato is at the leading edge and we have evaluated bio-based plastics from sugarcane in various production technologies. It is an excellent material, and projects are underway with several customers. Other customers are showing greater interest in recycled plastic, and there are a number of interesting projects happening here too. There are plenty of opportunities, but of course there are also risks involved in replacing raw materials. For example, risks could relate to technical specifications, costs and access to the raw materials.

## UN Sustainable Development Goals

The UN presented its Sustainable Development Goals in 2017, within the scope of the 2030 Agenda for Sustainable Development. The 17 goals provide a clear and useful framework for addressing global challenges, and they have had a huge impact on society. At the same time they are a catalyst for innovation and business opportunities within the field of sustainability. Private and public organisations have an important role to play, and businesses are expected to contribute by adopting responsible business practices, providing transparent reporting of their own targets and outcomes and developing products and services that foster sustainable development.

The UN Sustainable Development Goals help us identify key areas within sustainable development, and we have highlighted several goals that are clearly relevant to

the Group's operations. With these goals as a starting point, we can see that we are able to both reduce our environmental impact and create business opportunities. We have therefore linked the Group's goals to UN Sustainable Development Goals 5, 7, 8, 9, 12, 13 and 16. This allows us to contribute to an even more sustainable world, while generating profitable growth for Nolato.

Minimising Nolato's use of resources is an important principle in achieving our targets. We accomplish this by working with innovation, efficiency improvements, investments in new technology, greater use of renewable energy and initiatives focusing on bio-based and recycled plastics. The UN Sustainable Development Goals also provide inspiration for measures within social responsibility, social engagement and business ethics.





# Three business areas that form One Nolato

Nolato is made up of a number of stand-alone companies organised into three business areas. With shared values, technology and objectives, they all aim to be our customers' solutions partner. The potential for the greatest possible customer value can be found in the meeting point between the business areas' local presence, close customer relationships and the Group's combined expertise.

Nolato's three business areas develop all their business based on expertise, market conditions and the differing needs of customer segments. One of Nolato's many strengths is the Group's decentralised business model, which gives each company considerable freedom to tailor its offerings to the specific needs of each customer. This ensures our businesses are close to decisions and significant possibilities for flexibility in the customer relationship. It also creates commitment and motivation among employees. The beneficial effects of this can be seen

not only in the business areas' financial results, but also in the fact that each of them can demonstrate growth exceeding the level in each market segment.

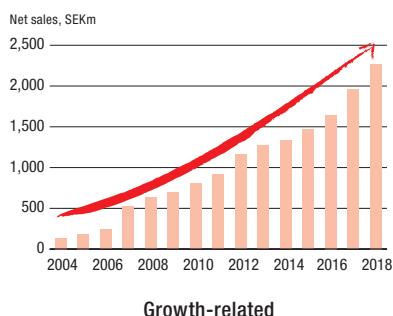
**The parts also form a whole – One Nolato**  
 The three business areas are united by their shared aim to be the customer's solutions provider – a partner that supplies solutions tailored to each customer's needs and challenges. In addition to this, the business areas share the same values and technology. Cooperation between the business areas is

also growing as synergies, and consequently the customer value generated, become clearer.

Nolato's combined expertise is available to customers who wish to benefit from it. By sharing know-how such as technologies, materials and processes we can deliver end-to-end customer-specific solutions in the form of subsystems or complete products, simplifying and cutting our customers' time to market and helping generate significant value.

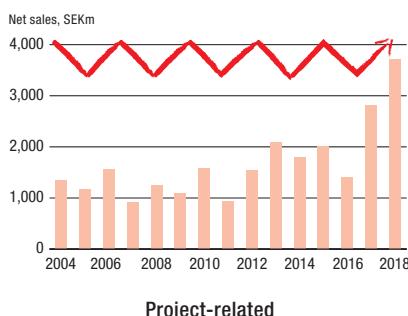
## Medical Solutions 2004–2018

From local to global



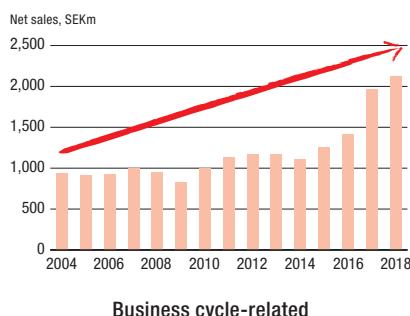
## Integrated Solutions 2004–2018

Adaptation and flexibility



## Industrial Solutions 2004–2018

Innovative technology and productivity

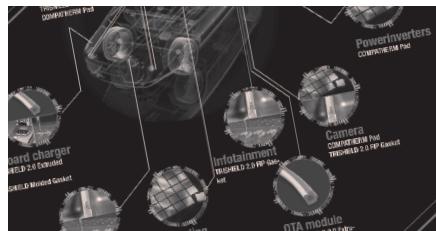


## Smart packaging adapted to patient needs



Incorporating digital technology into Medical Solutions' pharmaceutical packaging is resulting in lots of specific user benefits. These include practical functions that prompt daily use by alerting users when it's time to take their medication. And safety functions for medication, such as only granting medication access through confirmation of user identity, ensuring correct dosing and allowing a timer-controlled lock to control when medication may be taken. Contributing the greatest possible customer value is always a focal point and digital technology is helping create the pharmaceutical packaging of the future to meet each user's individual needs.

## Compashield® 2.0 – targeting future needs



Integrated Solutions is carrying out intensive development efforts to achieve the best possible electromagnetic compatibility (EMC). Compashield® 2.0 is among the standout new products, combining optimal EMI shielding with a long-lasting durable gasket. The softer version of the gasket means Compashield® 2.0 requires 20% less power for compression and demonstrates 30% better compression compared with traditional materials, giving the gasket a good ability to return to its original shape. Compashield® 2.0, which has already shown good results in the automotive and telecom industries, has also been developed for high frequencies, which will provide significant benefits for the roll-out of the 5G network.

## A customer journey resulting in a stronger presence on the US market



Spring 2019 will see Industrial Solutions begin production in the United States. It was the positive effect of a close customer relationship that led to Industrial Solutions becoming part of the customer's geographical expansion and new growth opportunities. It will be based at Medical Solutions' production unit in Wisconsin, which is being extended and adapted to meet the customer's growing needs on the market. This investment reflects an ambition to structure each offering to provide customers with the optimum conditions to realise new business opportunities. For Industrial Solutions this will mark the start of an exciting presence on a new continent.

Access to the entire Group's expertise and resources + combination of close cooperation and an efficient decision-making structure with the local customer team.

The local team of experts with a dedicated customer team that takes overall responsibility for projects and delivery in close cooperation with the customer.

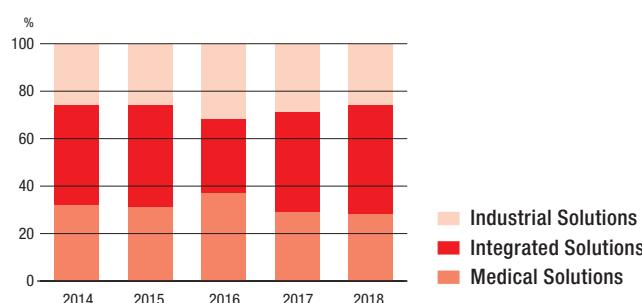
An end-to-end solution offering that generates increased customer value.

**Nolato's combined expertise**

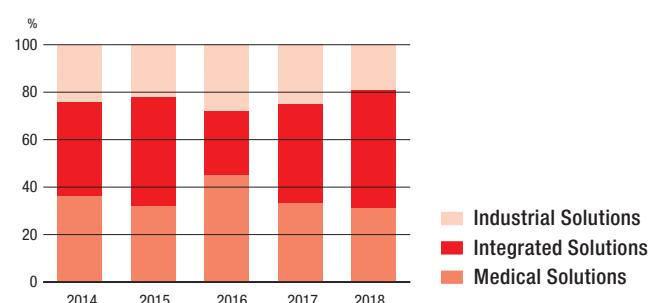
**Nolato's local customer team**

**Putting the customer front and centre**

## The business areas' share of net sales



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





## Medical Solutions

# 2018 highlights

Several new systems projects in production, which supported sustained good growth. High project activity and capacity utilisation together with significant recruitment. Also investment in boosting machine capacity and in advanced technology for areas including product development and measurement techniques. The businesses in Switzerland and Hungary were expanded, in addition to the start of two major expansion projects at the production units in Hörby, Sweden and Baldwin in the US.



### Medical Solutions' strengths

- In-depth medical understanding that focuses on patients.
- Expertise in developing and manufacturing high-quality customer-specific solutions.
- Broad technological base and global production.
- Access to the Nolato Group's combined technologies, know-how and resources.

### Medical Solutions' strategic focus

- Organic growth.
- Partnerships – increased proportion of system projects.
- Global expansion and acquisitions.

### Volatility

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

### Product life cycle

Long product life cycles.



Medical Solutions develops and manufactures complex product systems and components within medical technology, as well as advanced packaging solutions for pharmaceuticals and dietary supplements.

► Sales increased to SEK 2,270 million (1,955) and operating profit (EBITA) was SEK 295 million (257). Adjusted for currency, growth was a strong 12%.

► The increase in volumes is mainly due to a number of development projects going into production, in addition to good growth in the existing product range.

### Financial highlights:

	2018	2017
Sales, SEKm	2,270	1,955
Operating profit (EBITA), SEKm	295	257
EBITA margin, %	13.0	13.1
Average no. of employees	1,497	1,395

### Nature of the market

- Large, global medical technology and pharmaceutical companies.
- Long development phases and product life cycles.
- Extensive regulatory requirements and regulations.
- High standards on quality, safety and traceability.

### Customer trends on the market

- Greater focus on core business is leading to product development and production being outsourced.
- Aiming to use fewer suppliers.
- Projects that require shorter lead times and greater globalisation.



### Medical Solutions' global presence

Development and production take place in Sweden, the UK, Hungary, Switzerland, Poland, the US and China.

Sales offices are in place in Denmark, Germany, France and the Czech Republic.

### Some of our customers

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

### Some of our competitors

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

# Significant investment in know-how and capacity

The Medical Solutions business area comprises 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 in 2018

- Strong growth of 12% (adjusted for currency), which we assess to be considerably stronger than overall market growth. A number of customer projects are now in production and project activity is increasing.
- Medical Excellence was implemented in all units of the business area and is now providing increased customer value by providing access to and coordinating the business area's quality management resources globally and a shared approach to lean production and continuous improvements.
- Medical Solutions invested in equipment for prototype and pilot production, allowing it to offer prototype production and validated cleanroom-based production during the development phase.
- In 2018, investments were made to increase production capacity in Sweden, Hungary, Switzerland, the UK and the US.
- The business area took the decision to expand the Stargard offering by transferring injection moulding expertise and technology.
- Further investment in technological development in automation and advanced assembly, and in digitalisation for advanced simulation and virtual product development to optimise quality management and costs, and to minimise development time for new products.

- The business area is continuing to develop its offering of environmentally sustainable materials, which is taking place in cooperation with customers and material suppliers.

## Market – stable outlook with long-term growth

In the long term, global growth on the medical device market is expected to be around 4–5%. Drivers supporting these expectations are global population growth, an aging population and the increase in lifestyle diseases. This accelerates the need for health care, with some care needing to be provided in the form of home-based care. This increases the need for medical devices that are easy for patients to use. The in vitro diagnostics (IVD) market is seeing strong growth, fuelled in particular by the need for more precise diagnostics of clinical samples.

Medical Solutions' market also includes customers who:

- need to focus more on their core business, i.e. the development of pharmaceuticals. This increases the need for outsourcing to global cooperation partners that can manage both advanced development and production.
- are looking to reduce their number of suppliers. The easiest way for them to do this is to cooperate with companies that can handle the entire value chain; from development and pilot projects to full-scale production and supply on a global market.
- are developing new medications that require the development of new medical devices to be administered.
- are conducting more and larger development projects that also demand shorter lead times in the development phase.

One effect of these market trends is continued consolidation in the industry, with many small suppliers with limited offerings and restricted geographical presence at risk

of being wiped out or bought up. Meanwhile, established end-to-end providers with a global presence have good opportunities to grow their businesses.

## The business sectors' market positions

Over the past decade, Medical Devices has progressed from being a local component manufacturer to being a global end-to-end provider with the resources and capabilities to support customers throughout the process; from concept and design to validation and full-scale production. The offering consists of a broad technological base, advanced support in the development process and a global presence with production units in Europe, Asia and North America.

Pharma Packaging's leading market position in Scandinavia and the UK is complemented by significant global exports. The strong customer offering is based on in-depth understanding of regulatory management and applicable quality requirements for both individual components and entire packaging solutions. A key strength is that Pharma Packaging is one of only a few packaging system suppliers that is focused solely on the pharmaceutical and dietary supplements sector.

Over the year, a number of projects moved from the development phase into production, and several large new product development projects started. This applies to both Medical Devices and Pharma Packaging.

Medical Solutions is well placed to meet the changes taking place on the market. This is thanks to its in-depth medical understanding that puts the patient front and centre with wide-ranging expertise to develop and manufacture both customer-specific solutions and platform (standard) solutions for a global market.

## Strategic focus on continued growth

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

This strategic focus is based on growing

faster than the market in all segments. The aim is to do this both organically and through acquisitions, enabling global expansion. The strategy is also based on growing alongside customers' business, ensuring the offering of global production, expanding the offering in areas such as design, product development and integrated electronics. This is combined with the sale of standard products via own channels and distribution networks.

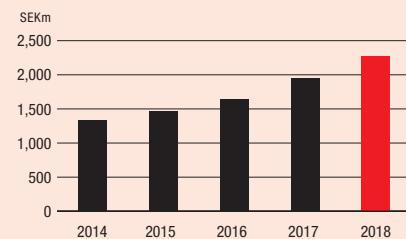
### Forward-looking comments

Medical Solutions aims to continue growing faster than expected market growth of 4–5%. Sustained growth is expected in particular on markets for autoinjectors, insulin products, diagnostics and incontinence products. It is essential for Medical Solutions to ensure that capacity is in line with the numerous customer projects already in production together with forthcoming development projects, and the increased production capacity in both Europe and the US will be a welcome boost in this regard.

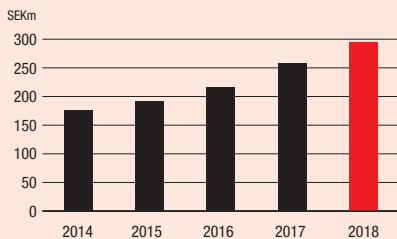
Intensive active marketing to existing markets will take place to win new customers, alongside advancing Nolato's position with existing customers.



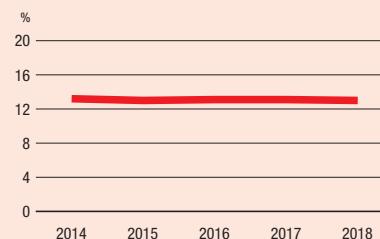
Net sales, full year



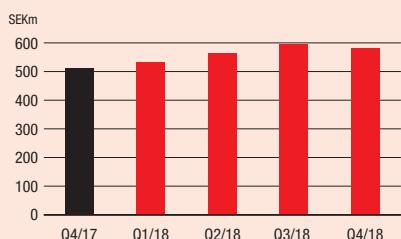
Operating profit (EBITA), full year



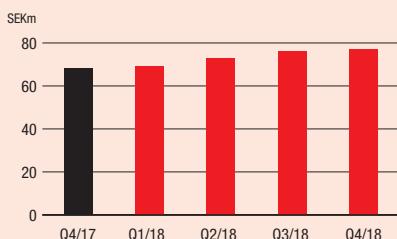
EBITA margin, full year



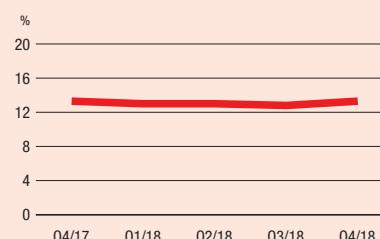
Net sales, quarter



Operating profit (EBITA), quarter



EBITA margin, quarter





### Medical devices

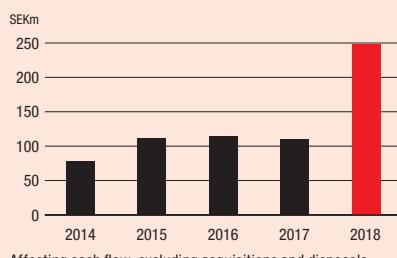
Examples of therapy areas and products: Asthma (inhalers, check valves), diabetes (insulin pens, infusion sets), hearing aids (seals, earpieces), heart rhythm treatment (seals for pacemakers, cardiac anchors), dialysis (seals, connectors), urology (catheter balloons, uridomes), surgery (catheter balloons,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

### Pharmaceutical packaging

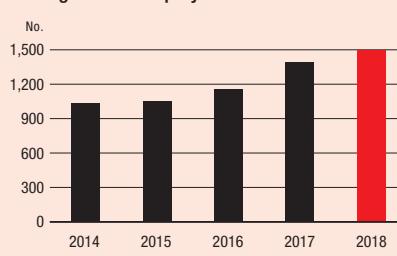
Standard or customer-specific primary plastic packaging that meets pharmaceutical and dietary supplement industry requirements.



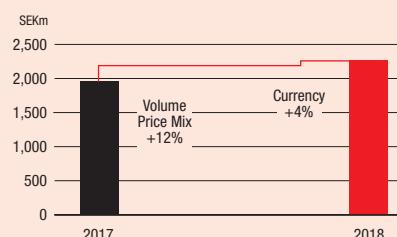
### Investment



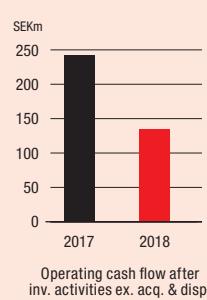
### Average no. of employees



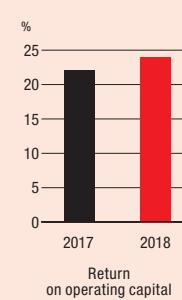
### Changes in sales



### Cash flow



### Return



### 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



## Integrated Solutions

Integrated Solutions designs, develops and produces advanced components, subsystems and ready-packaged products for consumer electronics. EMC & Thermal develops and manufactures EMC shielding and heat dissipation products and systems for electronics.

# 2018 highlights

Exceptionally strong growth, driven mainly by the Vaporiser Heating Products (VHP) product area. Establishment of a new production unit in Suzhou, China, and further development of new production technologies.

- Sales increased to SEK 3,720 million (2,810) and operating profit (EBITA) was SEK 473 million (332). Adjusted for currency, growth was an exceptionally strong 28%.
- Very high volumes were delivered for the Vaporiser Heating Products (VHP) product area.

Financial highlights:	2018	2017
Sales, SEKm	3,720	2,810
Operating profit (EBITA), SEKm	473	332
EBITA margin, %	12.7	11.8
Average no. of employees	3,868	4,928



### Integrated Solutions' strengths

- High level of creativity in development work, combined with cutting-edge technologies.
- Expert advanced project management.
- Capable of rapid production start-ups and high productivity.
- Access to the Nolato Group's combined technologies, know-how and resources.

### Integrated Solutions' strategic focus

- Organic growth and broader customer offering for new markets.
- One-stop shop with development of niche technologies, advanced project management and rapid time to market.
- Further development of EMC & Thermal business aimed at reaching new markets and customer segments.

### Volatility

High. Project-based operations.

### Product life cycle

Short.



### Nature of the market

- A few large, global companies.
- Stringent customer requirements for advanced technology.
- Expectations of short development times and rapid production start-ups.

### Customer trends on the market

- Constant need for cost-effective solutions.
- Cosmetic effects, unique design solutions and special functions of great importance.
- Growing need for EMC shielding and heat dissipation for electronics in products.



### Integrated Solutions global presence

Development, production and sales take place in Sweden, China, Malaysia and Hungary.

Sales and technology offices based in the US, India, Taiwan, Japan and Korea.

### Some of our customers

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

### Some of our competitors

Chiyoda, Chomerics, Jabil Green Point, Laird, Marian.

# Strong growth in new product areas

The Integrated Solutions business area comprises two business sectors:

- ▶ Consumer Electronics: Design, development and production of advanced components, subsystems and ready-packaged electronics products, with integrated electronics and the Internet of Things (IoT) as increasingly strong drivers. This business area also includes Vaporiser Heating Products (VHP), in which Nolato supplies heating devices for the heating of tobacco.
- ▶ EMC & Thermal: Process and material solutions for the shielding of electronics to achieve electromagnetic compatibility (EMC), and for heat dissipation for electronics (Thermal). The automotive industry is becoming increasingly important for this business sector as electronics develop for all types of vehicles.

## Events in 2018

- ▶ Very high volumes were delivered by the VHP product area. Heating devices in particular enjoyed high launch volumes and inventory build-up over the first nine months of the year.
- ▶ Integrated Solutions began production in Suzhou, China, in the second half of the year. The purpose is to move some production from Beijing to Suzhou and expand its geographic presence, and to gain greater flexibility and diversification.
- ▶ Integrated Solutions' Shenzhen unit in southern China gained sales and technology operations during the year with production capacity for consumer electronics.

## Market – rapid technological development and constantly changing customer requirements

Operating in the consumer electronics market involves navigating a huge but agile market that is constantly changing. For instance, the mobile phone market is highly volatile and has recently changed from being a fast-growth sector to a sector in which overall

growth is now expected to be relatively low.

An area undergoing rapid growth is VHP, including heating devices, which is largely driven by the regulatory changes in the tobacco industry and a general trend towards a healthier lifestyle. The long-term assessment of VHP's market is that it has growth potential, driven mainly by strong growth in Asia and selected markets in Europe.

Part of Integrated Solutions' strategic efforts to meet the challenges in the market involves gradually expanding its customer base by introducing new offerings. This includes product areas such as Laser Applications and Ceramics, aimed at companies developing products including fitness trackers, loudspeaker systems, thermostats and webcams.

EMC's market is expected to continue growing, driven mainly by a rising need for applications and products which, along with the expansion of new connected products, can be tailored to 4G and the forthcoming 5G network. Increased network traffic will in turn lead to a greater need for process and materials solutions for shielding and heat dissipation. New business opportunities are also being generated as electronic systems in vehicles increasingly require both EMC shielding and heat dissipation. The market for thermal interface materials (TIM), which are used for demanding heat dissipation applications for electronics in sectors like telecom, automotive, IT and medical technology, is also becoming increasingly important as it largely involves the same products as for shielding of electronics, in which Integrated Solutions is already well placed.

## Market position varies between areas of technology

Integrated Solutions is largely a niche operator in product areas for consumer electronics, with in-depth in-house expertise in development, design and production.

Integrated Solutions is well established in the VHP product area as a close strategic partner to one of the market's larger operators.

The business area has a strong position in EMC & Thermal mainly as a supplier,

for example, of shielding solutions for mobile phone network base stations and applications such as TIM in the automotive and other industries.

## Strategic focus on continued growth

Integrated Solutions is aimed at being a partner and provider of technically advanced products mainly for high-end segments of the electronics and telecom industry. This strategic focus is based on growing faster than the market in all segments. This is to be achieved through organic growth, with success factors including close relationships with existing customers and an expanded customer offering providing access to new markets. In areas such as injection moulding, die-cutting, painting, decoration, assembly, testing and packaging of electronic products the business area aims to offer a one-stop shop, including advanced project management and rapid time to market.

Within VHP, Integrated Solutions is focusing on developing its strategic cooperation with one of the market's largest operators by contributing to product development, production and assembly of complete products, which are delivered straight to the customer's distributors. The aim is to grow along with the customer's business and product launches on new markets.

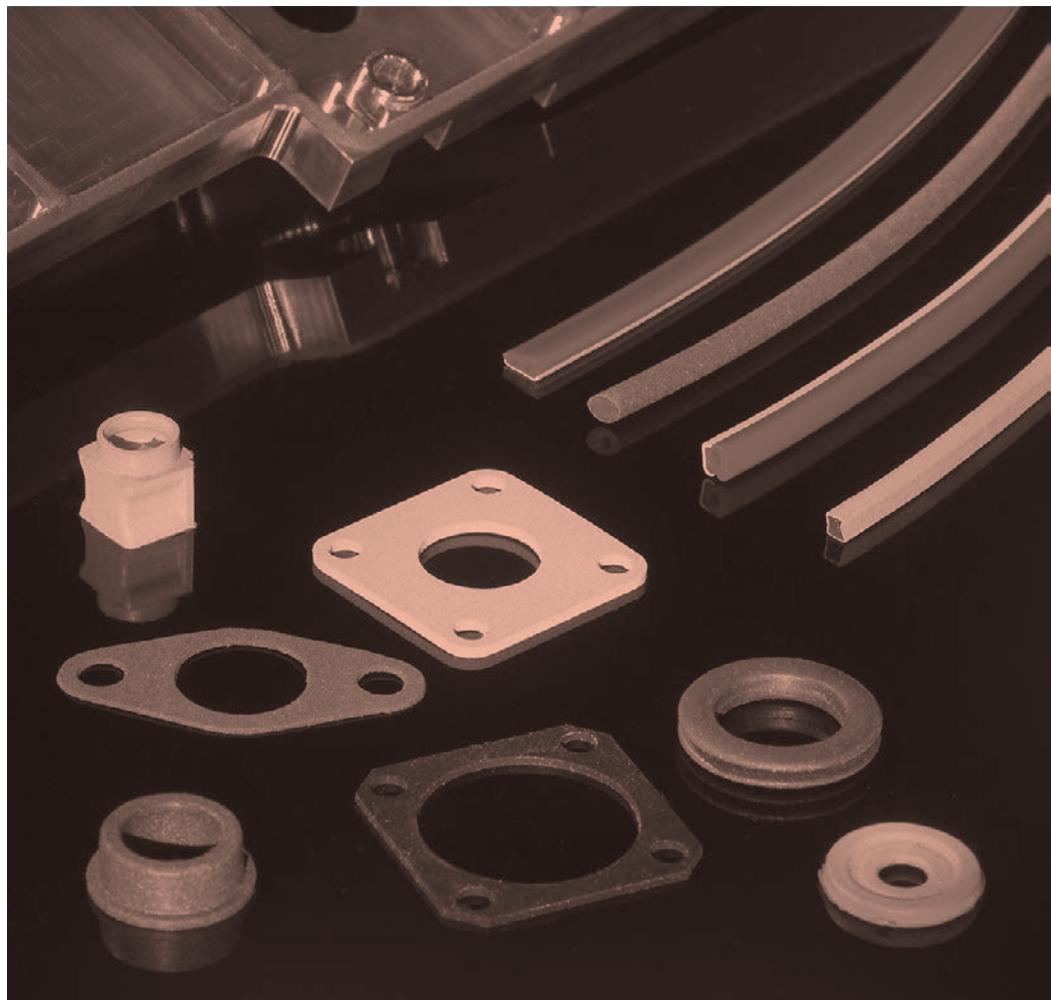
In addition, it will be intensifying the development of electrically conductive material solutions for the shielding of electronics, along with the development of TIM products. The aim is to reach new markets and customer segments, both through direct sales channels and licensed partners.

## Forward-looking comments

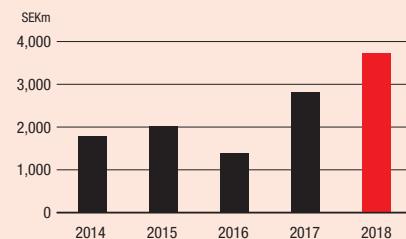
The overall objective to grow faster than the market in all segments also applies going forward. In the long term, Integrated Solutions sees sustained growth in selected areas of consumer electronics. The VHP product area is aimed at an attractive market with expectations of long-term growth potential. The position as a close strategic partner to one of the market's major operators means this business segment has the possibility to

grow alongside the customer's business and product launches on new markets. In the short term, however, Nolato assesses that volumes will be at a markedly lower level for the first six months of 2019 compared with the rate in the fourth quarter of 2018, pending the launch of new models.

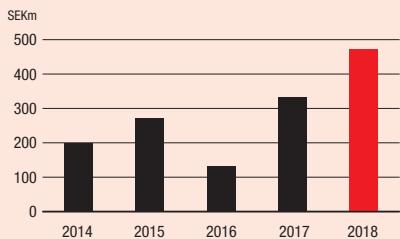
Moreover, intensive product development is underway in EMC & Thermal to ensure it is at forefront for the roll-out of the 5G network, in addition to the development of new products and expanded production to meet new needs in the automotive industry, which is increasingly incorporating electronics into vehicles.



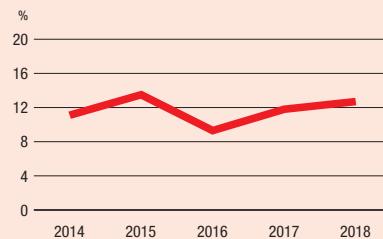
**Net sales, full year**



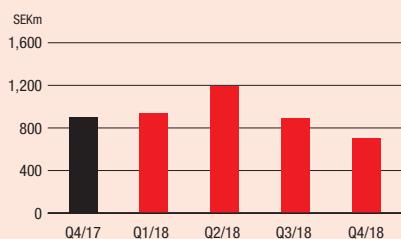
**Operating profit (EBITA), full year**



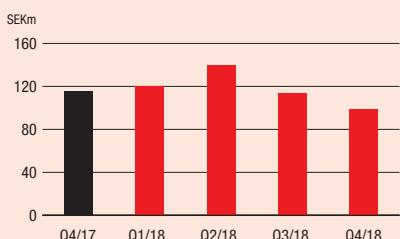
**EBITA margin, full year**



**Net sales, quarter**



**Operating profit (EBITA), quarter**

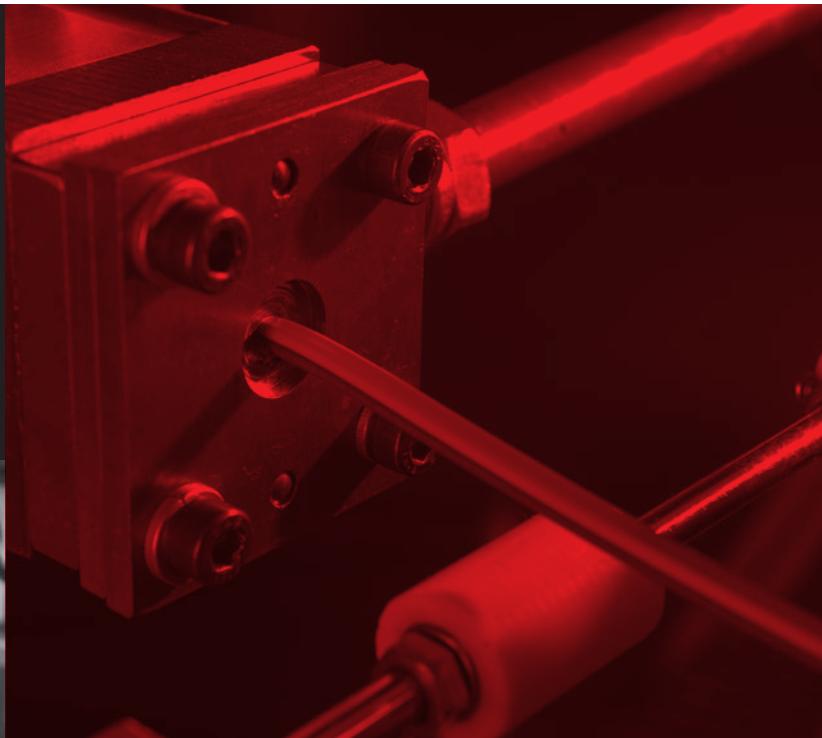
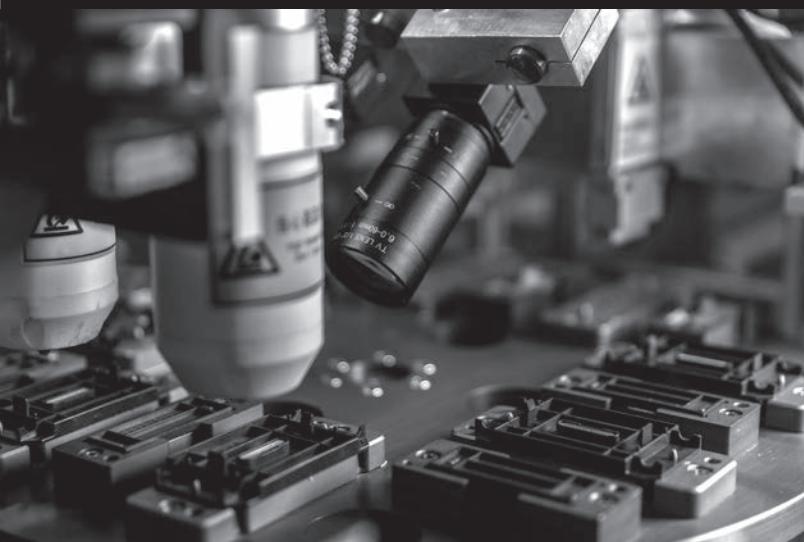


**EBITA margin, quarter**



## Components, subsystems and ready-packed products 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.

### Business area's units

#### Consumer electronics:

##### **Nolato Beijing**

Beijing & Suzhou, China

MD Thomas Hofflander (from 1/2/2019)

##### **Lövepac Converting**

Beijing, China

Shenzhen, China

Penang, Malaysia

MD Dan Wong

#### EMC & Thermal:

##### **Nolato Silikonteknik**

Hallsberg, Sweden

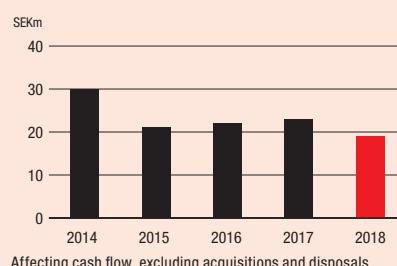
Beijing, China

Penang, Malaysia

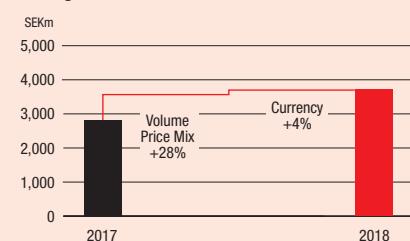
Györ, Hungary

MD Anders Ericsson

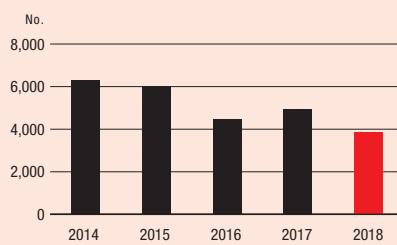
### Investment



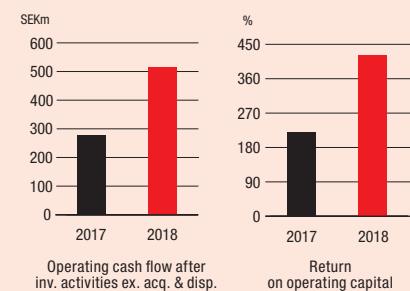
### Changes in sales



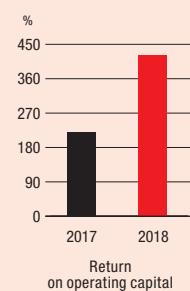
### Average no. of employees



### Cash flow



### Return





## Industrial Solutions

# 2018 highlights

Advanced market positions made a positive contribution during the year. The business area will begin production in the US in the first half of 2019.



### Industrial Solutions' strengths

- Extensive technology base, project management and productivity.
- Access to the Nolato Group's combined technologies, know-how and resources.

### Industrial Solutions' strategic focus

- Develop existing customers and win market share in these segments.
- Selective geographic expansion; together with the customer and through acquisitions that bring new customers or technologies.
- Improving productivity.

### Volatility

Medium. Follows the Northern European industrial business cycle.

### Product life cycle

Medium/Long.



Industrial Solutions develops and manufactures products and product systems, primarily in polymer materials, for customers in the automotive industry, hygiene, packaging, gardening/forestry, furniture and other selected industrial segments.

- Sales increased to SEK 2,119 million (1,968) and operating profit (EBITA) was SEK 186 million (195). Adjusted for currency and Group structure, growth was a healthy 6%.
- There was positive development of volumes in almost all product areas, but the rate of growth slowed in the second half of the year.
- Efficiency measures have been taken to increase profitability.

Financial highlights:	2018	2017
Sales, SEKm	2,119	1,968
Operating profit (EBITA), SEKm	186	195
EBITA margin, %	8.8	9.9
Average no. of employees	1,078	920

### Nature of the market

A fragmented and differentiated market with good access to both customers and suppliers.

### Customer trends on the market

- Increased demand for plastic to replace metal components.
- A desire for cooperation early on in the development process.
- Smaller suppliers with limited offerings are losing out.



### Industrial Solutions' global presence

Development, production and sales in Sweden, Hungary, Switzerland, Romania, China and the US (spring 2019).

### Some of our customers

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

### Some of our competitors

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

# Good growth

Industrial Solutions business is strongly customer-oriented and mainly aimed at two customer sectors:

- ▶ Development and manufacture of advanced technical products for customers in the automotive industry.
- ▶ Development and manufacture of products in general industry, active in sectors such as hygiene, packaging, gardening/forestry and furniture.

Both of these customer sectors feature continual and extensive purchasing of high volumes and long product series.

## Events in 2018

- ▶ Good development of volumes, particularly in automotive and hygiene.
- ▶ In the summer, Nolato Hertila was sold to Essentra International Limited for SEK 58 million. The sale is part of the business area's focus on developing and manufacturing customer-specific products for the automotive sector and general industry.
- ▶ Investments in increased production capacity in Sweden and Central Europe.
- ▶ Spring 2019 will see Industrial Solutions begin production in the United States. The investment is being made in Medical Solutions' existing unit, and is a result of geographic expansion and growth alongside an existing customer.
- ▶ Production for one of our customers, for which we are an official partner, has been moved to us from a competitor.

## Fragmented market with lots of operators

Industrial Solutions is active on markets that are competitive, fragmented and constantly under pricing pressure. In addition, fluctuations in industrial activity have a significant impact on market performance.

The European market for the manufacture of polymer products consists of around 50,000 companies with combined sales of over SEK 500 billion. The majority are family-owned companies with a strong local connection and annual sales of SEK 20–35 million.

A local presence is important because many of the products are bulky and expensive to transport over long distances. A local presence is often also an advantage with regard to building longstanding customer relationships.

The Nordic market is similarly fragmented and highly competitive. In Sweden alone, where Industrial Solutions has its largest presence, there are over 700 manufacturers of polymer products, many of which are small with fewer than five employees. Only around 30 companies have sales exceeding SEK 50 million. From Industrial Solutions' point of view, however, there are only a small number on the Swedish market that can be regarded as competitors given the business area's capacity and expertise as an end-to-end provider and high-tech cooperation partner.

The main driver for Industrial Solutions' customers is being able to offer cost-effective high-quality products on their respective markets. This provides demand for end-to-end suppliers that offer capacity and expertise in integrated production processes that enable higher added value for customers.

Industrial Solutions largely follows the industrial economic cycle for automotive and general industry on the Nordic markets. Performance of the automotive industry on the Swedish market has been particularly favourable, with customers like Scania and Volvo Cars, whose investment in new models is driving demand. For Industrial Solutions this has resulted in an increased switch to production volumes compared with sales of development work and production equipment.

## Market position based on offering

Industrial Solutions, with its early emphasis on the Swedish export industry, in many

ways provides the foundation for Nolato's development and growth. This has created a business area with in-depth expertise and experience that tailors its offerings based entirely on customer needs and demand. This means that Industrial Solutions is everything from a high-volume producer of components to a high-tech cooperation partner that is involved from development to the supply of finished products.

Industrial Solutions has a leading position on the Swedish market. All eight of the business area's units have strong and often leading positions on their respective markets. In Central Europe, Industrial Solutions also has a strong position as a quality supplier of products in the hygiene sector and precision components for domestic appliances.

## Strategic focus on continued growth

Industrial Solutions' overall objective is to be a leading high-tech supplier, providing development and production of products and product systems in polymer materials for customers in the automotive and general industry sectors. This strategic focus is based on growing faster than the market in all segments.

With the Nordic market as its base, Industrial Solutions aims to grow by developing existing customers and taking market share in these segments. New acquisition opportunities are continually considered as a complement to organic growth.

A key part of its strategy is also to establish Industrial Solutions as a high-tech partner to customers, which requires continued investment in advanced technology that contributes high added value and increased productivity for customers.

Lean manufacturing provides the basis for everything the business area does and helps it achieve its strategic objectives. It's about making things a little better all the time, and for Industrial Solutions this involves ensuring things are well organised, that employees are enthusiastic and engaged, an increasingly high degree of integrated

processes and automation, minimal storage and an aim to eliminate production defects.

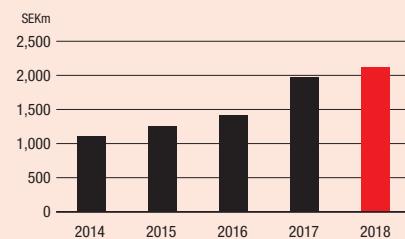
### Forward-looking comments

Industrial Solutions' aim is to continue growing faster than the market. The investments made in Sweden and Central Europe along with its expansion to the US in spring 2019 will add a valuable increase in capacity and exciting business opportunities on a new market.

There was insufficient efficiency in the second half of 2018, particularly within automotive. Efficiency measures have been taken to increase profitability.



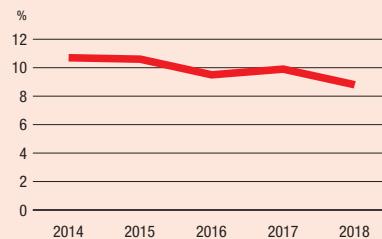
**Net sales, full year**



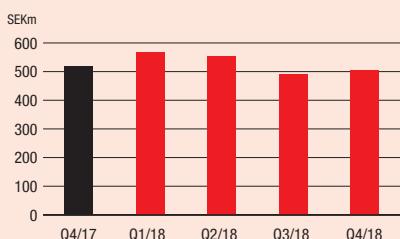
**Operating profit (EBITA), full year**



**EBITA margin, full year**



**Net sales, quarter**



**Operating profit (EBITA), quarter**



**EBITA margin, quarter**





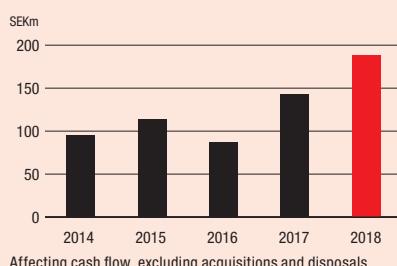
## General Industry

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 chain-saws (recoil housing, filler caps, air filter holders, etc.), flushing mechanisms for toilets and brew units for coffee machines.

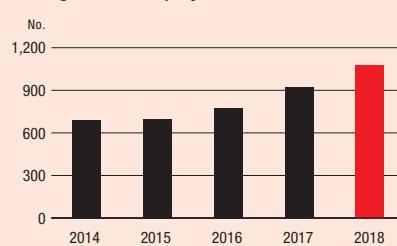
## Automotive

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

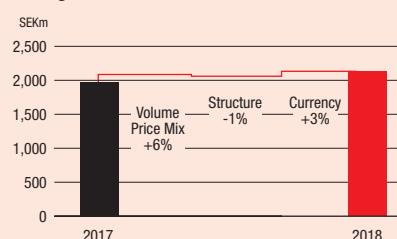
### Investment



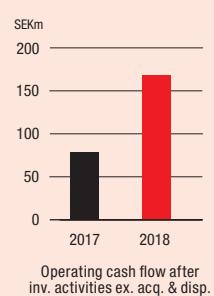
### Average no. of employees



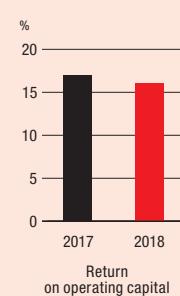
### Changes in sales



### Cash flow



### Return



### Business area's units

#### Nolato Gota

Göteborg, Sweden  
MD Peter Holterberg

#### 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

Negoiești, Romania  
MD Johan Arvidsson

#### Nolato Treff

Degersheim, Switzerland  
MD Guido Vollrath

#### Nolato Automotive Components (Beijing)

Beijing, China  
MD Jörgen Karlsson

# Shareholder information

## Listing

Nolato AB was listed on Stockholm Stock Exchange in 1984 and the class B shares are now listed on Nasdaq Stockholm, in the Large Cap segment in the Industrials sector. The shares' ticker symbol is STO:NOLA B and the ISIN code is SE0000109811.

## Share price performance

Nolato class B shares decreased in value during the year by 32% (+105). The share price at the end of 2018 was SEK 366.50 (539.00). The highest closing price on Nasdaq Stockholm in 2018 was SEK 812.00 (27/7/2018) and the lowest closing price was SEK 359.00

(21/12/2018). The highest price paid during the year was SEK 816.00 (27/07/2018) and the lowest was SEK 354.50 (06/12/2018). The market value of the shares at 31 December 2018 was SEK 9,642 million (14,180). In 2018 40.8 million Nolato class B shares were traded, of which 53% was in open exchange trading (lit + auction market) and 47% in other trading (dark, off-book and SI). Of open exchange trading, 77% took place on Nasdaq Stockholm and 20% on Cboe.

The turnover rate, i.e. the degree of liquidity, in open exchange trading in 2018 was 92%. There were 12,052 (13,947) shareholders 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 three share warrant programmes (Series 1, 2 & 3) for management that results in a dilution of the number of shares. For additional information, see Note 10 on page 68.

## Dividend policy and dividend

Nolato's dividend policy is to 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 Board of Directors proposes a dividend for 2018 of SEK 14.00 (12.50), corresponding to SEK 368 million (329).

The pay-out ratio, i.e. the dividend in relation to profit after tax, is 51% (57). The dividend yield was 3.8% in relation to the share price at 31 December 2018. Over the last five years, the average yield from Nolato's shares has been 3.8%.

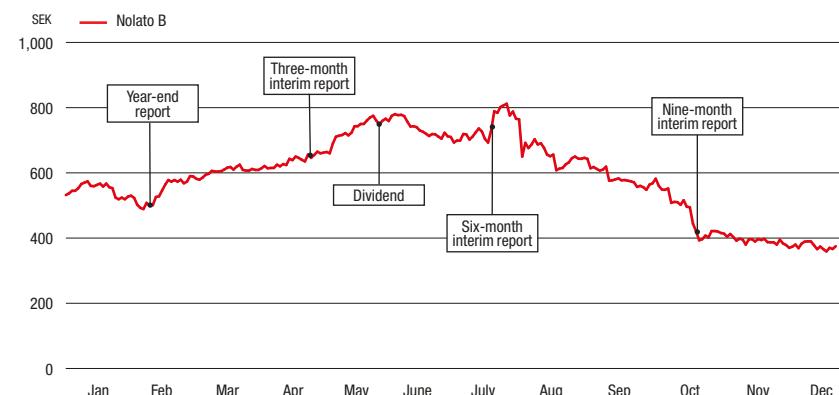
## Transferability

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

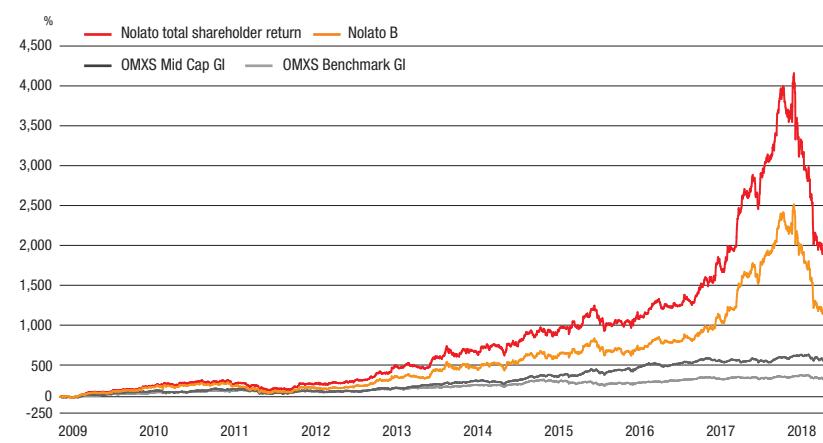
## Financial information

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.

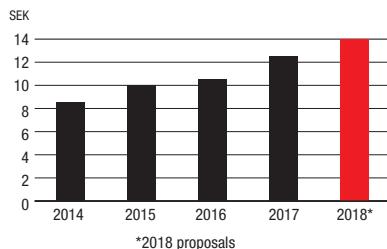
## Share price performance 2018



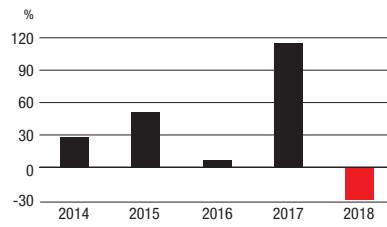
## Total shareholder return and share price performance 2009–2018



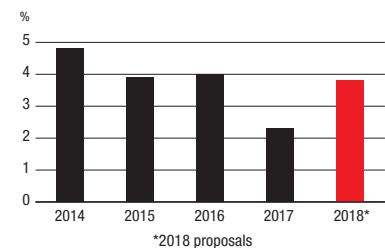
## Dividend 2014–2018



## Annual total shareholder return 2014–2018



## Dividend yield, 2014–2018



## Total shareholder return:

10 years	1.777% (yearly average 34%)
5 years	206% (yearly average 25%)
3 years	59% (yearly average 17%)
2 years	49% (yearly average 22%)

### Definition of total shareholder return (not IFRS measure):

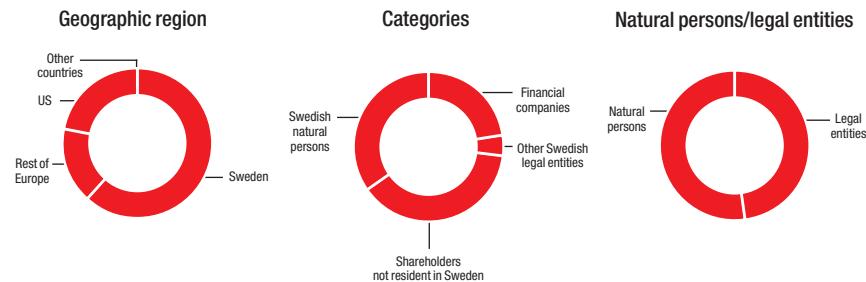
Total shareholder return shows the change in the share price, including reinvested dividends over the period.

## 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 – Daniel Lindkvist, +46 8 701 28 19
- ABG Sundahl Collier – Oskar Vikström, +46 8 566 286 63

## Breakdown of shareholders at 31 December 2018



## The largest shareholders at 31 December 2018

Shareholders	% of capital		% of votes	
	31 December 2018	Change*	31 December 2018	Change*
Jorlén family	9.7	0.0	24.4	0.0
Boström family	9.4	0.0	19.6	0.0
Hamrin family	8.5	0.0	18.8	0.0
State Street Bank and Trust	12.5	0.0	6.4	0.0
Lannebo funds	4.8	-1.5	2.5	-0.8
BNY Mellon SA/NV	3.1	0.0	1.6	0.0
Didner & Gerge funds	2.7	-5.0	1.4	-2.6
Handelsbanken funds	2.3	1.9	1.2	1.0
JPM Chase NA	2.3	0.0	1.2	0.0
BNY Mellon NA	2.1	0.0	1.1	0.0
CBLDN-400 Series funds	1.3	0.0	0.6	0.0
State Street Bank & Trust Com.	1.2	0.9	0.6	0.4
Second Swedish National Pension Fund	1.2	0.8	0.6	0.4
Caceis Bank, Luxembourg Branch	1.1	0.0	0.6	0.0
<b>Total for largest shareholders</b>	<b>62.2</b>		<b>80.6</b>	
Other shareholders	37.8		19.4	

\*Change (percentage points) in shareholdings compared with 31 December 2017.

## Data per share

	2018	2017	2016	2015	2014
Basic earnings per share after tax, SEK <sup>1)</sup>	27.44	21.74	12.77	15.97	13.84
Shareholders' equity per share, before dilution, SEK <sup>2)</sup>	99	82	70	67	60
Cash flow after investing activities excl. acquisitions and disposals per share, before dilution, SEK	22.54	18.85	9.31	10.95	4.83
Share price at 31 December, SEK	366.50	539.00	263.00	257.50	178.00
Price/earnings ratio, times <sup>3)</sup>	13	25	21	16	13
Turnover rate, %	92	66	58	75	86
Dividend (2018 proposal), SEK	14.00	12.50	10.50	10.00	8.50
Yield (2018 proposal), % <sup>4)</sup>	3.8	2.3	4.0	3.9	4.8
Dividend as a percentage of earnings per share (2018 prop.)	51	57	82	63	61
Average number of shares before dilution, thousand	26,307	26,307	26,307	26,307	26,307
Price/equity ratio per share, times	3.7	6.6	3.8	3.8	3.0
Market capitalisation at 31 December, SEK million	9,642	14,180	6,919	6,774	4,683

### Definitions

<sup>1)</sup> Profit after tax divided by 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

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/corgov](http://www.nolato.com/corgov). 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 in late April or early May. 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 2018 Annual General Meeting elected Ernst & Young AB as Nolato's auditors, with authorised public accountant Joakim Falck as the principal auditor.

## Auditor

Joakim Falck, born in 1972. Authorised public accountant, Ernst & Young AB. Auditor of Nolato since 2018. Other clients include Xano Industri AB, Garo AB, Itab Shop Concept AB and Nefab.



# 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 to 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.

## 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 right of **shareholders** to determine Nolato's affairs is exercised at the annual general meeting (AGM), which usually takes place in late April or early May. Among other things, the AGM elects the Board of Directors and takes decisions regarding a dividend, directors' 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.

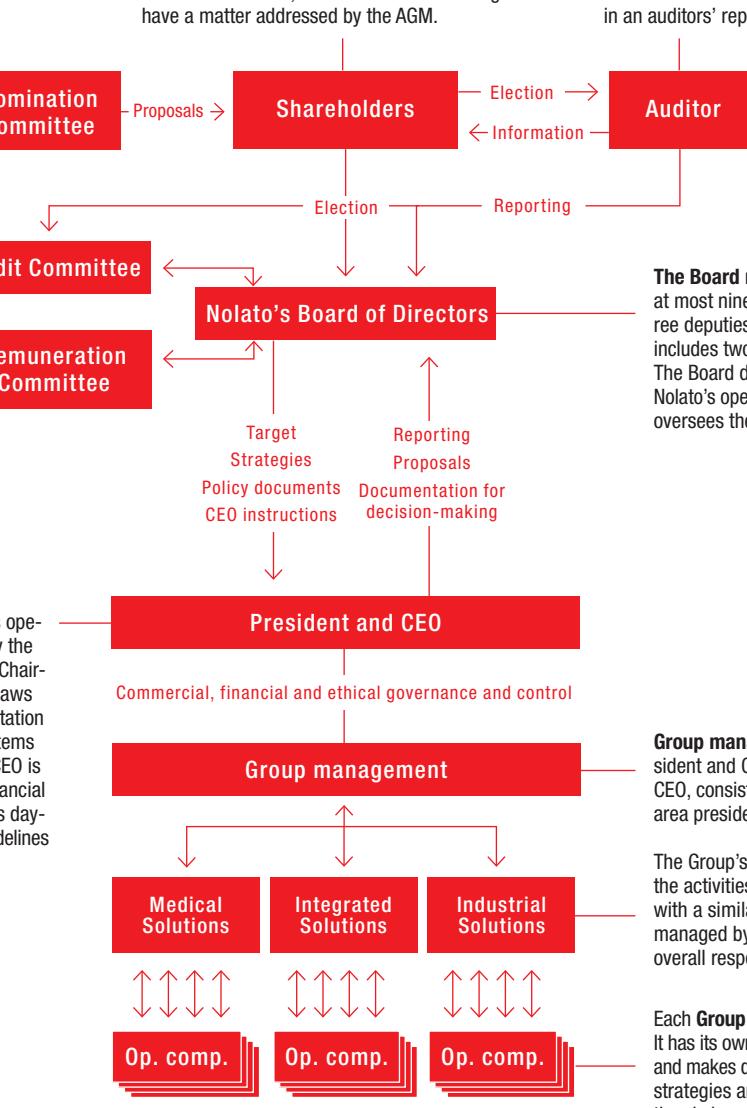
**The Auditor** is elected by the shareholders at the AGM to audit the company's annual report and accounts, and the Board and CEO's management of Nolato. The auditor also reviews the remuneration of senior executives and the corporate governance report.

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.

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

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

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



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

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

# Nolato's Board of Directors



Name	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>	Chairman of Bravida Holding AB. Board member of Vattenfall and Swedfund International.	Chairman of Diaverum Arabia.	—	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 ('Tidningsutgivarna').	Board member of Tobii AB, Cellavision AB, C-Rad AB, Immunova AB and Industrifonden 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 Elektta AB. Senior management positions at Siemens Healthcare and Gambio AB.
<b>Attendance</b>	6 of 6 meetings	6 of 6 meetings	6 of 6 meetings	6 of 6 meetings	6 of 6 meetings
<b>Remuneration<sup>1)</sup></b>	525,000	200,000	200,000	200,000	200,000
<b>Shareholding<sup>2)</sup></b>	3,000 B (3,000 B)	10,540 B (10,000 B)	255,870 B (255,870 B)	819,200 A + 1,431,743 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 27 on page 77.

<sup>2)</sup> Shareholding in Nolato at 31/12/2018 (31/12/2017) incl. family and companies, according to Euroclear Sweden. For current information see [www.nolato.com](http://www.nolato.com)



Name	Henrik Jorlén	Lars-Åke Rydh	Jenny Sjödahl	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. Completed PTK employee representative course.
<b>Other assignments</b>	—	Chairman of Danfo AB, Olja ek. för. Schuchardt Maskin AB, Chiffonjén AB and Prototypen AB. Board member of Nefab AB, Garo AB, Spectria Invest Fond AB, Söderbergsföretagen 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 (ongoing). Senior management positions within ABB.	Employed at Nolato Gota.	Employed at Nolato Cerbo.
<b>Attendance</b>	6 of 6 meetings	6 of 6 meetings	5 of 6 meetings	6 of 6 meetings	3 of 6 meetings
<b>Remuneration<sup>1)</sup></b>	243,000	265,000	200,000	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 (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 Mislimi (LO) and Jonny Petersson (PTK).

<sup>1)</sup> For further information about remuneration, see Note 27 on page 77.

<sup>2)</sup> Shareholding in Nolato at 31/12/2018 (31/12/2017) 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 Ivelberg	Jörgen Karlsson	Johan Arvidsson
<b>Employed</b>	1996	1995	2010	1995	1994
<b>Position</b>	President and CEO since 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)	3,000 B (1,500 B)	0 (0)	5,000 B (5,000 B)
<b>Warrants</b>	38,000 (Series 1) (38,000) 38,000 (Series 2) (38,000) 38,000 (Series 3) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (19,000) 19,000 (Series 3) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (19,000) 19,000 (Series 3) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (19,000) 19,000 (Series 3) (0)	19,000 (Series 1) (19,000) 19,000 (Series 2) (19,000) 19,000 (Series 3) (0)

<sup>1)</sup> Shareholding in Nolato at 31/12/2018 (31/12/2017) incl. family and companies, according to Euroclear Sweden. For current information see [www.nolato.com](http://www.nolato.com)

# Directors' report and financial statements

## Contents

### Directors' report\*

Operations in 2018 and comments on the financial statements .....	48
Corporate responsibility .....	49
Sustainability reporting .....	49
Environmental issues .....	51
Employees .....	51
Zero tolerance on ethical issues .....	51
Operational risks .....	51
Management systems .....	52
Nolato shares .....	52
Corporate governance .....	52
Remuneration guidelines .....	52
Parent Company .....	52
Proposed appropriation of profits .....	52
Future performance .....	52
<b>Potential risks in the organisation*</b> .....	<b>53</b>

### Consolidated financial statements and comments\*

Consolidated income statement and comprehensive income .....	56
Comments on the consolidated income statement .....	57
Consolidated balance sheet .....	58
Comments on the consolidated balance sheet .....	59
Consolidated cash flow statement .....	60
Comments on the consolidated cash flow statement .....	61

### Notes to the consolidated financial statements\*

Note 1 General information .....	62
Note 2 Accounting and valuation policies .....	62
Note 3 Operating segments .....	63
Note 4 Revenue .....	64
Note 5 Research and development .....	65
Note 6 Expenses allocated by type of cost .....	65
Note 7 Other operating income and operating expenses .....	65
Note 8 Financial income and expenses .....	66
Note 9 Tax .....	66
Note 10 Earnings per share .....	68
Note 11 Non-current intangible assets .....	68
Note 12 Property, plant and equipment .....	69
Note 13 Financial assets .....	70
Note 14 Inventories .....	72
Note 15 Other current assets .....	72
Note 16 Shareholders' equity .....	72
Note 17 Other reserves .....	72
Note 18 Financial liabilities .....	73
Note 19 Leases .....	74
Note 20 Provisions for pensions and similar obligations .....	75
Note 21 Other provisions .....	76
Note 22 Other current liabilities .....	76
Note 23 Pledged assets and contingent liabilities .....	76
Note 24 Related parties .....	77
Note 25 Cash flow .....	77

Note 26 Events after the end of the financial year .....	77
--	----

Note 27 Remuneration of senior executives .....	77
---	----

Note 28 Information on remuneration of auditors .....	78
---	----

Note 29 Average number of employees .....	79
---	----

Note 30 Financial risk management .....	79
---	----

Note 31 Sale of subsidiary .....	82
----------------------------------	----

### Five-year review

Five-year review key performance indicators .....	83
---	----

### Alternative performance measures

.....	84
-------	----

### Definitions

Definitions .....	85
-------------------	----

### Glossary

Specialist terms .....	85
------------------------	----

### Parent Company financial statements\*

Parent Company income statement and comprehensive income .....	86
--	----

Parent Company balance sheet .....	86
------------------------------------	----

Parent Company changes in shareholders' equity .....	87
--	----

Parent Company cash flow statement .....	87
--	----

### Notes to the Parent Company financial statements\*

Note 1 Accounting and valuation policies .....	88
Note 2 Purchasing and sales between Parent Company and subsidiaries .....	88
Note 3 Information on remuneration of auditors .....	88
Note 4 Other operating income .....	88
Note 5 Other operating expenses .....	88
Note 6 Personnel .....	88
Note 7 Revenue from investments in Group companies .....	89
Note 8 Financial income .....	89
Note 9 Financial expenses .....	89
Note 10 Appropriations .....	89
Note 11 Tax .....	89
Note 12 Expenses allocated by type of cost .....	89
Note 13 Investments in Group companies .....	90
Note 14 Share capital .....	91
Note 15 Borrowings .....	91
Note 16 Receivables and liabilities, Group companies .....	91
Note 17 Other provisions .....	91
Note 18 Accrued expenses and deferred income .....	91
Note 19 Untaxed reserves .....	91
Note 20 Contingent liabilities .....	91
Note 21 Related parties .....	91
Note 22 Appropriation of profit .....	91

### Signatures and auditor's report\*

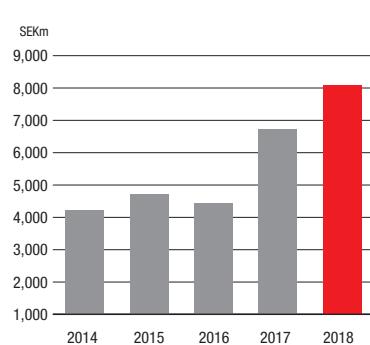
Attestation and signatures of the Board .....	92
---	----

Auditor's report .....	93
------------------------	----

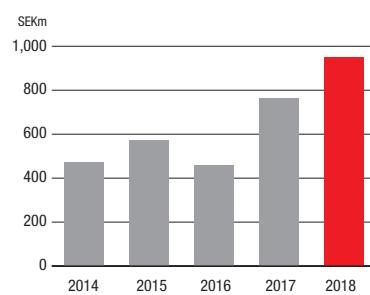
\*The content of pages 47–92 has been audited.

# Directors' report

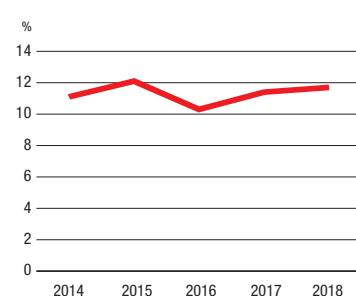
## Sales



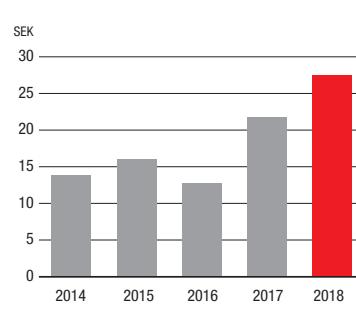
## Operating profit (EBITA)



## EBITA margin



## Basic earnings per share



## Operations in 2018

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 2018 financial year.

Nolato is a Swedish publicly listed group with 6,449 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 Large 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, fur-

niture 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 lifespans 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 21% in 2018, amounting to SEK 8,102 million (6,720). Adjusted for currency and Group structure, sales increased by 17%. Operating profit (EBITA) increased to SEK 949 million (763), giving an EBITA margin of 11.7% (11.4).

Operating profit (EBIT) totalled SEK 941 million (749) after an expense of SEK 8 million in amortisation of intangible assets arising in connection with acquisitions. The EBIT margin was 11.6% (11.1). For further financial information, see the five-year review on page 83.

► Consolidated profit after tax was SEK 722 million (572). Basic earnings per share were SEK 27.44 (21.74). Adjusted basic earnings per share excluding amortisation of intangible assets arising from acquisitions amounted to SEK 27.67 (22.16). The effective tax rate was 21.6% (21.8).

## Sales, operating profit and EBITA margin by business area, 2016–2018

SEKm	Sales			Operating profit EBITA			EBITA margin (%)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Medical Solutions	2,270	1,955	1,645	295	257	216	13.0	13.1	13.1
Integrated Solutions	3,720	2,810	1,402	473	332	131	12.7	11.8	9.3
Industrial Solutions	2,119	1,968	1,409	186	195	134	8.8	9.9	9.5
Intra-Group adj., Parent Co.	–7	–13	–9	–5	–21	–24	—	—	—
<b>Group total</b>	<b>8,102</b>	<b>6,720</b>	<b>4,447</b>	<b>949</b>	<b>763</b>	<b>457</b>	<b>11.7</b>	<b>11.4</b>	<b>10.3</b>

► Medical Solutions sales rose to SEK 2,270 million (1,955); adjusted for currency, sales growth was a strong 12%. 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. Activity remains high in Nolato's market, with project activity primarily in autoinjectors for biological medication, insulin products and incontinence products. Operating profit (EBITA) rose to SEK 295 million (257). The EBITA margin was 13.0% (13.1). Strong growth has resulted in Nolato expanding production capacity in Hungary, Sweden and Switzerland. The expansion work has been completed according to plan. The business area is also expanding production capacity in the US, which is expected to be complete in spring 2019.

► Integrated Solutions sales rose by 32% to SEK 3,720 million (2,810); adjusted for currency, sales grew by an exceptionally strong 28%. Very high volumes were delivered by the Vaporiser Heating Products (VHP) product area. Nolato assesses that volumes will be at a markedly lower level for the first six months of 2019 (compared with the rate in the fourth quarter of 2018) pending the launch of new models. Nolato has received orders for the new models and retains a strong position with the customer. Operating profit (EBITA) rose sharply to SEK 473 million (332). The EBITA margin was a strong 12.7% (11.8).

► Industrial Solutions sales amounted to SEK 2,119 million (1,968); adjusted for currency and Group structure, growth was a healthy 6%. There was positive development of volumes in almost all product areas, particularly automotive and hygiene. Advanced market positions contributed to the strong growth. Operating profit (EBITA) totalled SEK 186 million (195), with an EBITA margin of 8.8% (9.9). The lower margin was affected by uneven capacity utilisation and unsatisfactory efficiency in the second half of the year within automotive. Efficiency measures have been taken to increase profitability. The business area will begin production in the US in the first half of 2019. Production will take place in cooperation with our Medical Solutions unit in Wisconsin.

For additional comments on financial performance, see page 57 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.

## Statutory sustainability report

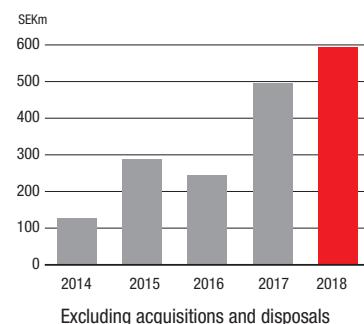
In the directors' report below, Nolato has opted to report on the Swedish Annual Accounts Act's (ÅRL) requirements Chapter 6, Section 1, according to the Swedish Accounting Standards Board's recommendation U 98:2, concerning environmental information. According to ÅRL Chapter 6, Section 11, the company has opted to summarise the statutory sustainability report in the annual report, and to provide a more detailed account in a separate sustainability report as per the guidelines in the Global Reporting Initiative (GRI). The sustainability report is available on our website at [www.nolato.com](http://www.nolato.com). The table below gives details of where the statutory information can be found in the annual report. The reporting policies are described in the sustainability report.

Area	Annual report (page)
Business model	14
Policies, framework, stakeholders and material topics	11, 49–51
Environmental responsibility	20–21, 51
Working conditions and social responsibility	22, 50–51
Human Rights	22, 51
Anti-corruption	23, 51
Risks and risk management	53–55
Diversity on the Board and in management	22, 44–46

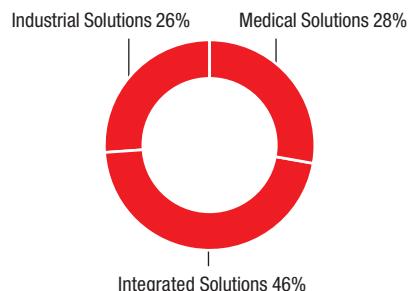
## Key guidelines

The Nolato Spirit booklet summarises the Group's core values, Code of Conduct and policies and explains how they relate to the business model. 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. Nolato's long-term goals are linked to the UN Sustainable Development Goals introduced by

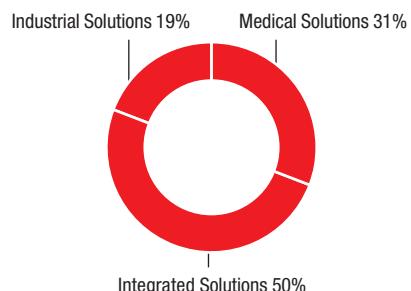
## Cash flow after investments



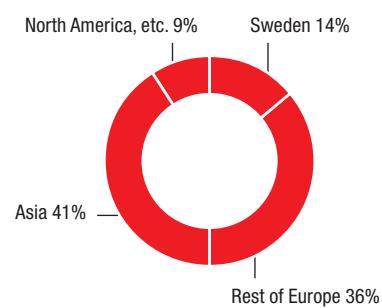
## Share of sales

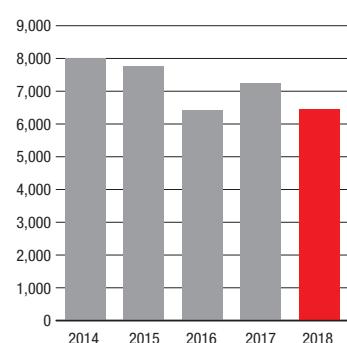
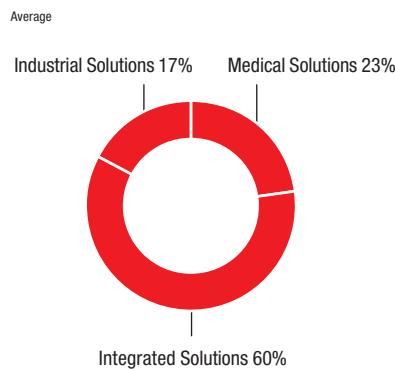
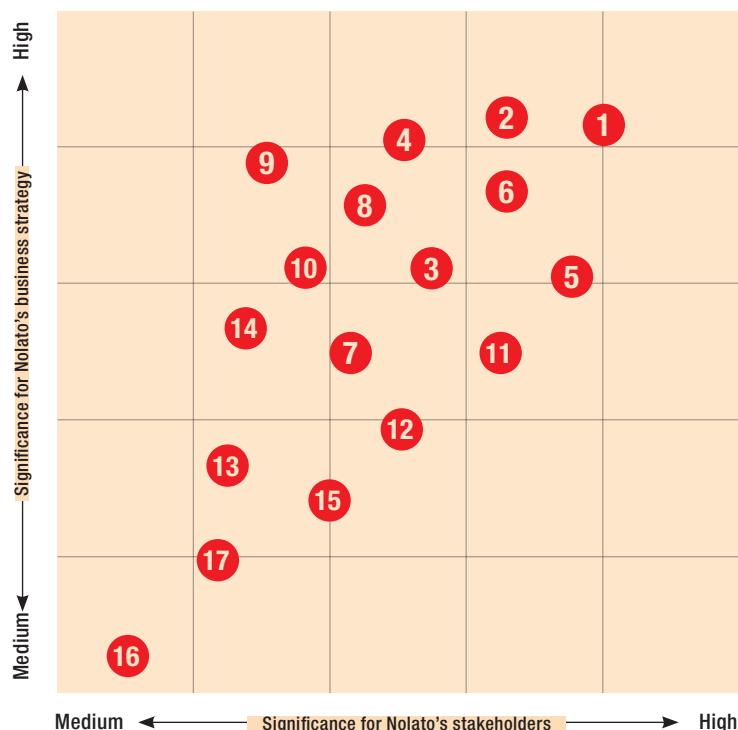
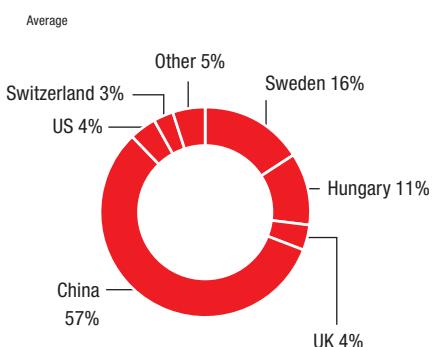


## Share of operating profit (EBITA)



## Sales by geographic markets



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

- ① Customer requirements in relation to sustainable development
- ② Sound business ethics
- ③ Attractive employer
- ④ Legal requirements in relation to sustainable development
- ⑤ Sustainability issues in developing countries
- ⑥ Plastics in a life cycle perspective
- ⑦ Suppliers' sustainability work
- ⑧ Energy and climate
- ⑨ Safe and stimulating working environment
- ⑩ Gender equality, human rights
- ⑪ Investor requirements
- ⑫ Social engagement
- ⑬ Environmental impact of transport
- ⑭ Sustainability issues in connection with acquisitions
- ⑮ Emissions to air and water, waste
- ⑯ Nuisance in the surrounding area (noise, odour)
- ⑰ Use of chemical products

the UN in 2015. In this way, the Group is contributing to the 2030 Agenda for Sustainable Development. 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). 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.

**Significant areas and stakeholders**

The materiality analysis highlights the key

issues for Nolato's stakeholders and the Group's business strategy. The analysis forms the basis of our sustainable development priorities and areas deemed to be highly significant include customer requirements within sustainable development, sound business ethics, being an attractive employer and legal requirements. Other prioritised areas are energy, climate, a safe work environment, human rights and plastics in a life cycle perspective. Sustainability issues in developing countries and the supplier chain are also issues that are being taken very seriously. Nolato has established long-term goals and key performance indicators (KPIs) for a number of the significant areas.

Nolato interacts with a number of stakeholder groups (customers, employees, suppliers, shareholders, society), which brings 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 multiple ways and includes performance reviews with employees, customer satisfaction surveys, analyst meetings and cooperation with customers, suppliers and contractors. An overview of stakeholder engagement can be found in the sustainability report.

### Governance and monitoring

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 18–25). Operational responsibility for sustainable development is delegated to the Managing Director of each Group company. These activities are followed up via 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 KPIs during the year. One representative on Nolato's Board has special responsibility for sustainability issues. Matters relating to strategy, risks, monitoring, sustainability reporting, sustainability issues associated with acquisitions and dialogues with investors are managed at Group level.

### Environmental aspects

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 five plants in 2019. 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.

Environmental legislation in the form of EU directives (REACH, RoHS, CLP, WEEE, energy efficiency, sustainability reporting), or other national or international legislation, relate in the main to the Group's operations and products. About two-thirds of the units are covered by legislation concerning producer responsibility for packaging. In most cases, regular reports are submitted to the environmental authorities, and the supervisory authorities carry out inspections. No breaches of environmental legislation were registered in 2018.

### Employees

The average number of employees at Nolato in 2018 was 6,449 (7,249). Of the total number of employees in the Group, 46% (45) 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 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 56% (66) of its employees, an Employee Care Programme was introduced and further developed in 2018. 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

(whistleblowing). No such cases were recorded in 2018.

The total figure for the average number of employees includes 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. 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 incidents relating to corruption or inadequate business ethics were recorded in 2018. The guidelines in Nolato's Code of Conduct also apply to suppliers and other business partners. Completed assessments revealed that our suppliers satisfied Nolato's requirements.

### 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 53–55.

## Management systems

All apart from one 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 Large 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 2018, Nolato had 12,052 (13,947) shareholders. The largest shareholders are the Jorlén family with 10%, the Boström family with 9%, the Hamrin family with 8%, Capital Group with 5%, Lannebo Funds with 5% and Didner & Gerge Funds with 3%.

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, 2017 and 2018, 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 three share warrant programmes, Series 1, Series 2 and Series 3. Series 1 has redemptions from 01/05/2019 to 15/12/2019, Series 2 from 01/05/2020 to 15/12/2020, and Series 3 from 01/05/2021 to 15/12/2021. The subscription price for Series 1 is SEK 296.30, for Series 2 SEK 485.10 and for Series 3 SEK 502.00.

The programmes have been taken into account in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 630,200 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 and shareholders 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 27 on page 77. 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 2019 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 63 million (50). Profit after financial income and expenses increased to SEK 414 million (275), owing mainly to higher revenue 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 606 million
Profit for the year	SEK 611 million
<b>Total</b>	<b>SEK 1,217 million</b>

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

Div. to shareh. of SEK 14.00 per share	SEK 368 million
To be carried forward	SEK 849 million
<b>Total</b>	<b>SEK 1,217 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.

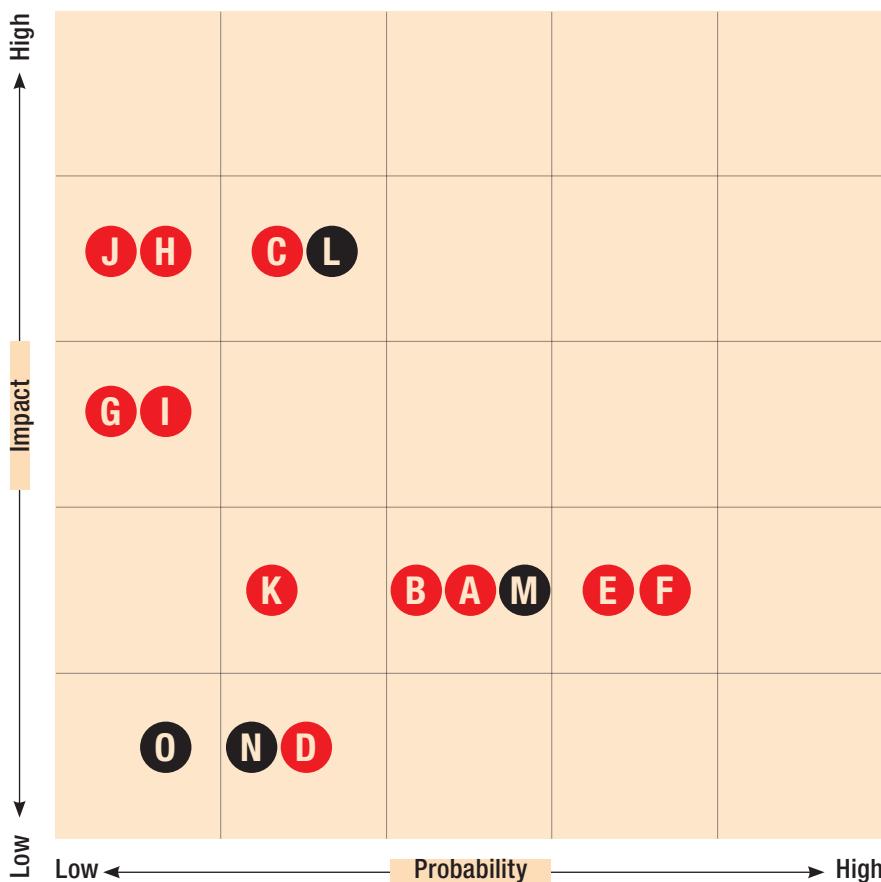
However, Nolato does not provide any earnings forecast because as a supplier, the company conducts operations that are highly dependent on its customers' internal decisions and commercial performance. Factors among customers that we cannot influence in the short term, such as postponed or cancelled projects,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



## The aim of Nolato's risk management

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

### Operational risks

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

### Financial risks

- Ⓛ Customer credit risk
- Ⓜ Foreign exchange risk
- Ⓝ Interest rate risk
- Ⓞ 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 lifespans.	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 lifespan 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 2018, the Group's energy costs totalled SEK 137 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 four 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 apart from one 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).

Operational risks	Risk exposure	Risk management
<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.	Nolato's operations do not involve any significant environmental impact through a risk of emissions to air, water and land. There are no known pollutants of land and groundwater at Nolato's plants. Hazardous substances (asbestos) are present in buildings and equipment to a very limited extent at a couple of plants. The risk to people and the environment is deemed to be very small.	The production units have the necessary environmental permits and fulfil the requirements of other relevant environmental legislation. All units apart from one are certified in accordance with ISO 14001. Regular risk assessments are carried out to identify new environmentally related risks and/or costs. Regular assessments are carried out of the risk of ground contamination and other environmental damage in connection with company acquisitions.
The risk of climate change affecting the Group's operations.	None of the Group's units are exposed to extreme weather conditions or flooding. The units in Beijing are located in an area with limited access to water.	The Group examines risk analyses relating to climate change conducted in the countries in which we operate. Climate-related risks are taken into account when carrying out acquisitions and supplier assessments.
The risk of lost business due to customers' interest in greater use of bio-based and recycled polymer raw materials not being satisfied. The risk of lost business through society being more cautious about plastic products.	Nolato makes polymer products that are primarily based on fossil raw materials. The use of fossil raw materials contributes to climate change. Our range includes products with both long and short lifespans. There is a risk of products with short lifespans ending up littering the environment.	Our range also includes a number of products that have an environmental benefit, for example through reduced weight and lower content of fossil raw materials. The Group is stepping up its efforts within environmentally sustainable product development to reduce the risk of losing business, and to contribute to sustainable development.
The risk of the Group's costs increasing significantly or of negative publicity owing to events relating to employees, respect for human rights, business ethics or other areas related to social responsibility.	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). There is always a risk of failure to apply sound business principles, irrespective of where operations are pursued. The materiality analysis therefore gives business ethics a very high priority.	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 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 949 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 301 million at year-end, 51% of which was hedged. This means that SEK 147 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 1,311 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 66 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 30 on page 80.
<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 794 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 assets were SEK 159 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 1,232 million (1,193). Of this amount, SEK 501 million matures on 27/09/2021 and SEK 600 million on 24/04/2022. Other credit commitments of SEK 131 million (130) mature between 2019 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 30 on pages 79–82.

## Consolidated income statement

SEKm	Note	2018	2017
Net sales	3, 4	8,102	6,720
Cost of goods sold	5, 6	– 6,845	– 5,642
<b>Gross profit</b>		<b>1,257</b>	<b>1,078</b>
Selling expenses	6	– 119	– 116
Administrative expenses	6	– 217	– 205
Other operating income and operating expenses, net	7	20	– 8
		<b>– 316</b>	<b>– 329</b>
<b>Operating profit</b>		<b>941</b>	<b>749</b>
Financial income	8	11	3
Financial expenses	8	– 31	– 21
		<b>– 20</b>	<b>– 18</b>
<b>Profit after financial income and expenses</b>		<b>921</b>	<b>731</b>
Tax	9	– 199	– 159
<b>Profit for the year attributable to Parent Company shareholders</b>		<b>722</b>	<b>572</b>
Basic earnings per share, (SEK)	10	27.44	21.74

## Consolidated comprehensive income

SEKm		2018	2017
<b>Profit for the year attributable to Parent Company shareholders</b>		<b>722</b>	<b>572</b>
<b>Other comprehensive income</b>			
<i>Items that cannot be transferred to profit for the period</i>			
Revaluations of defined benefit pension schemes		3	16
Tax attributable to items that cannot be reversed to profit for the period		– 1	– 2
		<b>2</b>	<b>14</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		36	– 6
Changes in the fair value of cash flow hedges for the year		– 1	3
Tax attributable to changes in the fair value of cash flow hedges		—	– 1
		<b>35</b>	<b>– 4</b>
<b>Total other comprehensive income, net</b>		<b>37</b>	<b>10</b>
<b>Comprehensive income for the year attributable to Parent Company shareholders</b>		<b>759</b>	<b>582</b>

## Comments on the consolidated income statement

### Net sales

Consolidated net sales in 2018 rose by 21% to SEK 8,102 million (6,720), which was the highest level of sales ever in Nolato's history. Adjusted for currency and Group structure, sales rose by an exceptionally strong 17%.

Medical Solutions sales rose by 16% to SEK 2,270 million (1,955). Adjusted for currency, sales increased by a strong 12%. 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. Activity remains high in Nolato's market, primarily in autoinjectors for biological medication, insulin products and incontinence products.

Integrated Solutions sales rose by 32% to SEK 3,720 million (2,810). Adjusted for currency, sales rose by an exceptionally strong 28%. Very high volumes were delivered by the Vaporiser Heating Products (VHP) product area. Heating Devices in particular enjoyed high launch volumes and inventory build-up over the first nine months of the year.

Industrial Solutions sales totalled SEK 2,119 million (1,968). Adjusted for currency and Group structure, growth was a healthy 6%. There was positive development of volumes in almost all product areas, particularly automotive and hygiene. Advanced market positions contributed to the strong growth.

### Gross profit

Gross profit totalled SEK 1,257 million (1,078) and was positively affected by higher sales. All business areas have increased sales and made a contribution. The cost of goods sold consists of production costs for materials and manufacturing salaries, as well as other production expenses. The gross margin saw a slight decline to 15.5% (16.0), which was primarily due to changes in the product mix.

Total depreciation increased and amounted to SEK 248 million (231). 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 236 million (213). 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 2017 and amounted to SEK 336 million (321). 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 8 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, net

The net amount was income of SEK 20 million in 2018 compared with an expense of SEK 8 million for 2017. In 2018, a distribution from a previous bankruptcy of a customer in 2006 was recognised as income in the amount of SEK 20 million (0). Furthermore, a capital loss in the amount of SEK 17 million was recognised following the sale of a subsidiary. Other net effects comprise changes in net currency effects and compensation received from Chinese authorities in the amount of SEK 14 million.

### Operating profit

Operating profit totalled SEK 941 million (749). The increase is due to higher earnings for Medical Solutions with a very strong increase for Integrated Solutions, while there was a slight drop in earnings for Industrial Solutions.

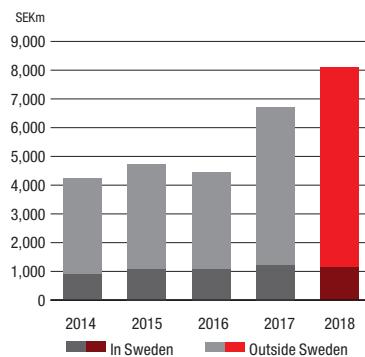
### Net financial income/expense

Net financial income/expense in 2018 remained relatively unchanged compared with 2017, amounting to SEK -20 million (-18). Profit after net financial income/expense was SEK 921 million (731).

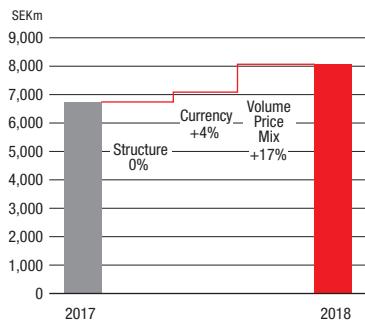
### Profit after tax

Profit after tax totalled SEK 722 million (572), with basic earnings per share of SEK 27.44 (21.74). The effective tax rate was 21.6% (21.8). Excluding non-recurring items and adjustment to a lower tax rate in Sweden, the tax rate was 22.1% (21.8).

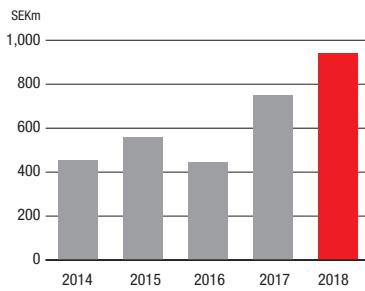
## Sales



## Changes in sales



## Operating profit (EBIT)



## Consolidated balance sheet

SEKm	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Non-current intangible assets			
11		780	813
Property, plant and equipment	12	1,518	1,243
Non-current financial assets	13	2	2
Other non-current receivables		1	1
Deferred tax assets	9	111	52
<b>Total non-current assets</b>		<b>2,412</b>	<b>2,111</b>
<b>Current assets</b>			
Inventories	14	566	530
Accounts receivable	13	949	1,128
Current tax assets		39	16
Other current assets	15	232	290
Other current financial assets	13	5	8
Cash and cash equivalents	13	953	669
<b>Total current assets</b>		<b>2,744</b>	<b>2,641</b>
<b>Total assets</b>		<b>5,156</b>	<b>4,752</b>
<b>Shareholders' equity and liabilities</b>			
<b>Equity attributable to Parent Company shareholders</b>			
Share capital	16	132	132
Other capital contributed		228	228
Other reserves	17	136	101
Retained earnings		2,096	1,698
<b>Total shareholders' equity</b>		<b>2,592</b>	<b>2,159</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	20	182	184
Non-current financial liabilities	18	522	487
Deferred tax liabilities	9	116	103
Other provisions	21	91	87
<b>Total non-current liabilities</b>		<b>911</b>	<b>861</b>
<b>Current liabilities</b>			
Accounts payable	18	594	666
Current tax liabilities		123	56
Other current financial liabilities	18	94	151
Other current liabilities	22	842	859
<b>Total current liabilities</b>		<b>1,653</b>	<b>1,732</b>
<b>Total liabilities</b>		<b>2,564</b>	<b>2,593</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,156</b>	<b>4,752</b>

## Comments on the consolidated balance sheet

### Assets

Non-current assets increased, as net investments in property, plant and equipment were higher than depreciation/amortisation of SEK 248 million for the year. Net investments totalled SEK 487 million, excluding disposals (275). During the year, investments have been made primarily for expansion in Nolato Medical and Nolato Industrial, where production plants have been expanded and machine capacity increased. Other changes in non-current assets include translation effects from assets in foreign companies.

Current assets increased by SEK 103 million. The balance sheet item 'Inventories' increased somewhat, while accounts receivable saw a sharp decline. The decrease in accounts receivable was largely the effect of lower levels of activity towards the end of 2018. Cash and bank balances increased via the positive cash flow and amounted to SEK 953 million (669).

### Shareholders' equity

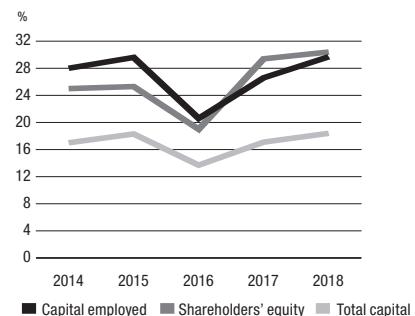
Shareholders' equity increased as a result of comprehensive income for 2018 of SEK 759 million, which consists of profit after tax and currency effects from translation differences and the revaluation of defined benefit pension schemes. Dividends to shareholders in the amount of SEK 329 million were paid, thereby reducing shareholders' equity. The return on shareholders' equity was 30.4% (29.4) and the increase was due to the strong growth in earnings compared with 2017.

### Liabilities

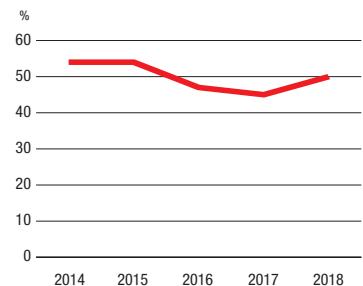
Non-interest-bearing liabilities and provisions essentially remained the same and amounted to SEK 1,770 million (1,771). The average total working capital requirement in relation to sales was 3.8% (5.3). Higher earnings meant that, while there was a relatively modest increase in average capital employed, the return on capital employed rose to 29.7% (26.6).

Interest-bearing liabilities and provisions declined slightly and amounted to SEK 794 million (822). Interest-bearing liabilities to credit institutions decreased to SEK 612 million (638), and interest-bearing pension liabilities dropped to SEK 182 million (184). The change in interest-bearing liabilities was relatively small and reflected a normal fluctuation in financing. Interest-bearing assets amounted to SEK 953 million (669), and accordingly, net financial assets totalled SEK 159 million (-153, net debt). Nolato has long-term credit agreements totalling approximately SEK 1.1 billion. Short-term credit facilities of just over SEK 100 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 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>
<b>Opening balance, 1 January 2018</b>	<b>132</b>	<b>228</b>	<b>—</b>	<b>101</b>	<b>1,698</b>	<b>2,159</b>
Profit for the year	—	—	—	—	722	722
Other comprehensive income for the year	—	—	-1	36	2	37
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>-1</b>	<b>36</b>	<b>724</b>	<b>759</b>
Dividend for 2017	—	—	—	—	-329	-329
Warrants included in incentive programme (Series 3)	—	—	—	—	3	3
<b>Closing balance, 31 December 2018</b>	<b>132</b>	<b>228</b>	<b>-1</b>	<b>137</b>	<b>2,096</b>	<b>2,592</b>

## Consolidated cash flow statement

SEKm	Note	2018	2017
	25		
<b>Operating activities</b>			
Operating profit		941	749
<i>Adjustments for items not included in cash flow:</i>			
Depreciation/amortisation and impairment		248	231
Provisions		3	10
Unrealised exchange rate differences		– 5	—
Other items		19	2
Pension payments		– 5	– 5
Interest received		11	3
Interest paid		– 23	– 13
Realised exchange rate differences		– 25	16
Income tax paid		– 204	– 94
<b>Cash flow from operating activities before changes in working capital</b>		<b>960</b>	<b>899</b>
<b>Cash flow from changes in working capital</b>			
Changes in inventories		– 25	– 146
Changes in accounts receivable		206	– 324
Changes in accounts payable		– 119	96
Other changes in working capital		23	248
		<b>85</b>	<b>– 126</b>
<b>Cash flow from operating activities</b>		<b>1,045</b>	<b>773</b>
<b>Investing activities</b>			
Acquisition of non-current intangible assets		– 8	– 5
Acquisition of property, plant and equipment		– 446	– 274
Sale of property, plant and equipment		2	2
Sale of business, net of cash and cash equivalents		54	—
<b>Cash flow from investing activities</b>		<b>– 398</b>	<b>– 277</b>
<b>Cash flow before financing activities</b>		<b>647</b>	<b>496</b>
<b>Financing activities</b>			
Borrowings	25	5	151
Repayment of loans	25	– 72	– 102
Warrants paid for in incentive programme		3	5
Dividend paid		– 329	– 276
<b>Cash flow from financing activities</b>		<b>– 393</b>	<b>– 222</b>
<b>Cash flow for the year</b>		<b>254</b>	<b>274</b>
<b>Cash and cash equivalents, opening balance</b>		<b>669</b>	<b>411</b>
Exchange rate difference in cash and cash equivalents		30	– 16
<b>Cash and cash equivalents, closing balance</b>		<b>953</b>	<b>669</b>

## Comments on the consolidated cash flow statement

### Cash flow from operating activities

Cash flow before investments rose to SEK 1,045 million (773). The strong increase in earnings had a positive impact on cash flow. The change in working capital was also positive, at SEK 85 million (-126).

### Cash flow from investing activities

Net investments affecting cash flow totalled SEK 452 million (277), excluding disposals. 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 248 million (110) for Medical Solutions, SEK 18 million (22) for Integrated Solutions and SEK 187 million (142) for Industrial Solutions. For Medical Solutions, investments have chiefly consisted of additional machinery capacity, primarily for new customer projects, and extensions to factories to facilitate growth. Integrated Solutions investments consisted mainly of technology initiatives, expansion of EMC production and investments in the replacement of machinery in China.

Industrial Solutions has made investments in additional machinery capacity for new projects.

Investments (net)	2018	2017
Non-current intangible assets	8	5
Buildings and land	56	5
Machinery and equipment	121	159
Construction in progress	267	108
<b>Total investments</b>	<b>452</b>	<b>277</b>

Affecting cash flow, excluding acquisitions and disposals

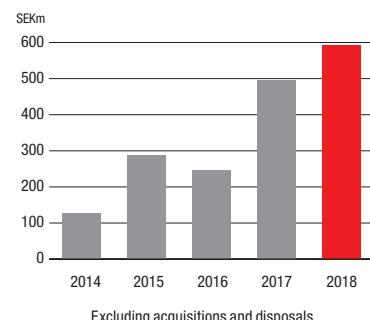
### Cash flow after investing activities

Cash flow after investments was SEK 593 million excluding disposals (496). Including disposals of subsidiaries, cash flow was SEK 647 million (496).

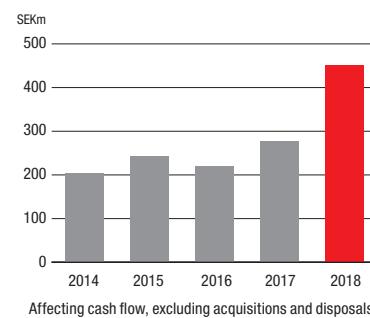
### Cash flow from financing activities

Financing activities describe the Group's financing and dividends to shareholders, and totalled a net amount of SEK -393 million (-222). This consists of net amortised borrowings of SEK -67 million (49, borrowings raised) and dividends paid totalling SEK -329 million (-276).

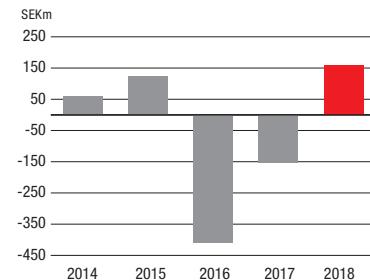
## Cash flow after investments



## Investments



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



## 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 Large 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.

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

#### Changes to the Group's accounting policies

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which are applied as of the financial year that began on 1 January 2018, have not had any impact on the Group's opening balances for 2018. However, both standards have resulted in more detailed disclosure requirements in these annual accounts. The more detailed disclosure requirements are explained under each note.

#### 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 2019 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 16 Leases replaces IAS 17 as of 1 January 2019. The standard removes the requirement for the lessee to classify leases as either operating or finance leases, and instead introduces a collective model for recognition of 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 19, which also gives further information regarding the transition to IFRS 16.

#### 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.

#### 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'.

### Note 3 Operating segments

#### Accounting policies

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.

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.

#### Information on operating segments

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 lifespans 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. Development and production are conducted in China, Malaysia, Hungary 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.

	Medical Solutions		Integrated Solutions		Industrial Solutions		Elimin., Parent Co.		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
External sales	2,270	1,955	3,713	2,798	2,119	1,967	—	—	8,102	6,720
Internal sales	—	—	7	12	—	1	—7	—13	—	—
<b>Net sales</b>	<b>2,270</b>	<b>1,955</b>	<b>3,720</b>	<b>2,810</b>	<b>2,119</b>	<b>1,968</b>	<b>—7</b>	<b>—13</b>	<b>8,102</b>	<b>6,720</b>
<b>Profit</b>										
Operating profit (EBITA)	295	257	473	332	186	195	—5	—21	949	763
Amort. of intang. assets arising from acq.	—4	—10	—	—	—4	—4	—	—	—8	—14
<b>Operating profit</b>	<b>291</b>	<b>247</b>	<b>473</b>	<b>332</b>	<b>182</b>	<b>191</b>	<b>—5</b>	<b>—21</b>	<b>941</b>	<b>749</b>
Financial income									11	3
Financial expenses									—31	—21
Tax expenses for the year									—199	—159
<b>Profit for the year</b>									<b>722</b>	<b>572</b>
<b>Receivables and liabilities</b>										
Segments' assets	1,928	1,690	959	1,096	1,589	1,546	—398	—310	4,078	4,022
Unallocated assets									1,078	730
<b>Total assets</b>	<b>1,928</b>	<b>1,690</b>	<b>959</b>	<b>1,096</b>	<b>1,589</b>	<b>1,546</b>	<b>—398</b>	<b>—310</b>	<b>5,156</b>	<b>4,752</b>
Segments' liabilities	645	590	889	923	457	388	—338	—238	1,653	1,663
Unallocated liabilities									911	930
<b>Total liabilities</b>	<b>645</b>	<b>590</b>	<b>889</b>	<b>923</b>	<b>457</b>	<b>388</b>	<b>—338</b>	<b>—238</b>	<b>2,564</b>	<b>2,593</b>
<b>Other information</b>										
Investments (capitalised)	261	105	21	22	205	145	2	3	489	275
Depreciation/amortisation and impairment	113	108	41	30	103	90	1	—	258	228
Significant items, other than depr./amort./impairment with no offsetting payments, impairment and provisions	—14	5	—1	2	—19	—3	—	—	—34	4

## Cash flow from operations, allocated by segment

	2018				2017			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Cash flow from operations								
before changes in working capital	404	504	285	1,193	355	365	281	1,001
Changes in working capital	– 21	28	70	77	– 3	– 65	– 60	– 128
<b>Cash flow from operating activities</b>	<b>383</b>	<b>532</b>	<b>355</b>	<b>1,270</b>	<b>352</b>	<b>300</b>	<b>221</b>	<b>873</b>
Unallocated items <sup>1)</sup>				– 225				– 100
<b>Total cash flow from operations</b>				<b>1,045</b>				<b>773</b>

## Cash flow from investing activities, allocated by segment

	2018				2017			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Acquisition of non-current assets <sup>2)</sup>	– 248	– 19	– 188	– 455	– 110	– 23	– 143	– 276
Sale of non-current assets	—	1	1	2	—	1	1	2
Sale of business				54				—
Elimination, Parent Company				1				– 3
<b>Cash flow from investing activities</b>	<b>– 248</b>	<b>– 18</b>	<b>– 187</b>	<b>– 398</b>	<b>– 110</b>	<b>– 22</b>	<b>– 142</b>	<b>– 277</b>

1) For 2018, the Group's change in working capital was SEK 85 million and, allocated by business area according to the above, was SEK 77 million. The difference of SEK 8 million is included in the amount of SEK –225 million. Other unallocated items consist chiefly of operating loss of SEK –5 million (with the Parent Company accounting for the majority), income tax paid at SEK –204 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 34 million (–4).

## Information about geographic markets

In the Nordic region, the rest of Europe and Asia, the Group manufactures and sells products from all three business areas. In North America, the Group has manufacturing and sales in the Medical Solutions business area.

	Sweden		Other Nordic countries		Rest of Europe		North America etc.		Asia (mainly China)		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
External sales	1,186	1,224	202	198	2,687	2,099	716	614	3,311	2,585	8,102	6,720
Assets	1,719	1,622	—	—	1,668	1,497	317	226	1,452	1,407	5,156	4,752
Average number of employees	1,055	929	—	—	1,336	1,206	233	208	3,825	4,906	6,449	7,249
Investments (capitalised)	231	152	—	—	170	101	81	9	7	13	489	275

## Note 4 Revenue

## Accounting policies

IFRS 15 Revenue from Contracts with Customers has been applied as of 1 January 2018 and the Group has opted for the retrospective method, which means the combined effect of initial application is recognised on the date of initial application and only for contracts that had not been completed by that date, i.e. at 1 January 2018. The introduction has not resulted in any adjustment to opening retained earnings.

The Nolato Group's revenue is essentially derived from the sale of serially manufactured products and product systems within polymers such as plastic, TPE and silicone, which have been produced through development work and the creation of production equipment in partnership with our customers. Our customers maintain control over the products following delivery, which is when invoicing occurs with appropriate payment terms, see Note 13, with the average period of credit being 47 days. Jointly developed production equipment, which largely consists of tooling, is essentially owned by customers and invoiced to the customer in advance or over a period of time based on expenses incurred.

Nolato's customer contracts normally have entirely separate performance commitments with regard to delivery of serially manufactured products, which accounted for 91% of net sales in 2018, and development work and the creation of production equipment, which is considered to be a smaller separate performance commitment

and is invoiced to the customer prior to the possible start of serial production. The products are primarily entirely customised and the design and drawings are owned by the customer. Nolato normally assumes manufacturing responsibility, while the customer normally assumes design responsibility.

To give Nolato an idea of future production, customers often submit forecasts. These forecasts are often indicative and not binding for the customer. Nolato mainly uses the forecasts for planning with regard to input materials and machinery capacity, and begins production upon receipt of a purchase order from the client. Nolato invoices at the agreed price (transaction price) after delivery and once control has been transferred to the customer. The inventory turnover rate for completed products is very high. Agreed prices are continually adjusted, one reason being for Nolato to compensate for changes in the price of raw materials.

Nolato does not submit any information about outstanding performance commitments, as there are no unfulfilled performance commitments on completion of purchase orders received. Nolato has no significant contracts with an original anticipated term of more than one year, in which customers commit to buying more than continually placed purchase orders.

**Allocation of revenue**

	2018				2017			
	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions
Sweden	1,189	140	51	998	1,235	167	122	946
Rest of Europe	2,889	1,492	473	924	2,297	1,288	164	845
North America, etc.	716	544	41	131	613	429	66	118
Asia	3,315	94	3,155	66	2,588	71	2,458	59
Elimination internal sale	– 7				– 13			
<b>Total revenue from contracts with customers</b>	<b>8,102</b>	<b>2,270</b>	<b>3,720</b>	<b>2,119</b>	<b>6,720</b>	<b>1,955</b>	<b>2,810</b>	<b>1,968</b>

The above table essentially covers products transferred following delivery. For the first 12 months, the Group has an increased provision for anticipated credit losses on accounts receivable and contract assets, with SEK 10 million among the cost of goods sold.

**Contract balances**

	2018	2017
Accounts receivable	949	1,128
<b>Opening balance for contract assets relating to development work and development of production tools</b>	<b>120</b>	
Recognised as income during the year	– 178	
Additional during the year	181	
Reclassification to contract liabilities	– 16	
<b>Closing balance for contract assets relating to development work and development of production tools (see also Note 15)</b>	<b>107</b>	<b>120</b>
<b>Opening balance for contract liabilities relating to development work and development of production tools</b>	<b>316</b>	
Recognised as income during the year	– 179	
Additional during the year	170	
Reclassification to contract assets	– 20	
Currency effects	11	
<b>Closing balance for contract liabilities relating to development work and development of production tools (see also Note 22)</b>	<b>298</b>	<b>316</b>

The Group recognises development work and development of production tools per main product and customer as a net amount, either as a contract asset or contract liability.

**Note 5 Research and development**

Group	2018	2017
Development expenditure for customer-specific products	– 604	– 495

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 6 Expenses allocated by type of cost**

	2018	2017
Material costs	– 3,705	– 2,819
Employee benefits	– 1,291	– 1,209
Social security contributions	– 255	– 225
Employee pensions	– 99	– 100
Energy costs	– 137	– 136
Other costs	– 1,463	– 1,263
Depreciation/amortisation	– 248	– 231
<b>Total</b>	<b>– 7,198</b>	<b>– 5,983</b>
Depreciation/amortisation and impairment are included in operating expenses as follows:		
Software	– 2	—
Customer relationships	– 8	– 14
Buildings and land improvements	– 28	– 25
Machinery and other technical facilities	– 184	– 168
Equipment, tools, fixtures and fittings	– 26	– 24
<b>Total non-current assets</b>	<b>– 248</b>	<b>– 231</b>
Accounts receivable	– 10	3
<b>Total</b>	<b>– 258</b>	<b>– 228</b>
Depreciation/amortisation and impairment have been allocated as follows:		
Cost of goods sold	– 246	– 210
Selling expenses	– 10	– 16
Administrative expenses	– 2	– 2
<b>Total</b>	<b>– 258</b>	<b>– 228</b>

**Note 7 Other operating income and operating expenses**

Other operating income	2018	2017
Effect of exchange rate on operating receivables/liabilities	1	—
Compensation from bankruptcy payment	20	—
Other*	16	12
<b>Total</b>	<b>37</b>	<b>12</b>
Other operating expenses		
Effect of exchange rate on operating receivables/liabilities	—	– 20
Capital loss on sale of subsidiary	– 17	—
<b>Total</b>	<b>– 17</b>	<b>– 20</b>
<b>Other operating income and operating expenses, net</b>	<b>20</b>	<b>– 8</b>

\*SEK 14 million concerns government grants received in Beijing, China.

## Note 8 Financial income and expenses

### Accounting policies

Financial income consists of interest income on invested funds 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 primarily consist of interest expenses on loans measured at amortised cost and other borrowing costs such as commitment fees and credit charges relating to the Group's credit agreements.

	2018	2017
Interest income	11	3
Interest expenses	– 8	– 11
Foreign exchange gains and losses, net	– 7	– 8
Other financial expenses	– 16	– 2
<b>Net financial income/expense</b>	<b>– 20</b>	<b>– 18</b>
Recognised as:		
Financial income	11	3
Financial expenses	– 31	– 21
<b>Net financial income/expense</b>	<b>– 20</b>	<b>– 18</b>

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

	2018			2017		
	Interest income	Interest expenses	Foreign exchange gains/losses, net	Interest income	Interest expenses	Foreign exchange gains/losses, net
<i>Financial assets/liabilities measured at fair value via profit or loss</i>						
Derivatives used to hedge intra-Group loans	—	—	– 3	—	—	– 3
Bank deposits	11	—	—	3	—	—
PRI pension liability	—	– 3	—	—	– 3	—
Borrowings	—	– 5	—	—	– 5	—
Supplier financial agreements	—	– 13	—	—	– 3	—
Other financial assets/liabilities	—	– 3	– 4	—	– 2	– 5
<b>Total</b>	<b>11</b>	<b>– 24</b>	<b>– 7</b>	<b>3</b>	<b>– 13</b>	<b>– 8</b>

## Note 9 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 arising 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

	2018	2017
<b>Current tax expenses</b>		
Tax expenses for the period	– 246	– 152
Adjustment for tax attributable to previous years	—	– 1
	<b>– 246</b>	<b>– 153</b>
<b>Deferred tax income/expense</b>		
Deferred tax in relation to temporary differences	47	– 6
	<b>– 199</b>	<b>– 159</b>

### Reconciliation of effective tax

	2018	2017
<b>Profit before tax</b>	<b>921</b>	<b>731</b>
Tax according to applicable Parent Company tax rate	– 203	– 161
Effect of other tax rates for foreign Group companies	15	10
Non-deductible expenses	– 5	– 9
Non-taxable income	13	1
Tax attributable to previous years	—	– 1
Effect of change in tax rates	– 9	3
Effect of non-capitalised deficits arising during the year	– 10	– 2
	<b>– 199</b>	<b>– 159</b>

Swedish corporation tax amounted to 22.0% (22.0) and the effective tax rate was 21.6% (21.8).

### Recognised in the balance sheet

	Deferred tax assets		Deferred tax liabilities		Net	
	2018	2017	2018	2017	2018	2017
Non-current intangible assets	—	—	19	18	— 19	— 18
Property, plant and equipment	31	23	80	76	— 49	— 53
Inventories	29	10	3	1	26	9
Accounts receivable	3	1	—	—	3	1
Provisions for pensions	32	36	1	1	31	35
Tax allocation reserves	—	—	44	44	— 44	— 44
Other	61	32	18	14	43	18
Loss carry-forwards	4	1	—	—	4	1
<b>Tax assets/liabilities</b>	<b>160</b>	<b>103</b>	<b>165</b>	<b>154</b>	<b>— 5</b>	<b>— 51</b>
Offsetting	— 49	— 51	— 49	— 51	—	—
<b>Tax assets/liabilities, net</b>	<b>111</b>	<b>52</b>	<b>116</b>	<b>103</b>	<b>— 5</b>	<b>— 51</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 (27). The loss carry-forward relates to the operation in India, and it is unlikely that it will be possible to use it against future taxable gains. Loss carry-forwards in India can be used on a rolling basis for a maximum of eight years from the year in which the respective loss arose.

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

	Balance at 1 Jan. 2017	Recognised in profit for the year	Recognised in other comprehensive 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>

	Balance at 1 Jan. 2018	Recognised in profit for the year	Recognised in other comprehensive income	Acquisitions of businesses	Disposal of businesses	Balance at 31 Dec. 2018
Non-current intangible assets	— 18	— 1	—	—	—	— 19
Property, plant and equipment	— 53	4	—	—	—	— 49
Inventories	9	17	—	—	—	26
Accounts receivable	1	2	—	—	—	3
Provisions for pensions	35	— 3	— 1	—	—	31
Tax allocation reserves	— 44	—	—	—	—	— 44
Other	18	25	—	—	—	43
Loss carry-forwards	1	3	—	—	—	4
<b>Total</b>	<b>— 51</b>	<b>47</b>	<b>— 1</b>	<b>—</b>	<b>—</b>	<b>— 5</b>

### Tax attributable to other comprehensive income

	2018	2017
Deferred tax attributable to provisions for pensions (PRI)	— 1	— 2
Deferred tax on currency forwards	—	— 1
<b>Total</b>	<b>— 1</b>	<b>— 3</b>

## Note 10 Earnings per share

	2018	2017
Profit for the year attributable to Parent Company shareholders	722	572
Average number of ordinary shares outstanding	26,307,408	26,307,408
<b>Basic earnings in kronor per share (SEK)</b>	<b>27.44</b>	<b>21.74</b>
Non-recurring items*	– 7	—
Profit for the year attributable to Parent Company shareholders after adjustment for non-recurring items	715	572
<b>Basic earnings in kronor per share excluding non-recurring items (SEK)</b>	<b>27.18</b>	<b>21.74</b>
	2018	2017
Dilutive shares from Series 1 incentive programme (exercise price SEK 296.30 per share; total 240,500 warrants)	76,613	8,436
Dilutive shares from Series 2 incentive programme (exercise price SEK 485.10 per share; total 196,200 warrants)	—	—
Dilutive shares from Series 3 incentive programme (exercise price SEK 502.00 per share; total 193,500 warrants)	—	—
Average number of shares after dilution	26,384,021	26,315,844
<b>Diluted earnings in kronor per share (SEK)</b>	<b>27.37</b>	<b>21.74</b>
<b>Diluted earnings in kronor per share excluding non-recurring items (SEK)</b>	<b>27.10</b>	<b>21.74</b>

\*Non-recurring items consist of a distribution from the previous bankruptcy of a customer in 2006 in the amount of SEK +20 million (0) and a capital loss on a divested business of SEK –17 million (0), net SEK +3 million (0) in operating profit. The tax effect on non-recurring items and adjustment to a lower tax rate in Sweden amounts to SEK +4 million (0). These non-recurring items were recognised at Group level and have consequently not affected the profit of the business areas.

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 closing price was in the money at the end of the period, and 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 to subscribe for shares as of 1 May 2019 up to and including 15 December 2019.

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

The warrants in Series 3 can be exercised to subscribe for shares as of 1 May 2021 up to and including 15 December 2021.

## Note 11 Intangible non-current 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. For Medical Solutions and Industrial Solutions, impairment testing has been carried out at segment 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.z.o.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 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 1 January 2018</b>	<b>21</b>	<b>3</b>	<b>194</b>	<b>3</b>	<b>754</b>	<b>975</b>
Investments	7	1	—	—	—	8
Divested subsidiary	—	—	— 20	—	— 63	— 83
Reclassifications	—	—	—	—	—	—
Translation differences	—	—	6	—	28	34
<b>At 31 December 2018</b>	<b>28</b>	<b>4</b>	<b>180</b>	<b>3</b>	<b>719</b>	<b>934</b>
<b>ACCUMULATED DEPRECIATION/AMORTISATION</b>						
<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 1 January 2018</b>	<b>— 16</b>	<b>— 3</b>	<b>— 140</b>	<b>— 3</b>	<b>—</b>	<b>— 162</b>
Depreciation/amortisation for the year	— 2	—	— 8	—	—	— 10
Divested subsidiary	—	—	20	—	—	20
Reclassifications	—	—	—	—	—	—
Translation differences	—	—	— 2	—	—	— 2
<b>At 31 December 2018</b>	<b>— 18</b>	<b>— 3</b>	<b>— 130</b>	<b>— 3</b>	<b>—</b>	<b>— 154</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>
<b>Carrying amount at 31 December 2018</b>	<b>10</b>	<b>1</b>	<b>50</b>	<b>—</b>	<b>719</b>	<b>780</b>

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

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

	2018	2017
Medical Solutions	505	489
Industrial Solutions	214	265
<b>Total</b>	<b>719</b>	<b>754</b>

#### Assumptions for establishing the discount rate

	Medical Solutions		Industrial Solutions	
	2018	2017	2018	2017
Risk-free rate, %	1.3	0.7	1.0	0.6
Tax rate, %	19.3	20.0	17.9	19.0
Forecast period	3 years	3 years	3 years	3 years
Growth after forecast period, %	2.0	2.0	2.0	2.0
Applied discount rate before tax, %	9.0	8.3	9.6	9.2

## Note 12 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 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 1 January 2018</b>	<b>638</b>	<b>2,535</b>	<b>277</b>	<b>98</b>	<b>3,548</b>
Investments	57	97	24	302	480
Divested subsidiary	—	− 36	− 10	− 2	− 48
Sales/disposals	− 2	− 39	− 5	—	− 46
Reclassifications	18	145	11	− 174	—
Translation differences	19	57	6	4	86
<b>At 31 December 2018</b>	<b>730</b>	<b>2,759</b>	<b>303</b>	<b>228</b>	<b>4,020</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>					
<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 1 January 2018</b>	<b>− 304</b>	<b>− 1,793</b>	<b>− 208</b>	<b>—</b>	<b>− 2,305</b>
Depreciation/amortisation for the year	− 27	− 184	− 27	—	− 238
Divested subsidiary	—	33	9	—	42
Sales/disposals	1	39	5	—	45
Translation differences	− 5	− 38	− 3	—	− 46
<b>At 31 December 2018</b>	<b>− 335</b>	<b>− 1,943</b>	<b>− 224</b>	<b>—</b>	<b>− 2,502</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>
<b>Carrying amount at 31 December 2018</b>	<b>395</b>	<b>816</b>	<b>79</b>	<b>228</b>	<b>1,518</b>

## Note 13 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.

Year 2017 (IAS 39): 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.

Year 2018 (IFRS 9): Accounts receivable are recognised at the first reporting date at their transaction price (according to the definition in IFRS 15) and subsequently at amortised cost. Recognition of expected credit losses is carried out at an amount

corresponding to the expected credit losses for the remaining term. Term refers to the maximum contract period during which the Group is exposed to credit risk. For cash and cash equivalents, the carrying amount is considered to correspond to 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.

Derivatives are categorised as held for trading, unless they are intended for hedge accounting, and are measured at fair value via profit or loss. Derivatives intended for hedge accounting are measured at fair value via other comprehensive income. The fair value of derivatives is based on listed market prices. 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.

### Financial assets per category (IFRS 9) 2018

	Amortised cost	Fair value via other comprehensive income	Derivatives – identified for hedge accounting	Derivatives at fair value via profit or loss	2018 Total
<b>Non-current financial assets<sup>1)</sup></b>		2			2
Accounts receivable	949				949
Other current financial assets (see Note 30)			1	4	5
Cash and cash equivalents	953				953
<b>Carrying amount</b>	<b>1,902</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>1,909</b>
<b>Fair value</b>	<b>1,902</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>1,909</b>

1) The holding concerns 20,000 shares in Arenabolaget i Ängelholm AB (Lindab Arena). The value relates to the original transaction price (new share issue).

### Cash and cash equivalents and credit rating

	Amort. cost
Moody's: A3/P-2	13
Moody's: Aa3	17
Standard & Poor's: AA+	44
Standard & Poor's: AA-	4
Standard & Poor's: A+	576
Standard & Poor's: A	191
Standard & Poor's: A-	5
Standard & Poor's: BBB+	16
Standard & Poor's: BBB	3
No credit rating available for Acrevis Bank AG (Switzerland)	81
Other (credit rating not available)	3
	<b>953</b>

### Financial assets per category (IAS 39) 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 <sup>1)</sup>		2			2
Accounts receivable	1,128				1,128
Other current financial assets (see Note 30)			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>

1) The holding concerns 20,000 shares in Arenabolaget i Ängelholm AB (Lindab Arena). The value relates to the original transaction price (new share issue).

Financial assets categorised at amortised cost 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.

	2018	2017
Accounts receivable	963	1,132
Deduction: Provision for expected credit losses	– 14	– 4
<b>Carrying amount</b>	<b>949</b>	<b>1,128</b>

The average period of credit in 2018 was 47 days (53). Accounts receivable as a percentage of sales amounted to 11.7% (16.8%). In the final quarter of 2018, Nolato saw a decline in sales compared with the corresponding quarter the previous year, which has meant a reduction in accounts receivable despite higher annual sales. During the year, the Group reversed SEK 4 million (3) of provisions for expected credit losses at 1 January. Provisions for the year totalled SEK 14 million (4). The credit quality of accounts receivable not due and not impaired, and of other financial receivables is deemed to be good.

### Accounts receivable

	Total	Not due	Due ≤ 15 days	Due 16–30 days	Due 31–60 days	Due > 60 days
Expected gross amount	963	828	78	16	25	16
Expected credit losses	– 14	– 10	– 1	– 2	—	– 1
<b>31 December 2018</b>	<b>949</b>	<b>818</b>	<b>77</b>	<b>14</b>	<b>25</b>	<b>15</b>
Expected gross amount	1,132	920	124	14	60	14
Expected credit losses	– 4	– 4	—	—	—	—
<b>31 December 2017</b>	<b>1,128</b>	<b>916</b>	<b>124</b>	<b>14</b>	<b>60</b>	<b>14</b>

## Note 14 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.

	2018	2017
Raw materials and supplies	307	280
Products in manufacturing	54	61
Finished goods and goods for resale	205	189
<b>Total</b>	<b>566</b>	<b>530</b>

During the year, the Group impaired inventories by SEK 115 million (24). 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 48 million (32). The reversal of previously impaired stocks is due to the fact that these items could be sold or were no longer deemed obsolete.

## Note 15 Other current assets

	2018	2017
Other receivables	90	127
Prepaid expenses	34	43
Accrued income	1	—
Contract assets relating to development work and development of production tools (see also Note 4)	107	120
<b>Closing balance</b>	<b>232</b>	<b>290</b>

## Note 16 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.:

	2018	2017
Share capital	132	132
Other capital contributed	228	228
Translation reserve	137	101
Hedging reserves	–1	—
Retained earnings, incl. profit for the year*	2,096	1,698
<b>Total capital attributable to Parent Company shareholders</b>	<b>2,592</b>	<b>2,159</b>

\*The Group has three share warrant programmes: Series 1, which may result in a dilution of the number of shares by 240,500 in 2019, Series 2, which may result in a dilution of the number of shares by 196,200 in 2020, and Series 3, which may result in a dilution of the number of shares by 193,500 in 2021, totalling 630,200 shares. Retained earnings include premiums for Series 1 warrants in the amount of SEK 2 million, Series 2 warrants in the amount of SEK 3 million and Series 3 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 2018 is shown below.

	2018		2017	
	Financial targets	Outcome	Financial targets	Outcome
EBITA margin	>10%	11.7%	>10%	11.4%
Cash conversion	>75%	60.0%	>75%	66.0%
Equity/assets ratio	>35%	50.0%	>35%	45.0%

Nolato's dividend policy is to propose a dividend that exceeds 50% of profit after tax, taking account of Nolato's long-term development opportunities, financial position and investment needs. For 2018, the Board proposes a dividend of SEK 14.00 per share (12.50), corresponding to SEK 368 million (329). The pay-out ratio is 51% (57).

## Note 17 Other reserves

	Hedging reserves	Translation reserve	Total
<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>
<b>Opening balance, 1 January 2018</b>			
<i>Cash flow hedges:</i>			
Loss from fair value measurement during the year	–2	—	–2
Tax from fair value measurement	1	—	1
Translation differences	—	36	36
<b>Closing balance, 31 December 2018</b>	<b>–1</b>	<b>137</b>	<b>136</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 18 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 liabilities 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.

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 (Level 2).

	Year of maturity	2018		2017	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current financial liabilities<sup>1)</sup></b>					
Bank loan in CHF (fixed rate)	2020	9	9	10	10
Bank loan in CHF (fixed rate)*	2021	501	473	463	429
Bank loan in CHF (fixed rate)	2022	5	5	5	5
Bank loan in CHF (fixed rate)	2023	7	7	9	9
<b>Subtotal of non-current financial liabilities</b>		<b>522</b>	<b>494</b>	<b>487</b>	<b>453</b>
<b>Current financial liabilities</b>					
Accounts payable <sup>1)</sup>	2018–2019	594	594	666	666
Bank loan in SEK (variable rate) <sup>1)</sup>	< 3 months	—	—	70	70
Bank loan in CHF (fixed rate) <sup>1)</sup>	< 12 months	2	2	—	—
Working capital finance USD (zero interest) <sup>1)</sup>	N.A.	88	88	81	81
Derivatives <sup>1)</sup>		1	1	—	—
Derivatives identified for hedge accounting, at fair value via other comprehensive income (see Note 30)		3	3	—	—
<b>Subtotal of current financial liabilities</b>		<b>688</b>	<b>688</b>	<b>817</b>	<b>817</b>
<b>Total</b>		<b>1,210</b>	<b>1,182</b>	<b>1,304</b>	<b>1,270</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 been applied 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.

1) At fair value via profit or loss.

### 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 612 million (638). The average interest rate was 0.7% (0.7). The average remaining fixed-interest term is 25 months (47).

### Terms and repayment periods

Total credit lines granted in the Group amount to SEK 1,232 million (1,193). Of this amount, SEK 501 million matures on 27/09/2021 and SEK 600 million on 24/04/2022. Credit facilities totalling SEK 1,101 million are conditional upon normal covenants. These include requirements in terms of financial KPIs 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 131 million (130) mature between 2019 and 2023, according to the table above. Pledged assets for other credit facilities amount to SEK 97 million (76) 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.

Additional disclosures regarding financial risk management and hedge accounting are provided in Note 30 Financial risk management.

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 19 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. Finance leases for company cars in Sweden have been reported below as operating leases.

### Lease payments for leases in which the company is the lessee

	Operating leases	
<i>Non-cancellable lease agreements total:</i>	2018	2017
Within 1 year	82	59
Between 1 and 5 years	128	95
Over 5 years	3	3
<b>Total</b>	<b>213</b>	<b>157</b>

Operating lease agreements consist mainly of rental contracts for production premises, primarily in China, the UK and Sweden. Expensed leasing fees for the year totalled SEK 82 million (55). 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.

IFRS 16 Leases enters into force as of 1 January 2019. The greatest impact of IFRS 16 will be on the consolidated balance sheet, with gross recognition of right-of-use assets and lease liabilities. Under the new standard, the lease expense will be replaced by amortisation and interest expense, which will affect consolidated operating profit and net financial income/expense. Total cash flow in the cash flow statement will be unchanged, but there will be a reclassification between cash flow from operating activities and cash flow from financing activities.

In transitioning to IFRS 16 on 1 January 2019 the Group has used a modified retrospective method, meaning that the 2018 financial year is not recalculated. The lease liability is the sum of the net present value of all future lease payments for leases at the end of 2018. The simplification rule, that a right-of-use asset (prior to adjustments for any advance payments) should correspond to the lease liability, was applied at transition. All components, with the exception of property tax in Sweden, have been deemed to be a lease component. Exemptions to not recognise short-term leases and low-value assets have also been applied.

The discount rate is based on high-quality mortgage bond yields in Sweden, with reference to the term of leases, which for foreign companies are then adjusted for differences between 10-year government bond yields of Sweden and foreign countries. The largest asset class for leases is property, such as production plants and offices.

### Estimated impact on Group from IFRS 16 Leases

The following figures and KPIs are Nolato's preliminary estimates of the impact of the introduction of IFRS 16 on the full year 2019 and on the balance sheet at the start of 2019.

	Full year 2019
Cost of goods sold (reduction in cost)	-75 to -85
<b>EBITDA (increase in performance indicator)</b>	<b>+75 to +85</b>
Depreciation in cost of goods sold (increase in cost)	+70 to +80
<b>EBITDA/EBIT (increase in performance indicator)</b>	<b>0 to +10</b>
Interest expenses (increase in cost)	+8 to +12
<b>Profit after financial income and expenses (reduction in performance indicator)</b>	<b>0 to -10</b>
Tax (reduction in cost)	0 to -5
<b>Profit after tax (reduction in performance indicator)</b>	<b>0 to -5</b>
Effect on basic earnings per share (SEK)	0.00 to -0.20
	1 January 2019
Property, plant and equipment (increase in balance sheet item)	+350 to +370
Long-term lease liability (increase in balance sheet item)	+285 till +295
Short-term lease liability (increase in balance sheet item)	+65 to +75
	Full year 2019
EBIT (increase in performance indicator)	0 to +10
Reversal of depreciation (increase in cash flow item)	+70 to +80
Interest expenses (increase in cash flow item)	-8 to -12
<b>Cash flow from operating activities before changes in working capital (increase in cash flow item)</b>	<b>+65 to +75</b>
Cash flow from financing activities (reduction in cash flow item)	-65 to -75
<b>Cash flow for the period</b>	<b>—</b>

Nolato makes the following estimates regarding certain selected KPIs that will be affected by the introduction of IFRS 16. These are preliminary estimates based on the above estimated impact in 2019 on income statements and balance sheets, but in relation to KPI outcomes for the 2018 financial year. The impact (change) has been assessed as follows: Equity/assets ratio: -2 to -4 percentage points, return on capital employed: -2 to -4 percentage points, return on equity: 0 to -1 percentage point.

## Note 20 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 2018 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	2018	2017
Net present value of defined benefit pension schemes in Sweden	131	126
Net present value of pension scheme in Switzerland	50	57
Other pension schemes	1	1
<b>Total</b>	<b>182</b>	<b>184</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:

	2018	2017
Balance on 1 January	183	201
Change in scheme provision in Switzerland	- 3	—
Benefits vested during the period	3	2
Interest expenses	3	3
Benefits redeemed	—	—
Pension payments	- 5	- 5
Exchange rate effect	4	- 1
Actuarial gain (-)/loss (+)	- 4	- 17
<b>Total</b>	<b>181</b>	<b>183</b>

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

	2018	2017
Net present value of pension commitments, funded pension scheme	308	298
Fair value of pension assets	- 258	- 241
<b>Net debt, funded pension scheme*</b>	<b>50</b>	<b>57</b>

\*The net present value of expected net debt for 2019 is SEK 51 million (balance sheet date rate at 31 Dec. 2018).

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

	2018	2017
Cash and cash equivalents	3.2%	4.4%
Shares	30.4%	31.8%
Bonds	44.1%	44.7%
Property funds	17.2%	15.9%
Other investments	5.1%	3.2%

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

	2018	2017
Expenses related to service during the financial year	3	2
Interest expense	3	3
Expense for special employer's contribution	1	1
<b>Total expense for defined benefit pension schemes</b>	<b>7</b>	<b>6</b>
Expense for defined contribution schemes	83	85
Expense for special employer's contribution	9	9
<b>Total pension expense</b>	<b>99</b>	<b>100</b>

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

	2018	2017
<i>Amounts charged to operating profit:</i>		
Cost of goods sold	3	2
Administrative expenses	1	1
<i>Amounts charged to financial expenses:</i>		
Interest expenses	3	3
<b>Total</b>	<b>7</b>	<b>6</b>

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

	2018	2017
Actuarial gains (+)/losses (-)	4	17
Special employer's contribution	-1	-1
Deferred income tax	-1	-2
<b>Total</b>	<b>2</b>	<b>14</b>

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

	2018	2017
Discount rate	2.30%	2.30%
Inflation	1.80%	1.60%
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)	17.0	16.0

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

	2018	2017
Discount rate	0.85%	0.70%
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)	17.3	18.1

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

	Sweden	Switzerland
	2018	2018
Discount rate +0.5%	-10	-22
Discount rate -0.5%	11	25
Inflation +0.5%	9	3
Inflation -0.5%	-8	-3
Salary increase +0.5%	4	4
Salary increase -0.5%	-2	-4

#### Pension commitments within Alecta in Sweden

Charges for the year for pension insurance policies held with Alecta totalled SEK 6 million (6). Alecta's surplus can be allocated to policyholders and/or insured parties. At year-end 2018, Alecta's surplus, as expressed by the collective funding ratio, was a preliminary 142% (154). 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 21 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 estimation of the future cash flows required to settle obligations, even if the timing of the settlement 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:

	2018	2017
Potential restoration of rental property	10	11
Special employer's contribution acc. to IAS 19 for PRI pension liability	11	9
Special employer's contribution regarding endowment insurance	12	13
Product guarantees and customer claims	57	53
Other	1	1
<b>Amount at 31 December</b>	<b>91</b>	<b>87</b>

#### Note 22 Other current liabilities

	2018	2017
Customer advances, products	1	1
Contract liabilities relating to development work and development of production tools (see also Note 4)	298	316
Other current liabilities	57	43
<i>Accrued expenses and deferred income</i>		
Salary liabilities	120	117
Social security contributions	52	47
Deliveries of goods received, not invoiced	59	118
Energy costs	18	21
Rents	29	5
Restructuring costs	—	9
Claims	98	41
Maintenance	36	28
Tools	2	13
Machinery and spare parts	19	25
Other items	53	75
<b>Subtotal of accrued expenses and deferred income</b>	<b>486</b>	<b>499</b>
<b>Total</b>	<b>842</b>	<b>859</b>

#### Note 23 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

	2018	2017
Property mortgages in Switzerland	97	76
Blocked bank deposits*	37	—

\*At 31 December 2018, SEK 24 million relates to bank deposits blocked until 11/11/2019 and SEK 13 million until 13/01/2020.

##### Contingent liabilities

	2018	2017
Guarantee commitments, FPG/PRI	2	2

## Note 24 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 27.

There are no known transactions with related parties.

## Note 25 Cash flow

The following subcomponents are included in cash and cash equivalents:

	2018	2017
Cash and bank balances	894	596
Credit balance on Group account in Parent Company	59	73
<b>Total cash and cash equivalents reported in the cash flow statement</b>	<b>953</b>	<b>669</b>

### Unutilised credit

At the balance sheet date, unutilised credit within the Group stood at SEK 708 million (636).

### Reconciliation of liabilities attributable to financing activities

	2018	2017
Opening balance for non-current and current financial liabilities	638	621
<i>Changes affecting cash flow</i>		
Borrowings	5	151
Repayment of loans	– 72	– 102
<i>Changes not affecting cash flow</i>		
Translation effects	41	– 28
Derivatives	4	– 4
<b>Closing balance for non-current and current financial liabilities</b>	<b>616</b>	<b>638</b>

## Note 26 Events after the end of the financial year

No significant events have occurred since the balance sheet date.

## Note 27 Remuneration of senior executives

### Salaries and other remuneration of 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 2018, Group management comprised four individuals, in addition to the President and CEO. These are CFO Per-Ola Holmström, President of Medical Solutions Johan Ivelberg, 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 2018, the outcome for the President and CEO was 50% of base salary (50) and for senior executives it was 20–40% of base salary (24–40).

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 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.

#### Series 3 Incentive Programme (2018/2021)

Total subscribed warrants amounted to 193,500 and the price per warrant was SEK 17.80. The issue price for a B share is SEK 502.00. The warrants can be exercised to subscribe for shares as of 1 May 2021 up to and including 15 December 2021.

#### 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% (24) of pensionable salary, and follows a defined contribution pension scheme. Variable remuneration does not qualify as pensionable income.

Other senior executives have defined contribution pension schemes. For 2018, the average pension premium was 21% 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

	2018		2017	
	Men	Women	Men	Women
Parent Company Board incl. CEO	8	3	8	3
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) 5)</sup>	Total
<b>Remuneration and other benefits in 2018</b>						
Chairman of the Board, Fredrik Arp <sup>5)</sup>	– 375	—	—	—	– 150	– 525
Board member, Dag Andersson	– 200	—	—	—	—	– 200
Board member, Sven Boström-Svensson	– 200	—	—	—	—	– 200
Board member, Lovisa Hamrin	– 200	—	—	—	—	– 200
Board member, Åsa Hedin	– 200	—	—	—	—	– 200
Board member, Henrik Jorlén	– 243	—	—	—	—	– 243
Board member, Lars-Åke Rydh	– 265	—	—	—	—	– 265
Board member, Jenny Sjödahl	– 200	—	—	—	—	– 200
President and CEO, Christer Wahlquist	– 4,080	– 2,461	– 187	– 986	– 336	– 8,050
Other senior executives in Group management (four people)	– 12,096	– 4,192	– 414	– 2,565	– 166	– 19,433
<b>Total</b>	<b>– 18,059</b>	<b>– 6,653</b>	<b>– 601</b>	<b>– 3,551</b>	<b>– 652</b>	<b>– 29,516</b>

## Remuneration and other benefits in 2017

Chairman of the Board, Fredrik Arp <sup>6)</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>6)</sup>	– 194	—	—	—	—	– 194
Board member, Henrik Jorlén	– 236	—	—	—	—	– 236
Board member, Lars-Åke Rydh <sup>6)</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>

1) Including remuneration for committee work.

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

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

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

5) Fredrik Arp has invoiced SEK 150,000 for other agreed services in accordance with a decision by the AGM. Remuneration received has compensated for social security contributions.

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

**Note 28** Information on remuneration of auditors

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

SEK thousand	2018	2017
<b>EY</b>		
Auditing	– 3,338	– 2,813
Taxation assignments	– 56	– 209
Other assignments	– 186	– 66
<b>Total</b>	<b>– 3,580</b>	<b>– 3,088</b>

Auditing relates to reviewing the annual report and accounts, 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 82,000 (227,000).

## Note 29 Average number of employees

	2018		2017	
	Number	Of which men	Number	Of which men
<b>Parent Company in Sweden</b>				
Nolato AB, Torekov	9	78%	11	82%
<b>Subsidiaries in Sweden</b>				
Nolato Cerbo AB, Trollhättan	136	68%	131	66%
Nolato Gota AB, Götene	245	80%	182	76%
Nolato Hertila AB, Åstorp	14	71%	28	68%
Nolato Lövepac AB, Skånes Fagerhult	47	60%	41	61%
Nolato MediTech AB, Hörby	256	67%	226	69%
Nolato MediTor AB, Torekov	77	55%	74	53%
Nolato Plastteknik AB, Gothenburg	122	70%	114	71%
Nolato Polymer AB, Torekov	74	77%	59	78%
Nolato Silikonteknik AB, Hallsberg	75	71%	63	70%
	<b>1,046</b>	<b>70%</b>	<b>918</b>	<b>69%</b>
<b>Subsidiaries abroad</b>				
Cerbo France Sarl, France	1	0%	1	0%
Lövepac Converting Ltd, China	253	42%	223	47%
Lövepac Converting Private Ltd, India	2	100%	2	100%
Lövepac Technology (Shenzhen) Co., Ltd, China	52	44%	—	—
Nolato Mobile Comm. Polymers (Beijing) Ltd, China	3,053	51%	4,535	51%
Nolato Contour, Inc., US	233	55%	208	58%
Nolato EMC Kft, Hungary	9	56%	—	—
Nolato EMC Production Center SDN BHD, Malaysia	131	55%	96	58%
Nolato Hungary Kft, Hungary	711	43%	636	53%
Nolato Jaycare Ltd, UK	250	74%	240	77%
Nolato Medical Device Co. Ltd, China	52	62%	50	56%
Nolato Romania Srl, Romania	56	41%	48	40%
Nolato Silikonteknik (Beijing) Co., Ltd, China	229	51%	—	—
Nolato Stargard Sp.zo.o., Poland	113	24%	118	23%
Nolato Technology (Suzhou) Co., Ltd, China	53	43%	—	—
Nolato Treff AG, Switzerland	196	72%	163	70%
	<b>5,394</b>	<b>51%</b>	<b>6,320</b>	<b>52%</b>
	<b>6,449</b>	<b>54%</b>	<b>7,249</b>	<b>55%</b>

## Note 30 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 2018, Nolato's sales to countries outside Sweden accounted for 86% (82) 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 1 million (–20) 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 –7 million (–8) in net financial income/expense.

At the end of 2018, the Group had the following currency hedges in relation to anticipated payment flows in CNY, EUR, GBP and USD for 2019. 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 2018 was SEK 1 million (8). The fair value of contracts identified as cash flow hedges that meet the conditions for hedge accounting was SEK –2 million (2).

#### 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
<b>CNY (net sales)</b>	<b>288</b>	<b>1.28</b>	<b>–1</b>	<b>–1</b>	<b>—</b>
Q2 2019	288	1.28			
<b>EUR (net purch.)</b>	<b>47</b>	<b>10.32</b>	<b>—</b>	<b>—</b>	<b>—</b>
Q1 2019	35	10.32			
Q2 2019	5	10.32			
Q3 2019	—	10.32			
Q4 2019	7	10.32			
<b>GBP (net sales)</b>	<b>– 66</b>	<b>11.35</b>	<b>1</b>	<b>– 1</b>	<b>—</b>
Q4 2019	– 66	11.35			
<b>USD (net sales)</b>	<b>320</b>	<b>8.79</b>	<b>1</b>	<b>– 2</b>	<b>– 1</b>
Q1 2019	39	8.48			
Q2 2019	34	8.75			
Q3 2019	22	8.68			
Q4 2019	225	8.86			
<b>Total</b>	<b>589</b>		<b>1</b>	<b>– 4</b>	<b>– 1</b>

Gains and losses in other comprehensive income in relation to currency forward contracts at 31 December 2018 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	80	47	59%	10.32
USD	221	107	48%	8.64
<b>Total</b>	<b>301</b>	<b>154</b>	<b>51%</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 2018, the effect of the currency derivatives on operating profit was SEK –2 million (2).

#### Transaction exposure at 31 December 2018 (cash flow hedges)

SEKm	12-month unhedged estimated net flows	Exchange rate change	Impact on earnings
EUR	33	+/- 5%	2
USD	114	+/- 5%	5
<b>Total</b>	<b>147</b>		<b>7</b>

At the end of the year, the Group had SEK 147 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 17, 'Other reserves'.

### Translation exposure in foreign subsidiaries

SEKm	Net assets	5% increase in value of krona
Nolato Romania, RON	2	—
Nolato Holding USA, USD	52	–3
Nolato Holdings UK, GBP	134	–7
Nolato Automotive Components (Beijing), CNY	–1	—
Nolato Medical Device (Beijing), CNY	–25	1
Nolato Mobile Comm. Polymers (Beijing), CNY	671	–33
Nolato Technology (Suzhou), CNY	17	–1
Nolato Silikonteknik (Beijing), CNY	4	—
Lövepac Converting, CNY	33	–2
Lövepac Converting India, INR	–21	1
Lövepac Technology (Shenzhen), CNY	–11	1
Nolato EMC Prod. Center, MYR	9	—
Nolato Hungary, EUR	440	–22
Nolato EMC Hungary, EUR	–3	—
Nolato Stargard, PLN	10	–1
Cerbo France, EUR	—	—
<b>Total</b>	<b>1,311</b>	<b>–66</b>

The Group has SEK 1,311 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 –66 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.

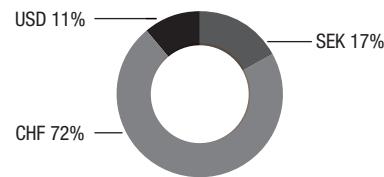
### Interest rate risk

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 612 million (638). 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:

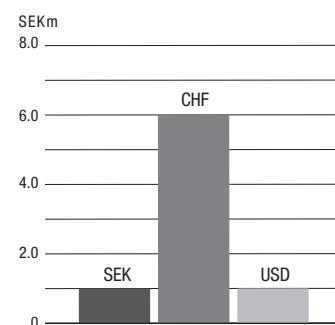
- Up to one year: 35–65%
- More than one year: 35–65%

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 1,232 million, of which SEK 501 million matures on 27/09/2021, SEK 600 million matures on 24/04/2022 and SEK 131 million between 2019 and 2023.

### Interest-bearing net debt at 31 December

	Outstanding amount (SEKm)	Future interest expense during the term outst.	Term outstanding (mths)	Fixed interest period outst. (mths)	Average interest (%)
<b>Interest-bearing liabilities</b>					
Bank loans, CHF	–524	10	25	25	0.7
Working capital finance	–88				—
Pension liability, SEK	–132				2.3
Pension liability, CHF	–50				4.0
<b>Total</b>	<b>–794</b>	<b>10</b>			<b>1.1</b>
<b>Interest-bearing assets</b>					
Cash and cash equivalents	953				1.4
<b>Total net financial assets</b>	<b>159</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. Hedge accounting is not applied for these currency swaps.

Subsidiaries	Currency swap	Selling price	Maturity date
Nolato Holding USA Inc., US	USD 22 million	8.8586	16 Dec. 2019
Nolato Holdings UK Ltd, UK	GBP 6 million	11.3484	16 Dec. 2019
Nolato EMC, Malaysia	USD 2 million	8.8788	16 Dec. 2019

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 9 million/EUR 2 million at the rate of 4.8419, maturing on 16 December 2019. Hedge accounting is not applied for this currency swap.

At 31 December the Group's financial liabilities stood at SEK 1,392 million (1,488). Non-interest-bearing liabilities are attributable primarily to accounts payable, with the term outstanding shown in the table below.

Maturity	1–3 months		4–12 months		Total
	< 1 month	months	months	> 1 year	
Accounts payable	407	146	41	—	594

#### 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 1,909 million (1,807) at the balance sheet date. The exposure comprises the carrying amount of all financial assets.

#### Credit risk (SEKm)

	2018	2017
Accounts receivable	949	1,128
Contract assets relating to development work and development of production tools (see also Note 4)	107	120
Other receivables	2	2
Derivatives	5	8
Cash and cash equivalents	953	669
<b>Total</b>	<b>1,909</b>	<b>1,807</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 5 million (8) and derivative liabilities of SEK 4 million (0) 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 IFRS 9 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.

#### 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 –37 million (27) before tax for 2018 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 31 Sale of subsidiary

#### Sale of Nolato Hertila AB

On 5 July 2018, the Nolato Group divested the subsidiary Nolato Hertila AB to Essentra International Limited, which is part of Essentra Plc. The purchase price totalled SEK 58 million.

Nolato Hertila is focused on the production and sale of standard products that provide protection during painting, assembly and transportation, and it was the only company of this kind in the Group. The divestment is part of the Industrial Solutions business area's focus on developing and manufacturing customer-specific products for the automotive sector and general industry.

Nolato Hertila had 25 employees in Åstorp and annual sales of approximately SEK 40 million.

#### Net assets

	Balance sheet at time of sale
Non-current intangible assets	63
Property, plant and equipment	6
Current assets	11
Cash and cash equivalents	1
Current liabilities	– 9
<b>Sold net assets</b>	<b>72</b>

#### Capital gain/loss in the Group

Cash received, sale proceeds	58
Less selling expenses	– 3
Less sold net assets	– 72
<b>Capital loss</b>	<b>– 17</b>

#### Cash flow effects

Cash received, sale proceeds	58
Less selling expenses	– 3
Less cash equivalents sold	– 1
<b>Net cash flow from the sale</b>	<b>54</b>

## Five-year review key performance indicators

	2018	2017	2016	2015	2014
<b>Performance indicators according to IFRS<sup>1)</sup></b>					
Operating profit (EBIT) (SEK million)	941	749	443	556	454
Basic earnings per share after tax (SEK)*	27.44	21.74	12.77	15.97	13.84
<b>Performance indicators (alternative performance measures)<sup>1)</sup></b>					
Reversal of amortisation of intangible assets arising in connection with acquisitions	8	14	14	14	16
Operating profit (EBITA) (SEK million)	949	763	457	570	470
<b>Performance indicators per share (alternative performance measures)<sup>1)</sup></b>					
Profit/loss after tax for the year (SEKm)	722	572	336	420	364
Reversal of amortisation of intangible assets arising in connection with acquisitions	8	14	14	14	16
Tax on reversal of amortisation of intangible assets arising in connection with acquisitions	– 2	– 3	– 3	– 4	– 4
Adjusted profit/loss after tax (SEKm)	728	583	347	430	376
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)*	27.67	22.16	13.19	16.35	14.29
<b>Sales and profit (alternative performance measures)<sup>1)</sup></b>					
Net sales (SEK million)	8,102	6,720	4,447	4,726	4,234
Sales growth (%)	21	51	– 6	12	– 6
Profit after financial income and expenses (SEK million)	921	731	438	555	462
Profit for the year (SEK million)	722	572	336	420	364
<b>Cash flow (alternative performance measures)<sup>1)</sup></b>					
Cash flow from operations (SEK million)	1,045	773	466	532	330
Investing activities (SEK million)	– 398	– 277	– 619	– 244	– 203
Cash flow after investing activities (SEK million)	647	496	– 153	288	127
Cash flow from operating activities per share, before dilution (SEK)*	39.72	29.38	17.71	20.22	12.54
Cash flow after investing activities excluding acquisitions and disposals per share, before dilution, (SEK)*	22.54	18.85	9.31	10.95	4.83
Cash conversion (%)	60	66	55	52	28
<b>Financial position (alternative performance measures)<sup>1)</sup></b>					
Total assets (SEK million)	5,156	4,752	3,924	3,233	2,914
Shareholders' equity (SEK million)	2,592	2,159	1,850	1,759	1,567
Interest-bearing liabilities and provisions (SEK million)	– 794	– 822	– 819	– 281	– 197
Net financial assets (+)/net financial liabilities (–) (SEK million)	159	– 153	– 408	122	59
<b>KPIs (alternative performance measures)<sup>1)</sup></b>					
Return on total capital before tax (%)	18.4	17.1	13.7	18.3	17.1
Return on capital employed before tax (%)	29.7	26.6	20.6	29.6	28.4
Return on operating capital before tax (%)	40.0	32.1	24.4	35.3	33.0
Return on net shareholders' equity (%)	30.4	29.4	19.0	25.3	25.0
EBITA margin (%)	11.7	11.4	10.3	12.1	11.1
Profit margin (%)	11.4	10.9	9.8	11.7	10.9
Equity/assets ratio (%)	50	45	47	54	54
Debt/equity ratio (times)	0.3	0.4	0.4	0.2	0.1
Interest coverage ratio (times)	40	56	67	78	58
Average number of employees	6,449	7,249	6,418	7,759	8,020

<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 85.

\*The Group has had three share warrant programmes since 2016: Series 1, Series 2 and Series 3. Series 1 has redemptions from 01/05/2019 to 15/12/2019, Series 2 from 01/05/2020 to 15/12/2020, and Series 3 from 01/05/2021 to 15/12/2021. The subscription price for Series 1 is SEK 296.30 each, for Series 2 SEK 485.10 each and for Series 3 SEK 502.00 each. The programmes have been included in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 630,200 new class B shares.

## Alternative performance measures

SEKm unless otherwise specified		2018	2017
Operating profit (EBITDA)		1,189	980
Non-recurring items		– 3	—
<b>Adjusted operating profit (EBITDA)</b>		<b>1,186</b>	<b>980</b>
Operating profit (EBIT)		941	749
Reversal of amortisation of intangible assets arising in connection with acquisitions		8	14
Operating profit (EBITA)		949	763
Non-recurring items		– 3	—
<b>Adjusted operating profit (EBITA)</b>		<b>946</b>	<b>763</b>
EBITA margin (%)		11.7	11.4
<b>Adjusted EBITA margin (%)</b>		<b>11.7</b>	<b>11.4</b>
Profit after financial income and expenses		921	731
Non-recurring items		– 3	—
<b>Adjusted profit after financial income and expenses</b>		<b>918</b>	<b>731</b>
Profit margin (%)		11.4	10.9
<b>Adjusted profit margin (%)</b>		<b>11.3</b>	<b>10.9</b>
Profit after tax		722	572
Non-recurring items		– 3	—
Tax on non-recurring items		– 4	—
<b>Adjusted profit/loss after tax</b>		<b>715</b>	<b>572</b>
Cash flow after investments, excl. acquisitions and disposals		593	496
Non-recurring items (affecting cash flow)		– 29	—
Adjusted cash flow after investments, excluding acquisitions and disposals		564	496
Operating profit (EBIT)		941	749
Non-recurring items		– 3	—
Adjusted operating profit (EBIT)		938	749
<b>Cash conversion (%)</b>		<b>60</b>	<b>66</b>

Non-recurring items consist of a distribution from the previous bankruptcy of a customer in 2006 and a capital loss on a divested business. The dividend in Q1 2018 had a positive effect on operating profit of SEK +20 million (0) within other operating income and the capital loss in Q3 2018 had a negative impact on operating profit of SEK –17 million (0) within other operating expenses. These non-recurring items were recognised at Group level and have consequently not affected the profit of the business areas.

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
SEKm unless otherwise specified									
Profit after financial income and expenses, rolling 12 mths	921	936	936	849	731				
Financial expenses, rolling 12 mths	24	23	21	16	13				
Adjusted profit after financial exp., rolling 12 mths	945	959	957	865	744				
Total capital at end of period	5,156	5,229	5,381	5,148	4,752	4,612	4,487	3,967	3,924
Average total capital, past five quarters	5,133	5,024	4,876	4,593	4,348				
<b>Return on total capital (%)</b>	<b>18.4</b>	<b>19.1</b>	<b>19.6</b>	<b>18.8</b>	<b>17.1</b>				
Adjusted profit after financial exp., rolling 12 mths	945	959	957	865	744				
Capital employed at end of period	3,387	3,225	3,131	3,188	2,980	2,836	2,836	2,676	2,668
Average capital employed, past five quarters	3,182	3,072	2,994	2,903	2,799				
<b>Return on capital employed (%)</b>	<b>29.7</b>	<b>31.2</b>	<b>32.0</b>	<b>29.8</b>	<b>26.6</b>				
Operating profit (EBIT), rolling 12 mths	941	955	958	868	749				
Capital employed at end of period	3,387	3,225	3,131	3,188	2,980	2,836	2,836	2,676	2,668
Cash and bank balances at end of period	– 953	– 818	– 891	– 817	– 669	– 561	– 380	– 311	– 411
Operating capital at end of period	2,434	2,407	2,240	2,371	2,311	2,275	2,456	2,365	2,257
Average operating capital, past five quarters	2,353	2,321	2,331	2,356	2,333				
<b>Return on operating capital (%)</b>	<b>40.0</b>	<b>41.1</b>	<b>41.1</b>	<b>36.8</b>	<b>32.1</b>				
Profit after tax, rolling 12 mths	722	744	743	670	572				
Shareholders' equity at end of period	2,592	2,422	2,301	2,412	2,159	1,950	1,815	1,955	1,850
Average shareholders' equity, past five quarters	2,377	2,249	2,127	2,058	1,946				
<b>Return on shareholders' equity (%)</b>	<b>30.4</b>	<b>33.1</b>	<b>34.9</b>	<b>32.6</b>	<b>29.4</b>				

## 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.

### ► 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.

### ► 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.

### ► EBITA margin

Operating profit (EBITA) as a percentage of net sales.

### ► Net financial liabilities/net financial assets

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

### ► 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 if they are in the money, but only insofar as the average listed share price for the period exceeds the subscription price of the warrants.

### ► Adjusted earnings per share

Profit after tax, excluding amortisation of intangible assets arising from acquisitions, divided by the average number of shares.

### ► 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.

### ► 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.

### ► Interest coverage ratio

Profit after financial income and expenses, plus financial expenses, divided by financial expenses.

### ► Operating profit (EBITDA)

Earnings before interest, taxes, depreciation and amortisation.

### ► Operating profit (EBITA)

Earnings before interest, taxes and amortisation of intangible assets arising from acquisitions.

### ► Debt/equity ratio

Interest-bearing liabilities and provisions divided by shareholders' equity.

### ► Equity/assets ratio

Shareholders' equity as a percentage of total capital according to the balance sheet.

### ► Profit margin

Profit after financial income and expenses as a percentage of net sales.

\*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.

## 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.

## Parent Company income statement

SEKm	Note	2018	2017
Net sales	2	63	50
Selling expenses	6, 12	– 7	– 6
Administrative expenses	3, 6, 12	– 49	– 51
Other operating income	4	5	6
Other operating expenses	5	– 47	– 25
	12	<b>– 98</b>	<b>– 76</b>
<b>Operating profit</b>		<b>– 35</b>	<b>– 26</b>
Revenue from investments in Group companies	7	495	260
Financial income	8	14	46
Financial expenses	9	– 60	– 5
		<b>449</b>	<b>301</b>
<b>Profit after financial income and expenses</b>		<b>414</b>	<b>275</b>
Appropriations	10	252	244
Tax	11	– 55	– 66
<b>Profit for the year</b>		<b>611</b>	<b>453</b>

## Parent Company comprehensive income

SEKm	2018	2017
Profit for the year	611	453
<b>Comprehensive income for the year</b>	<b>611</b>	<b>453</b>

## Parent Company balance sheet

SEKm	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Non-current intangible assets		1	3
Property, plant and equipment		1	1
<b>Total non-current assets</b>		<b>2</b>	<b>4</b>
<b>Financial assets</b>			
Investments in Group companies	13	1,231	1,226
Receivables from Group companies	16	442	396
Other non-current receivables		2	3
Deferred tax assets	11	—	5
<b>Total non-current financial assets</b>		<b>1,675</b>	<b>1,630</b>
<b>Total non-current assets</b>		<b>1,677</b>	<b>1,634</b>
<b>Current assets</b>			
Receivables from Group companies		870	690
Other receivables		30	7
Prepaid expenses and accrued income		4	8
<b>Total current assets</b>		<b>904</b>	<b>705</b>
Cash and bank balances		59	73
<b>Total assets</b>		<b>2,640</b>	<b>2,412</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		609	485
Profit for the year		611	453
<b>Total unrestricted equity</b>		<b>1,217</b>	<b>935</b>
<b>Total shareholders' equity</b>		<b>1,577</b>	<b>1,295</b>
<b>Untaxed reserves</b>	19	<b>199</b>	<b>200</b>
<b>Provisions</b>			
Deferred tax liabilities	11	6	—
Other provisions	17	12	13
<b>Total provisions</b>		<b>18</b>	<b>13</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	15	501	464
Liabilities to Group companies	16	55	55
<b>Total non-current liabilities</b>		<b>556</b>	<b>519</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	15	—	70
Accounts payable		3	7
Liabilities to Group companies		258	291
Other liabilities		12	2
Accrued expenses and deferred income	18	17	15
<b>Total current liabilities</b>		<b>290</b>	<b>385</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,640</b>	<b>2,412</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. 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>
<b>Opening balance, 1 Jan. 2018</b>	<b>132</b>	<b>228</b>	<b>– 3</b>	<b>938</b>	<b>1,295</b>
Profit for the year			—	611	611
Other comprehensive income for the year			—	—	—
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>611</b>	<b>611</b>
Dividend for 2017			—	– 329	– 329
<b>Closing balance, 31 Dec. 2018</b>	<b>132</b>	<b>228</b>	<b>– 3</b>	<b>1,220</b>	<b>1,577</b>

## Parent Company cash flow statement

SEKm	Note	2018	2017
<b>Operating activities</b>			
Operating profit		– 35	– 26
Dividends from subsidiaries		131	77
Liquidation profit from subsidiaries		6	—
Interest received		14	20
Interest paid		– 5	– 5
Realised exchange rate differences		– 25	17
Income tax paid		– 66	– 51
<b>Cash flow from operating activities before changes in working capital</b>		<b>20</b>	<b>32</b>
<b>Changes in working capital</b>			
Changes in operating receivables and operating liabilities		102	– 21
<b>Cash flow from operating activities</b>		<b>122</b>	<b>11</b>
<b>Investing activities</b>			
Acquisition of non-current intangible assets		– 2	– 3
Acquisition of non-current financial assets		– 46	—
Shareholders' contribution		—	– 9
Sale of non-current intangible assets		3	—
Sale of non-current financial assets		55	—
<b>Cash flow from investing activities</b>		<b>10</b>	<b>– 12</b>
<b>Cash flow before financing activities</b>		<b>132</b>	<b>– 1</b>
<b>Financing activities</b>			
Borrowings	15	—	70
Repayment of loans	15	– 70	– 90
Change in long-term intra-Group transactions		– 29	20
Dividend paid		– 329	– 276
Group contributions received		288	281
Group contributions paid		– 6	– 6
<b>Cash flow from financing activities</b>		<b>– 146</b>	<b>– 1</b>
<b>Cash flow for the year</b>		<b>– 14</b>	<b>– 2</b>
<b>Cash and cash equivalents, opening balance</b>		<b>73</b>	<b>75</b>
<b>Cash and cash equivalents, closing balance*</b>		<b>59</b>	<b>73</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 re-portioning 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 revenue 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 IFRS 9 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 2018 are described in Note 30 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 286,000 (341,000). 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

	2018	2017
Sales of services to subsidiaries	63	50
Purchase of services from subsidiaries	– 6	– 5

### Note 3 Information on remuneration of auditors

The company's auditing firm has received remuneration:

SEK thousand	2018	2017
<b>EY</b>		
Auditing	– 805	– 606
Taxation assignments	– 50	– 209
Other assignments	—	– 22
<b>Total</b>	<b>– 855</b>	<b>– 837</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

	2018	2017
Effect of exchange rate on operating receivables/liabilities	5	6

### Note 5 Other operating expenses

	2018	2017
Effect of exchange rate on operating receivables/liabilities	– 9	– 4
Costs for personnel who are not employed by the Parent Company and their overheads	– 38	– 21
<b>Total</b>	<b>– 47</b>	<b>– 25</b>

### Note 6 Personnel

#### Average number of employees

	2018 Number	2017 Number	2018 Of which men	2017 Of which men
Nolato AB, Torekov, Sweden	9	11	78%	82%

#### Employee benefits expense

	2018	2017
Salaries and remuneration	– 26	– 25
Pension expenses, defined contribution schemes	– 4	– 4
Social security contributions	– 9	– 9
<b>Total</b>	<b>– 39</b>	<b>– 38</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 27 million (25), of which SEK 7 million (5) relates to bonuses. Of the Parent Company's pension expenses, SEK 1 million (1) relates to the Board and the President and CEO. The company's outstanding pension liabilities and obligations in relation to the Board and the President and CEO stood at SEK 0 million (0).

#### Gender distribution of senior executives

	2018		2017	
	Men	Women	Men	Women
Board members	7	3	7	3
President and CEO	1	—	1	—
Other senior executives	4	—	4	—

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

	2018	2017
Dividend received from Group companies	131	77
Anticipated dividend from Group companies	344	183
Capital gain on sale of subsidiary	14	—
Liquidation profit from Group companies	6	—
<b>Total</b>	<b>495</b>	<b>260</b>

#### Note 8 Financial income

	2018	2017
Interest income, Group companies	14	20
Exchange rate differences	—	26
<b>Total</b>	<b>14</b>	<b>46</b>

All interest income is attributable to financial assets, which are measured at amortised cost.

#### Note 9 Financial expenses

	2018	2017
Interest expenses, credit institutions	– 4	– 4
Other financial expenses	– 1	– 1
Insurance recourse <sup>1)</sup>	– 10	—
Exchange rate differences	– 45	—
<b>Total</b>	<b>– 60</b>	<b>– 5</b>

1) Relates to a bankruptcy payment of a previously credit-insured customer.

All interest expenses are attributable to financial liabilities, which are measured at amortised cost.

#### Note 10 Appropriations

	2018	2017
Group contributions received	257	287
Group contributions paid	– 6	– 6
Reversal of tax allocation reserve	47	47
Provision for tax allocation reserve	– 46	– 84
<b>Total</b>	<b>252</b>	<b>244</b>

#### Note 11 Tax

##### Recognised in the income statement

	2018	2017
<b>Current tax expense (–)/income (+)</b>		
Tax expenses for the period	– 44	– 58
	<b>– 44</b>	<b>– 58</b>
<b>Deferred tax expense (–)/income (+)</b>		
Deferred tax in relation to temporary differences	– 11	– 8
<b>Total recognised tax expense</b>	<b>– 55</b>	<b>– 66</b>

##### Reconciliation of effective tax

The tax rate applicable is 22%.

	2018	2017
<b>Profit before tax</b>		
Tax according to applicable Parent Company tax rate	– 147	– 114
Coupon tax on anticipated dividends	– 17	– 9
Non-deductible expenses	—	—
Non-taxable income	109	57
<b>Recognised effective tax</b>	<b>– 55</b>	<b>– 66</b>
<b>Recognised in the balance sheet</b>		
Other provisions	2	3
Other	– 8	2
<b>Total</b>	<b>– 6</b>	<b>5</b>

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

	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>

	Balance at 1 Jan. 2018	Recognised in profit for the year	Recognised in shareholders' equity	Balance at 31 Dec. 2018
Other provisions	3	– 1	—	2
Other	2	– 10	—	– 8
<b>Total</b>	<b>5</b>	<b>– 11</b>	<b>—</b>	<b>– 6</b>

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

	2018	2017
Employee benefits expense	– 39	– 38
Insurance	—	– 1
Consulting expenses	– 5	– 5
Travel expenses	– 2	– 1
Advertising and PR	– 4	– 5
Effect of exchange rate on operating receivables/liabilities, net	– 4	2
Costs for personnel who are not employed by the Parent Company and their overheads (charged on)	– 38	– 21
Other costs	– 6	– 7
<b>Total</b>	<b>– 98</b>	<b>– 76</b>

### Note 13 Investments in Group companies

	2018	2017
Acquisition cost at 1 January	1,586	1,578
Newly formed subsidiary	46	—
Shareholders' contribution	—	8
Disposals	– 41	—
<b>Accumulated acquisition cost at 31 December</b>	<b>1,591</b>	<b>1,586</b>
Accumulated impairment losses at 1 January	– 360	– 360
Impairment losses for the year	—	—
<b>Accumulated impairment losses at 31 December</b>	<b>– 360</b>	<b>– 360</b>
<b>Carrying amount</b>	<b>1,231</b>	<b>1,226</b>

	Participating interest		Carrying amount	
	2018	2017	2018	2017
AB Cerbo Group, Trollhättan, Sweden	100%	100%	117	117
Nolato Cerbo AB, Trollhättan, Sweden	100%	100%	—	—
Cerbo France Sarl, France	100%	100%	—	—
Lövepac Converting Ltd, China	100%	100%	9	9
Lövepac Converting Private Ltd, India	100%	100%	—	—
Nolato Alpha AB, Kristianstad, Sweden	100%	100%	12	12
Nolato Automotive Components (Beijing) Co. Ltd, China	100%	100%	1	1
Nolato EMC Kft, Hungary	100%	—	—	—
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%	—	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	9
Nolato Technology (Suzhou) Co., Ltd, China	100%	—	46	—
Nolato Torekov AB, Torekov, Sweden	100%	100%	12	12
Nolato Treff AG, Switzerland	100%	100%	488	488
<b>Carrying amount</b>			<b>1,231</b>	<b>1,226</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. 2017	26,307,408	SEK 5	SEK 131,537 k
Share capital, 31 Dec. 2018	26,307,408	SEK 5	SEK 131,537 k

## Note 15 Borrowings

	Maturity date	2018	2017
Short-term bank loan in SEK (variable rate)	< 3 months	—	70
Long-term bank loan in CHF (fixed rate)	2021	501	464
<b>Total</b>		<b>501</b>	<b>534</b>

## Reconciliation of liabilities attributable to financing activities

	2018	2017
Opening balance for non-current and current financial liabilities	534	580
<i>Changes affecting cash flow</i>		
Borrowings	—	70
Repayment of loans	—70	—90
<i>Changes not affecting cash flow</i>		
Translation effects	37	—26
<b>Closing balance for non-current and current financial liabilities</b>	<b>501</b>	<b>534</b>

## Note 16 Receivables and liabilities, Group companies

### Receivables from Group companies

At 1 January 2017	433
Change	—37
<b>At 1 January 2018</b>	<b>396</b>
Change	46
<b>At 31 December 2018</b>	<b>442</b>

### Liabilities to Group companies

At 1 January 2017	55
Change	—
<b>At 1 January 2018</b>	<b>55</b>
Change	—
<b>At 31 December 2018</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

	2018	2017
Amount at 1 January	13	11
Provisions for the year	1	2
Amounts claimed	—2	—
<b>Amount at 31 December</b>	<b>12</b>	<b>13</b>

Relates to future salary tax for endowment insurance.

## Note 18 Accrued expenses and deferred income

	2018	2017
Salary liabilities	8	8
Social security contributions	7	5
Other items	2	2
<b>Total</b>	<b>17</b>	<b>15</b>

## Note 19 Untaxed reserves

	2018	2017
Provision for tax allocation reserve (taxation year 2013)	—	47
Provision for tax allocation reserve (taxation year 2016)	69	69
Provision for tax allocation reserve (taxation year 2017)	84	84
Provision for tax allocation reserve (taxation year 2018)	46	—
<b>Total</b>	<b>199</b>	<b>200</b>

## Note 20 Contingent liabilities

	2018	2017
Guarantees on behalf of subsidiaries	145	116

## 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 63 million (50), 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 14 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 442 million (396) 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 475 million (260), of which SEK 344 million (183) refers to anticipated dividend.

## Note 22 Appropriation of profit

### Proposed allocation of earnings

	2018	2017
The Board proposes that unappropriated funds:		
Retained earnings	606	482
Profit for the year	611	453
	<b>1,217</b>	<b>935</b>
be allocated as follows:		
Dividend to the shareholders	368	329
To be carried forward	849	606
	<b>1,217</b>	<b>935</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 12 March 2019. 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 8 May 2019.

Torekov, Sweden, 12 March 2019



Fredrik Arp  
Chairman of the Board



Sven Boström-Svensson  
Board member



Henrik Jordén  
Board member



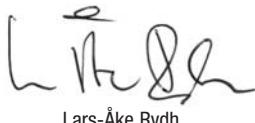
Lovisa Hamrin  
Board member



Dag Andersson  
Board member



Åsa Hedin  
Board member



Lars-Åke Rydh  
Board member



Jenny Sjödahl  
Board member



Christer Wahlquist  
President and CEO



Björn Jacobsson  
Employee representative



Håkan Svensson  
Employee representative

Our auditor's report was submitted on 19 March 2019.  
Ernst & Young AB



Joakim Falck  
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) except for the statutory sustainability report on page 49 for the financial year 2018. The annual accounts and consolidated accounts of the company are included on pages 47-92 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 2018 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 2018 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. Our opinions do not cover the statutory sustainability report on page 49. 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 investments in Group companies

Description	How our audit addressed this key audit matter
<p>Goodwill is recognised at SEK 719 million and investments in Group companies are recognised at SEK 1,231 million at 31 December 2018. Nolato conducts an annual review and in the event of an indication of impairment, to assure 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 2018 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 11.</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 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the parent company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on page 49, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850 103 99 Stockholm, was appointed auditor of Nolato AB by the general meeting of the shareholders on the 24 April 2018 and has been the company's auditor since the 29 April 2015.

Torekov, 19 March, 2019

Ernst & Young AB



Joakim Falck  
Authorized Public Accountant

# 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.

**2018**

Nolato Hertila AB is divested.



The Nolato Annual Report was produced by Bysted AB.

Photography: Lasse Davidsson, Karl Forsberg, Jüri Soomägi, Lasse Strandberg and others. Illustrations: Björn Nilsson.

Repro & printing: Gigantprint, Vellinge. Translation by Hilltop Language Ltd. Production has been carried out in line with Nolato's corporate responsibility principles, with a sustainability focus, social responsibility and a low environmental impact. The paper comes from responsible, certified sources and the printing process is FSC and environmentally certified.

**Nolato AB**

SE-269 04 Torekov, Sweden  
Street address: Nolatovägen  
Phone: +46 431 442290  
Fax: +46 431 442291  
Email: info@nolato.com

**Nolato Beijing**

402 Longsheng Industrial Park  
7 Rong Chang Road East  
Beijing Development Area  
Beijing 100176, China  
Phone: +86 10 6787 2200

**Suzhou, China**

Nolato Electronic Technology  
(Suzhou) Co. Ltd.  
Building E Pingqian Industrial Park  
No. 46 Chunxing Road  
Xiangcheng District  
Suzhou 215100, China  
Phone: +86 512 6939 0380

**Nolato Beijing Medical**  
402 Longsheng Industrial Park  
7 Rong Chang Road East  
Beijing Development Area  
Beijing 100176, China  
Phone: +86 10 6787 2200

**Kristianstad**

Krinova Incubator & Science Park  
Nolato AB 2022:210  
Stridsvagnsvägen 14  
SE-291 39 Kristianstad, Sweden  
Phone: +46 708-74 41 70

**San Diego, USA**

16208 Palomino Mesa Ct  
San Diego, CA 92127, USA  
Phone: +1 858 859 5270

**Nolato Cerbo**

Box 905, SE-461 29 Trollhättan, Sweden  
Street address: Verkmästarevägen 1-3  
Phone: +46 520 409900

**Paris, France**

15 Rue Vignon  
FR-75008 Paris, France  
Phone: +33 1 47 975284

**Nolato Contour**

660 VandeBerg Street  
Baldwin, WI 54002, USA  
Phone: +1 715 684 4614

**Nolato Gota**

Box 29, SE-533 21 Götene, Sweden  
Street address: Alsborgsgatan 2  
Phone: +46 511 342100

**Nolato Hungary**

Jánossomorjai utca 3  
HU-9200 Mosonmagyaróvár, Hungary  
Phone: +36 96 578770  
Negoiesti, Romania  
DIBO Industrial Park, H13  
Negoiesti, Prahova,  
Romania, 107086

**Nolato Jaycare**

Portsmouth, UK  
Walton Road, Farlington  
Portsmouth Hampshire, PO6 1TS  
UK  
Phone: +44 2392 370102

**Newcastle, UK**  
New York Way, New York Ind. Park  
Newcastle upon Tyne NE27 0QF  
UK  
Phone: +44 191 296 0303

**Lövepac Converting**

4<sup>th</sup> Floor, Building 3,  
No. 21 Xingsheng Road  
BDA, Beijing, 100176  
China  
Phone: +86 10 6780 5580

**Shenzhen, China**  
First Floor, No. 3 Building,  
No. 1 Lirong Rd. Changyi Industrial  
Area, Xinshi Community,  
Dalang St. Longhua District  
518109 Shenzhen, China  
Phone: +86 755 8610 6065

**Penang, Malaysia**  
Nolato EMC Production Center  
Plot 368, Lorong Perindustrian Bukit  
Minyak 21, Penang Science Park,  
14100 Simpang Ampat  
Penang, Malaysia  
Phone: +604 50 57 830

**Nolato Lövepac**

Ringvägen 5  
SE-286 73 Skånes Fagerhult,  
Sweden  
Phone: +46 433 32300

**Beijing, China**  
**Nolato Automotive Components**  
402 Longsheng Industrial Park  
7 Rong Chang Road East  
Beijing Development Area  
Beijing 100176, China  
Phone: +86 10 6787 2200

**Nolato MediTech**

Box 93, SE-242 21 Hörby, Sweden  
Street address: Medicingatan 4  
Phone: +46 415 19700

**Lomma, Sweden**  
Box 28, SE-234 21 Lomma, Sweden  
Street address: Koppargatan 13  
Phone: +46 415 19700

**Nolato MediTor**

SE-269 04 Torekov, Sweden  
Street address: Nolatovägen  
Phone: +46 431 442260

**Nolato Plastteknik**

Box 4123, SE-422 04 Hisings Backa,  
Sweden  
Street address: Exportgatan 59  
Phone: +46 31 588400

**Nolato Polymer**

SE-269 04 Torekov, Sweden  
Street address: Nolatovägen  
Phone: +46 431 442200

**Ängelholm, Sweden**  
Framtidsgatan 6  
SE-262 73 Ängelholm, Sweden  
Phone: +46 431 442200

**Nolato Silikonteknik**

Box 62, SE-694 22 Hallsberg, Sweden  
Street address: Bergmansvägen 4,  
Phone: +46 582 88900

**Györ, Hungary**  
Nolato EMC Production  
Center Limited Liability Company  
Bükfa utca 10  
HU-9027, Györ, Hungary  
**Beijing, China**  
402 Longsheng Industrial Park  
7 Rong Chang Road East  
Beijing Development Area  
Beijing 100176, China  
Phone: +86 10 6787 2200

**Penang, Malaysia**  
Nolato EMC Production Center Sdn. Bhd.  
Plot 368, Lorong Perindustrian Bukit  
Minyak 21, Penang Science Park,  
14100 Simpang Ampat  
Penang, Malaysia  
Phone: +604 50 57 830

**Nolato Stargard**

UL. Usłogowa 1  
73-110 Stargard  
Poland  
Phone: +48 91 573 6362

**Nolato Treff**

Taastrasse 16, 9113 Degersheim  
Switzerland  
Phone: +41 71 372 55 55

[www.nolato.com](http://www.nolato.com)