

ANNUAL REPORT 2019

Global expansion

“As a profitable, sustainable and innovative company at the cutting edge of technology, we are well positioned to take advantage of the many opportunities that the future holds, with continued healthy profitability and growth.”



Nolato's offering

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

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

One Nolato

We are One Nolato

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



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

Nolato shares

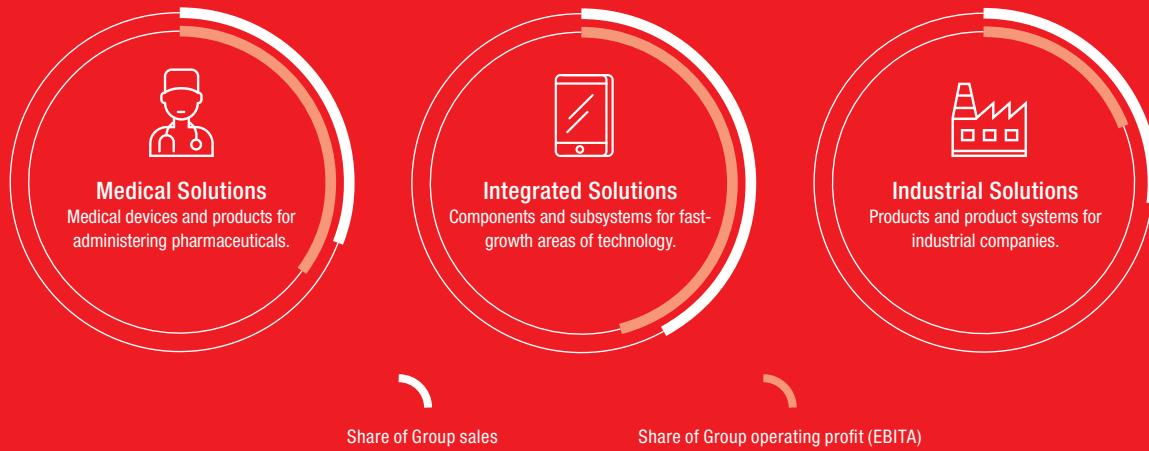
Nolato was listed on the stock exchange in 1984 and its B shares, STO:NOLA B, are listed on Nasdaq Stockholm in the Large Cap segment, where they are included in the Industrials sector.



*The information on pages 47–92 has been audited.

The Nolato Group in brief

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



Our values

Professional
Well organised
Responsible

Three basic principles that comprise Nolato's group-wide values and are key to our long-standing tradition of responsible business and sustainable development strategy.



Employees

5,900

Nolato's average no. of employees in 2019

Our global presence

Other countries 2%
North America 7%
Sweden 15%

Asia 36%
Rest of Europe 40%

Sales per geographical market

Significant events in 2019

Financial performance

- Growth in 2019 dipped following a record year in 2018, but the Group maintained a high margin and cash flow was very strong, which contributed to further bolstering the Group's healthy financial position for the future.
- Nolato's sales totalled SEK 7,919 million (8,102).
- Operating profit (EBITA) was SEK 895 million (949).
- Operating margin (EBITA) of 11.3% (11.7).
- Basic earnings per share were SEK 26.60 (27.44).

Sustainable development

- Purchasing of fossil-free electricity increased, accounting for 66% (53) of energy usage.
- Carbon dioxide emissions decreased to 4.3 tonnes/SEK million of sales (4.5).
- Increased focus on bio-based and recycled raw materials.
- Ten years as a signatory to the UN Global Compact, the world's largest sustainable development network.





Medical Solutions



Integrated Solutions



Industrial Solutions

Financial highlights:	2019	2018
Sales, SEKm	2,484	2,270
Operating profit (EBITA), SEKm	320	295
EBITA margin, %	12.9	13.0
Average no. of employees	1,624	1,497

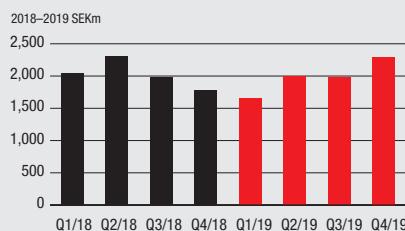
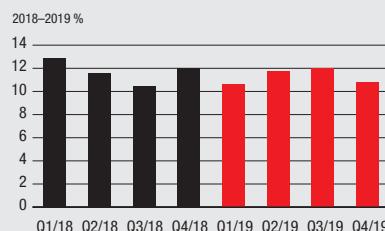
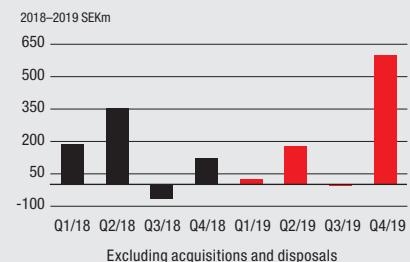
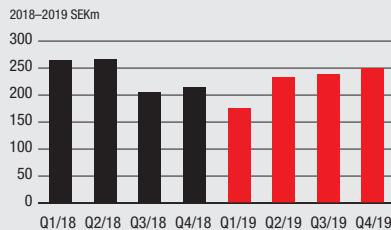
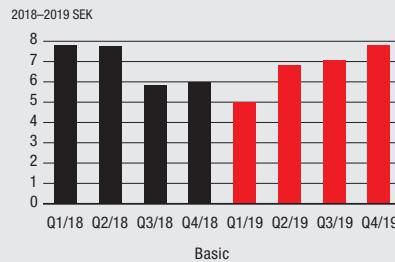
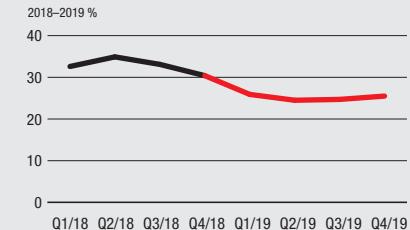
Development and manufacture of complex product systems and components within medical technology and advanced packaging solutions for pharmaceuticals and dietary supplements.

Financial highlights:	2019	2018
Sales, SEKm	3,292	3,720
Operating profit (EBITA), SEKm	427	473
EBITA margin, %	13.0	12.7
Average no. of employees	3,201	3,868

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.

Financial highlights:	2019	2018
Sales, SEKm	2,159	2,119
Operating profit (EBITA), SEKm	181	186
EBITA margin, %	8.4	8.8
Average no. of employees	1,109	1,078

Development and manufacture of products and product systems for customers in the automotive, hygiene, packaging, gardening/forestry, domestic appliance and furniture sectors, 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)**

	2019	2018	2017	2016	2015
Net sales	7,919	8,102	6,720	4,447	4,726
Operating profit (EBITDA)	1,263	1,189	980	636	737
Operating profit (EBITA)	895	949	763	457	570
EBITA margin, %	11.3	11.7	11.4	10.3	12.1
Profit after financial income and expenses	857	921	731	438	555
Profit after tax	703	722	572	336	420
Basic earnings per share, SEK	26.60	27.44	21.74	12.77	15.97
Adjusted basic earnings per share, SEK	26.82	27.67	22.16	13.19	16.35
Cash flow after investment, excl. acquisitions and disposals	800	593	496	245	288
Net investment, affecting cash flow, excl. acquisitions and disposals	360	452	277	221	244
Cash conversion, %	88	60	66	55	52
Return on capital employed, %	23.1	29.7	26.6	20.6	29.6
Return on shareholders' equity, %	25.5	30.4	29.4	19.0	25.3
Equity/assets ratio, %	48	50	45	47	54
Net financial assets (+)/net financial liabilities (-)	666	341	31	-206	249
Dividend per share (2019 proposal), SEK	14.50	14.00	12.50	10.50	10.00
Average no. of employees	5,941	6,449	7,249	6,418	7,759

See definitions of IFRS measures and alternative performance measures on page 85.

Advanced market positions focused on a sustainable agenda for our customers and Nolato

► Nolato posted good earnings for 2019, owing in particular to a strong end to the year. What's your view on the year?

Overall I'm pleased with performance in 2019. During the year we advanced our market positions further, including by establishing Industrial Solutions and Integrated Solutions production in the US and the Group maintaining a healthy margin and continued robust cash flow. It was a great finish to the year with a very strong fourth quarter, which helped generate a 22% rise in sales, adjusted for currency. This was largely led by our Integrated Solutions business area, which, adjusted for currency, increased sales by a remarkable 45%. A key factor in this success is the sterling work by all of Nolato's employees, who are now based across three continents. Our employees are our most important asset, and it's their commitment and expertise that have enabled our gradual progression to the role of strategic solutions provider for our customers. I also think our combination of responsible business and in-depth know-how in polymer materials and alternatives based on fossil-free raw materials is right for today's world. It's one of the reasons why we are gaining an increasingly strong position among our customers, by being an important part of their transition towards more sustainable development.

► Looking more closely at each business area, how would you describe their performance over the year?

For Integrated Solutions, the inventory adjustments in vaporiser heating products (VHP) that carried over into 2019 resulted in low volumes in the first quarter, but it then performed fully in line with our hopes of a normalisation in the inventory situation. The margin was boosted mainly by healthy

volumes of older VHP products with high production efficiency, together with the market launch of new product variants.

Medical Solutions increased sales in both Medical Devices and Pharma Packaging, along with healthy growth across most product areas. The business area's growth in the second half of the year was affected by strong comparative figures, which contained very high development sales and billing of production equipment.

Industrial Solutions sales were essentially unchanged. The year began with inventory adjustments in the area of hygiene and ended with the start of a number of new customer projects within general industry, which boosted sales.

We're generally getting better and better at leveraging the synergies between our three business areas to create the greatest possible benefit for customers by offering 'One Nolato'. I view the synergies that we can generate by drawing on our in-depth expertise in polymer materials, technologies and manufacturing processes across a range of sectors as a unique customer offering and a genuine advantage for our business and our comprehensive offering.

► Ja-Bar Silicone, with around 70 employees and a production plant based in New Jersey in the US, was acquired during the year. Tell us more about what this strategic acquisition means.

Acquisitions have long been an important part of our growth strategy and efforts to boost shareholder value by identifying high-quality companies that complement our offering with solid market positions and a

high level of technical expertise. EMC production has traditionally taken place in Asia, but the trade war has led to a geographical shift. We've responded by establishing a business in Hungary, and Ja-Bar reinforces our presence in North America while bringing additional production technologies and expanding our customer base. I believe the acquisition will generate long-term market and customer synergies that will make Nolato's customer offering even stronger.

► Sustainable development and responsible business are now significant issues. What are Nolato's priorities?

Nolato has now been a signatory to the Global Compact for 10 years, and our sustainability efforts continue to be guided by this network's 10 principles. The key indicators we publish for performance on environmental responsibility, social responsibility and business benefit are a good reflection of our priorities. We also incorporate a number of the UN Sustainable Development Goals that have a clear bearing on our business.

Nolato has been taking proactive sustainability measures regarding our own direct emissions, waste management and energy usage for many years now. Where we can gradually reduce the impact of our own operations, this also contributes to our customers' sustainability efforts as we are a part of their value chain. Key elements of this include innovations such as greater use of bio-based and recycled plastic, investment in new technology and switching to renewable energy.

► What is the scope of Nolato's responsibility?

Nolato believes in extensive responsible business, which encompasses the products that we're involved in helping bring to

market, as that's where the long-term environmental impact mainly occurs. We also want to make a sustainable transition together with our customers by offering them opportunities to phase out fossil plastics in favour of bioplastics, alongside adapting and designing products that can easily link into a circular approach. This is part of an essential transition, and helping our customers be more sustainable is a primary issue for us.

► **2020 is not only a new year, but also the start of a new decade. What are your hopes as you look ahead?**

I believe we are well positioned to continue our successful journey. As a profitable, sustainable and innovative company at the cutting edge of technology, we are well equipped to respond to the opportunities and needs of the future with continued sustainable, profitable growth. I think our best years are ahead of us.

Torekov, March 2020



Christer Wahlquist
President and CEO



“Our combination of responsible business and in-depth know-how in polymer materials and alternatives based on fossil-free raw materials is right for today’s world. It’s one of the reasons why we are gaining an increasingly strong position among our customers, by being an important part of their transition towards more sustainable development.”

Nolato's strategic focus

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Nolato's production technologies

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Dominant trends driving change

Globalisation, digitalisation, corporate responsibility requirements and 'more for less' are some of the main trends constantly changing the landscape for Nolato's customers.

Trends and drivers



Globalisation



Responsible business



Digitalisation



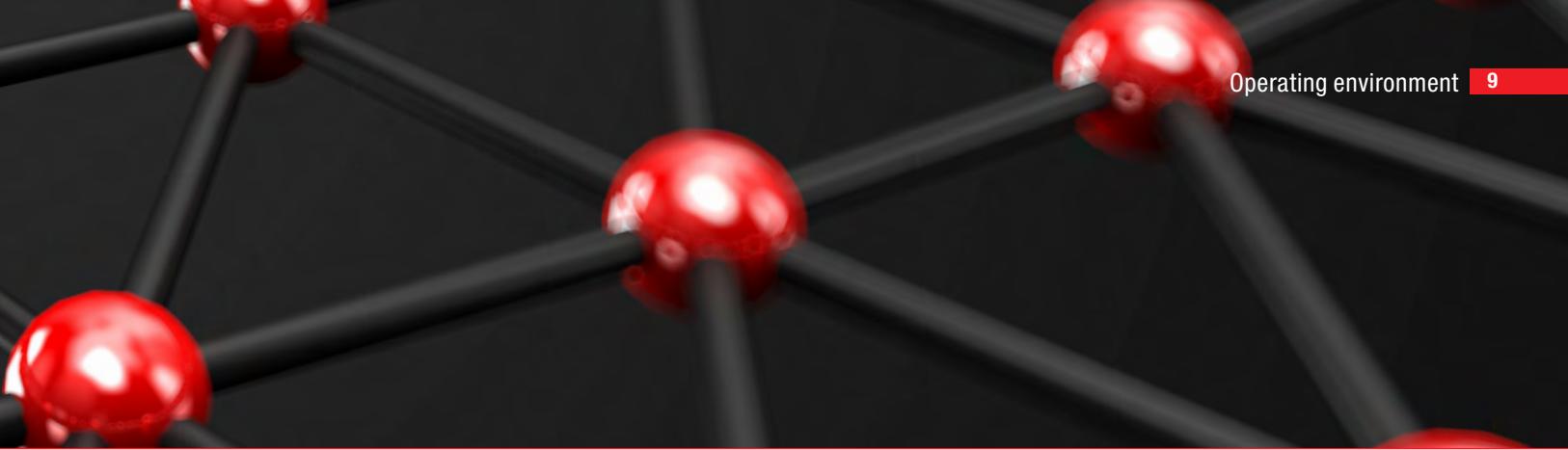
Ever shorter product life cycles



More for less



Ageing population



Nolato's customers operate in a world in which powerful trends and drivers are presenting both challenges and business opportunities for innovative companies. As a high-tech solutions provider, Nolato's task alongside customers is to develop and adapt products as circumstances change and turn each challenge into a competitive, sustainable business opportunity.

Customers' main challenges

Time to market

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 addressed through both parallel development projects and efficient production processes.

Focus on core business

This rapid pace is resulting in customers increasingly needing to focus on their own core business. Outsourcing parts of the business to subcontractors and partners companies is a way of responding to this challenge.

Internet of Things (IoT)

As electronics and the Internet of Things (IoT) are rapidly integrated into products, the need for both shielding and heat dissipation is also growing in entirely new areas.

Competitiveness

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.

Responsible business

Increasingly high expectations of proactive sustainability work involving responsible business practices regarding environmental issues, social issues and business ethics.

Nolato's response

Global platforms and close customer relationships with global customers in growth segments

As a global business with a local presence, Nolato is well positioned to understand customers' needs to deliver integrated solutions that meet their demand for short lead times and efficient time to market for new products.

Innovative and effective product development in step with the technological shift

In-depth technical expertise, close involvement in and an understanding of customers' businesses provide Nolato with a unique ability to identify development needs at an early stage in order to raise the level of innovation and streamline customers' production processes and logistics chains. This is in addition to an aim of increasing the level of renewable/recycled materials, along with designs that make it easier for products to become part of a sustainable loop and contribute to a circular economy.

Meet expectations of sustainable business

Sustainable, responsible business is the basis for everything that Nolato does and is at the heart of its long-term strategy to generate sustainable growth and value for customers. Proactive measures are also taken to manage Nolato's primary sustainability issues, while business opportunities offered by greener products and solutions are constantly being created.

Nolato's vision

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

Nolato's vision is to be the natural choice when customers need a high-tech cooperation partner and provider. Being the customer's first choice is defined as customers experiencing the delivery of high quality in all aspects of projects. Nolato aims to be a highly credible partner by delivering what we promise, on schedule. Nolato targets long-term cooperation and values transparent, close customer relationships. Nolato is constantly looking for new ways of always exceeding customer expectations.

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.



Responsible business

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 integral elements of our business.



Long-term customer relationships

Long-term, close cooperation is the objective for all Nolato's customer relationships. Better understanding and knowledge of their processes and needs allow key values to be generated.



High productivity

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



Expertise

Nolato's customers constantly challenge us with new requests and tougher requirements. We therefore enhance our customer offering by continually raising the skill levels of employees and investing in cutting-edge technologies. One Nolato creates positive synergies between the three business areas to increase value for Nolato's customers.



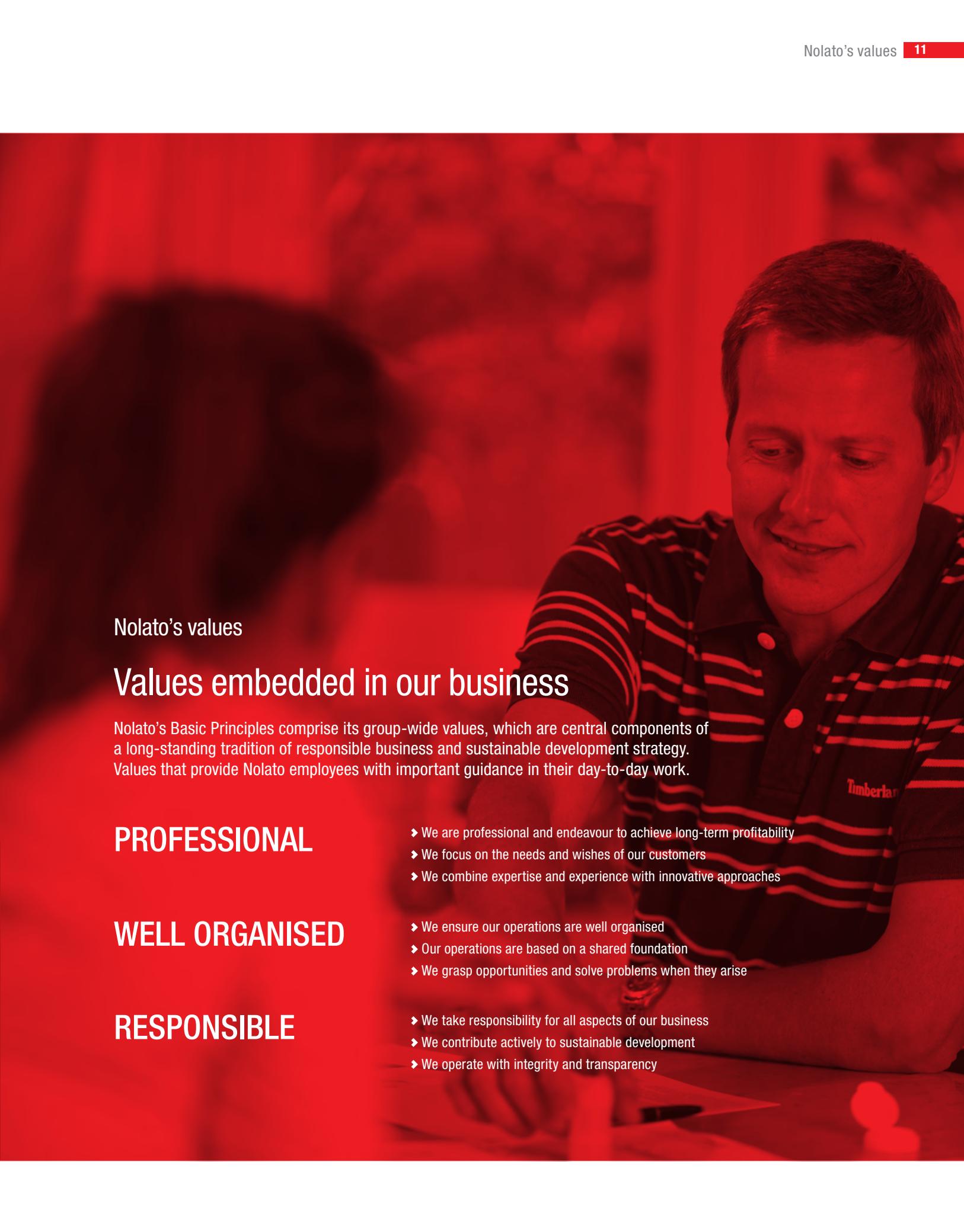
Local yet global presence

Proximity to customers and their markets is crucial. 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. Nolato is a reliable supplier and cooperation partner and ensures that it has solid finances, including in more challenging economic times.

A photograph of a man with short brown hair, wearing a black and white horizontally striped polo shirt. He is looking down and to his right with a slight smile. The background is blurred, showing what appears to be an office environment. The entire image has a strong red color overlay.

Nolato's values

Values embedded in our business

Nolato's Basic Principles comprise its group-wide values, which are central components of a long-standing tradition of responsible business and sustainable development strategy. Values that provide Nolato employees with important guidance 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

Nolato's targets

Financial targets and outcomes

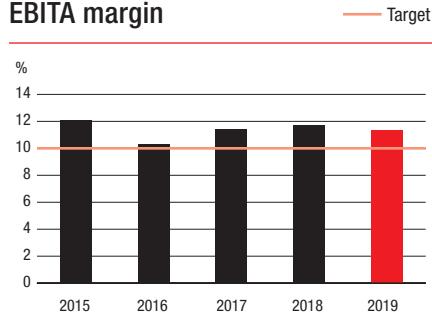
Nolato's financial targets ensure the Group is managed with the aim of achieving healthy earnings, generating adequate cash flow and maintaining a healthy level of financial risk. These financial targets reflect Nolato's strategic focus on a well-balanced Group structure with three business areas and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

51%

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 2019 Annual General Meeting (AGM) approved a dividend corresponding to 51% of profit after tax. The Board's proposed dividend ahead of the 2020 AGM is 55%.

EBITA margin

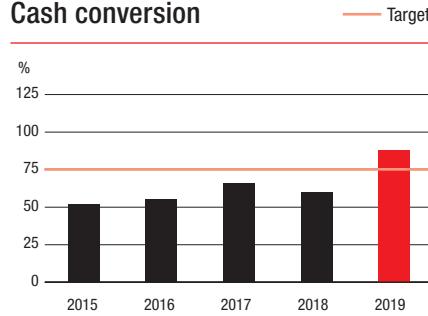


The target for the EBITA margin is for it to exceed 10% over a business cycle.

The outcome for 2019 was a strong 11.3% (11.7). Medical Solutions and Integrated Solutions had margins of approximately 13%, significantly exceeding the Group target. Industrial Solutions had a margin of 8.4%, which was below the Group target.

Over the past five years, the EBITA margin has averaged 11.4%.

Cash conversion

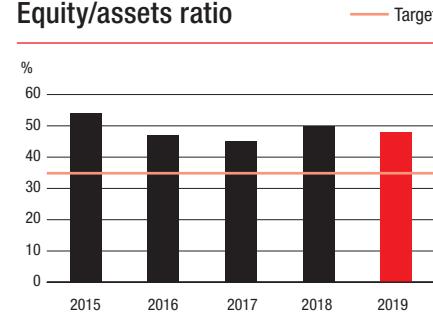


The target is to achieve cash conversion of more than 75% of EBIT over a business cycle, measured as the ratio of cash flow after investment and EBIT.

The outcome for 2019 was 88% (60), which exceeded the target. The improvement on the previous year was achieved as a result of lower investment, lower working capital and continued good earnings.

Over the past five years, cash conversion has averaged 64%.

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 at year-end 2019 was 48% (50).

Over the last five years, the equity/assets ratio has averaged 49%.

Growth target

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

5%

► Medical Solutions' sales in 2019 grew by 5% compared with the previous year, adjusted for currency. Long-term volume growth for this business area's market segments and applications is assessed to remain around 4–5%. Sales increased in both Medical Devices and Pharma Packaging. Growth was affected by strong comparative figures, which contained very high development sales and billing of production equipment.

-18%

► Integrated Solutions sales decreased by 18% in 2019, adjusted for currency. The year began with inventory adjustments in the area of VHP. After normalisation of the inventory situation, sales gradually increased each quarter. Volumes in the EMC area were stable, while mobile phones were initially weak but performed well in the second half of the year.

0%

► Industrial Solutions sales in 2019 were unchanged after adjusting for currency. Inventory adjustments in the hygiene area had a negative effect in the first half of the year. A new general industry customer project was started, increasing sales at the end of the year. Volumes were stable in other product areas.

Nolato's strategy

Nolato's strategic focus: five components

The following overarching strategy has been established in order to achieve Nolato's growth targets.



Market positioning and progression along the value chain

Nolato aims to be a high-tech cooperation partner with a global presence, with the objective of long-term growth and stable returns for 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 helps us offer end-to-end solutions in which sustainability is a key element.

A decentralised organisation that generates synergies

A corporate culture based on a decentralised business model. This gives the companies of the business areas the authority to develop and adapt their offerings based on the specific needs and demands of customers. 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 Nolato looks for large customers in product areas with organic growth, providing opportunities to grow and develop alongside their market offerings.

Expansion on priority geographic markets

Nolato's expansion is achieved both by accompanying 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 Nolato's offering.

Nolato's strategic progression

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

Past	Present	Future
Mobile phones, manufacturing, medical technology	A well-balanced group with three business areas; Medical, Industrial and Integrated Solutions	Continued sustainable growth
Supplier	Cooperation partner and provider of technically advanced products	Global high-tech strategic cooperation partner
Leading position in Sweden Growing market in Asia and Central Europe	Global presence Strong position in Asia and Europe Production established in North America	Strong position and presence on three continents; Asia, Europe and North America



Mission

Nolato's mission is the company's reason for being, the basis for the business and provides a clear picture of how its customers' needs can be met:

Nolato is a global, advanced high-tech solutions provider and manufacturer of polymer products and systems for leading customers in specific market areas.

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

Business model

Nolato's business model is based on three decentralised business areas, which with their own decision-making and shared ambitions endeavour to achieve its vision and financial targets. This creates secure jobs for employees and generates value for shareholders.

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

Added value is created 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 all aspects of the business.

Revenue model

Nolato's revenue is mainly generated from customer production assignments. Manufacturing and supply of products take place in accordance with customer orders and other preferences and are then billed. 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.

Nolato's business

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

Customer-specific products

Customer needs and requirements form the basis for all of Nolato's development work. Customer-specific products and solutions are created by leveraging our expertise in advanced technologies and cost-effective manufacturing. Nolato supports 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, process and materials solutions for shielding and heat dissipation for electronics.

From concept to finished product



Concept development

Nolato supports customers from the concept stage and is involved in discussions about production options.

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

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

Prototypes (3D)

Nolato visualises the future product by producing prototypes and materials samples.

Production tools

Nolato specifies and manufactures, or buys in, moulds and related production equipment.

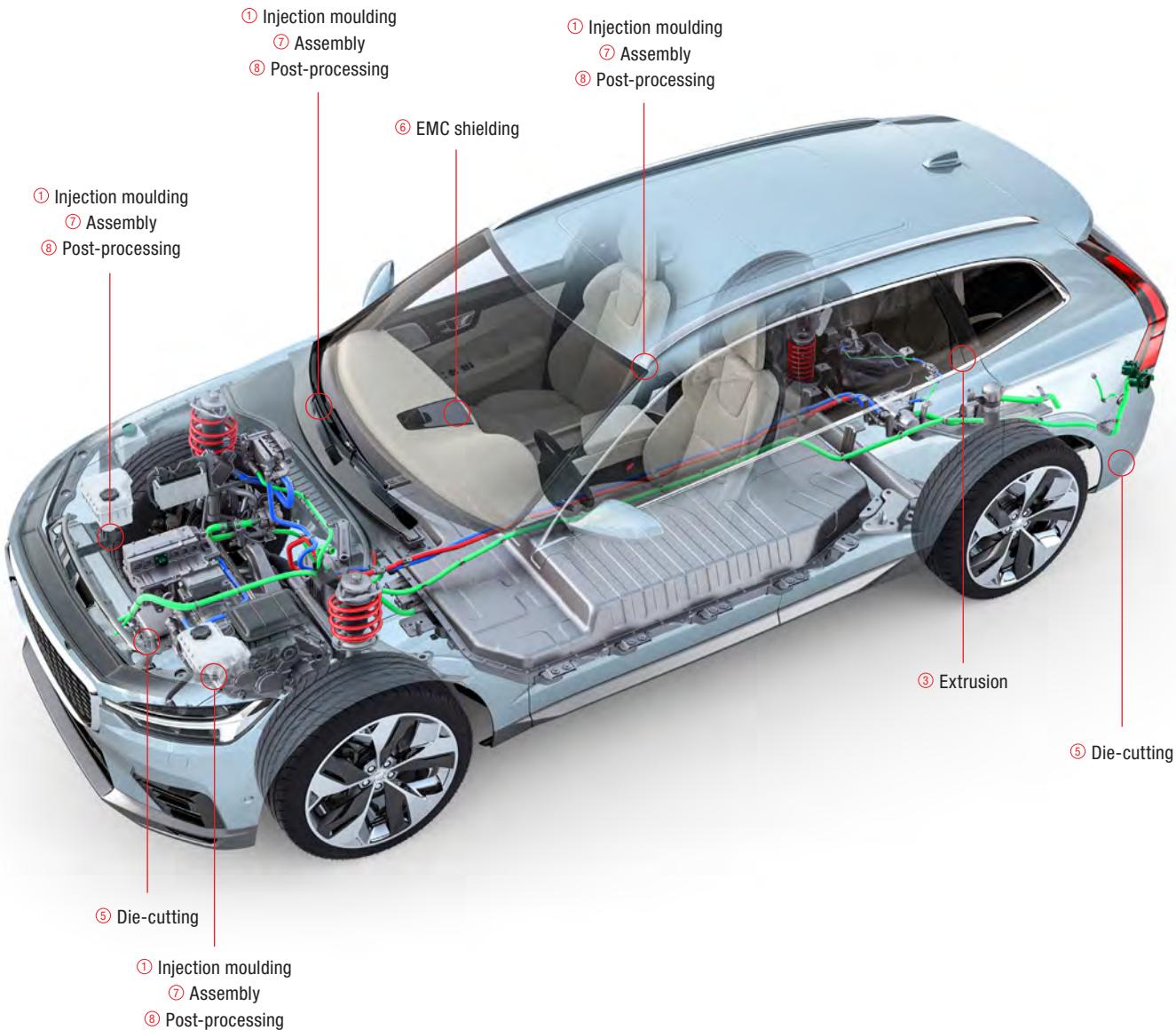
Full-scale production

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

Quality assurance

Nolato continually ensures correct quality through the use of automated vision systems, professional operators and effective systems for continuous improvements.

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

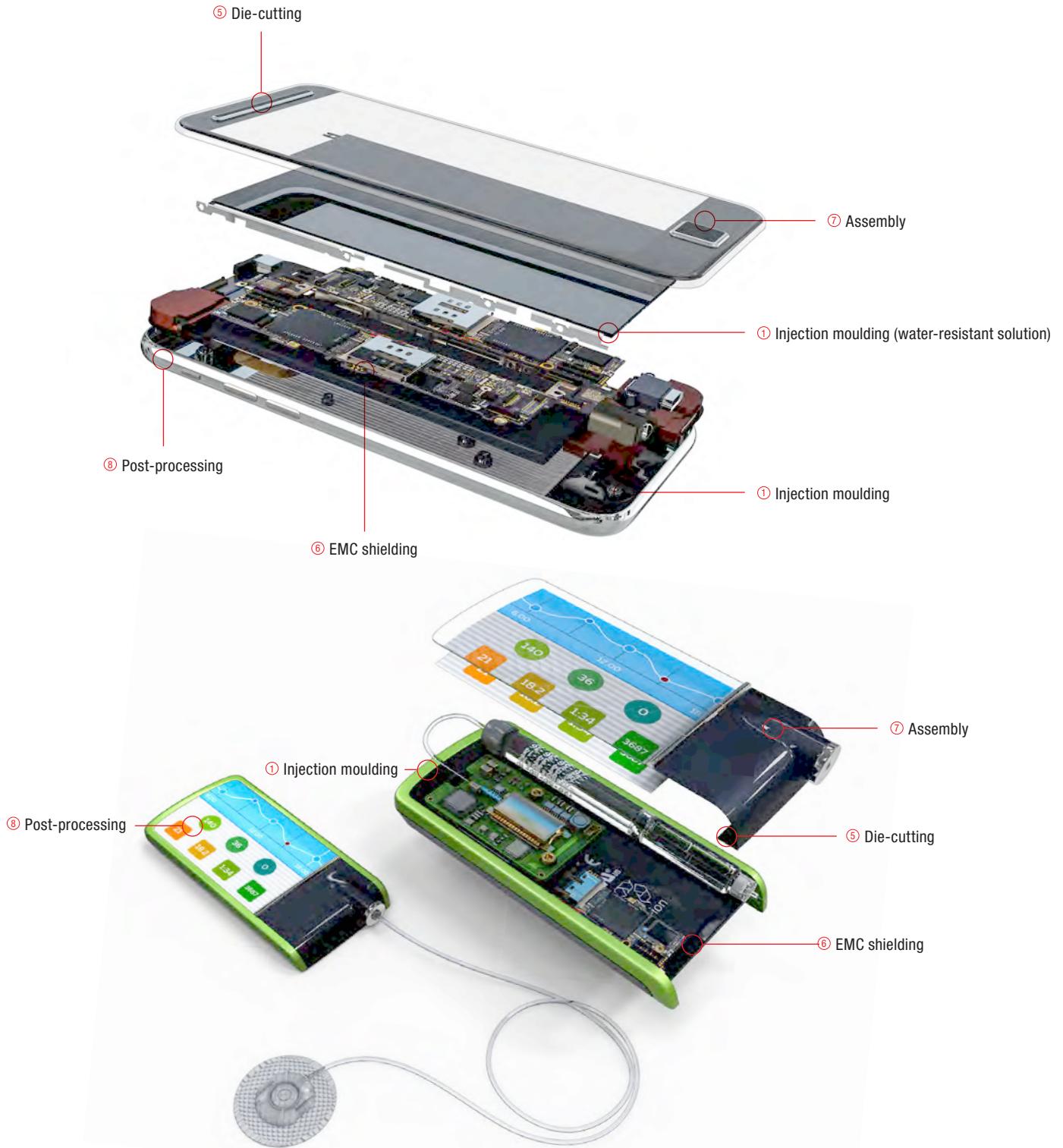
Technology for the production of tubing and other tubular products.

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

④ Dip moulding

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

This is used to manufacture products 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.

Nolato and responsible business

A proactive approach, new business opportunities, responsibility and transparency are core elements of Nolato's long-term strategy to create growth and value for stakeholders.

Nolato has established a long-term sustainable development strategy. The strategy encompasses activities within social responsibility, business ethics/financial responsibility and the environment. We can demonstrate progress within these areas, but the challenge of improving products' environmental attributes requires cooperation with raw material suppliers and customers. An important aspect of the strategy is taking a systematic approach to developing resource-efficient production methods and products with a small carbon footprint.

This is what we mean by responsible business:

- A 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.
- New business opportunities – Through resource-efficient production and greater use of environmentally sustainable raw materials, we generate business opportunities and environmental benefits.

➤ Responsibility 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.

Our sustainable development strategy is part and parcel of our mission and business model. By creating safe and stimulating workplaces, minimising environmental impact and generating lasting value for our shareholders and stakeholders, Nolato is benefiting both business and society. In short, we aim to be customers' first choice for sustainable development.

Nolato sustainability report

For detailed information about how Nolato manages and monitors work concerning sustainable development, please see Our Sustainability Work 2019, www.nolato.com/sustainability

2019 highlights

Interest in sustainable development grew in many of the countries in which Nolato operates. Climate change and the role of plastics in society were just two of the issues that engaged Nolato's stakeholders. We continued to work on reducing the Group's carbon footprint, and during the year we implemented several 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 strategically important 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

Key performance indicators

	2019	2018	2017
Energy consumption/sales (GWh/SEKm)	0.023	0.022	0.028
Purchased fossil-free electricity (% of total electricity use)	75	62	53
CO ₂ emissions/sales (tonnes/SEKm)	4.3	4.5	7.3
Recycled/bio-based polymer raw materials (%)	2	2	2
Breaches of environmental and occupational environment legislation	2	0	2
Occupational accidents (number/million hours worked)	4.9	4.1	3.7
Employee training (hours/employee)	26	24	47
Percentage of women on local management teams (%)	25	22	22
Human rights breaches	0	0	0
Economic value allocated by stakeholder (SEKm)	7,592	7,993	6,530

Requirements from customers are increasing

Customer expectations of Nolato regarding sustainable development have increased over the years. Requirements on environmental management systems, phasing out of hazardous substances and a code of conduct have long been in place. Recent years have seen a greater requirement for active responsibility within the supply chain. In 2019 we noted increased interest among many customers in bio-based and recycled raw materials.

Employee Care Programme

At the production plant in Beijing, China the Employee Care Programme is a way of creating an interesting and stimulating workplace. The programme includes social activities such as a day trip to central Beijing, sport, access to libraries and family days. It also comprises training courses, including about lean production, quality management, leadership, technology and languages. E-learning is an important tool, and 22 new courses were developed over the year. A total of 491 employees attended training courses, comprising more than 19,000 hours.

ISO 14001

Certified environmental management systems are a key component of Nolato's sustainability work. All production facilities are certified, and 129 internal and 28 external environmental audits were conducted during the year.



Goals for sustainable development

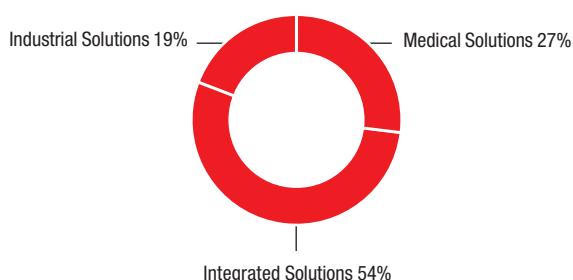
Nolato has introduced long-term group-wide goals covering the environment, people and society. Several of these goals are linked to Agenda 2030 and the UN Sustainable Development Goals (SDGs). A number of the production plants also have local goals, particularly as part of ISO 14001 and other management systems. Below is a summary of these goals and how work developed in 2019.

Social responsibility

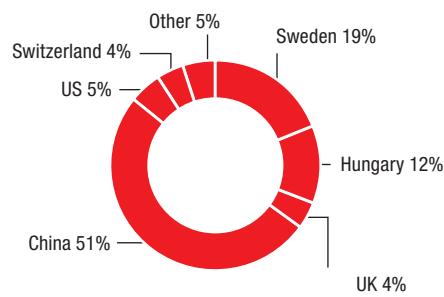
The Code of Conduct (The Nolato Spirit) is applied uniformly around the world and these values help attract, retain and develop committed, talented employees. Our long-term goals on social responsibility include initiatives that contribute to good health and safety, employee training and respect for human rights. Engagement with society is being further developed in those countries in which the Group operates.

Area	Goals for sustainable development	SDGs	Outcome
Safe workplaces	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).		There were 4.9 accidents (4.1) resulting in absence per million hours worked in 2019. Systems for recording near misses have been introduced and there are certified management systems in place at six (five) units. Continued technical and organisational initiatives are required to ultimately eliminate all accidents.
Human rights and gender equality	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.		During the year, employee training was held on The Nolato Spirit. No cases of infringements of human rights were recorded. Recruitment of people with disabilities continued. Local management teams are made up of approximately 25% (22) women.

Avg. no. of employees by business area



Avg. no. of employees by country

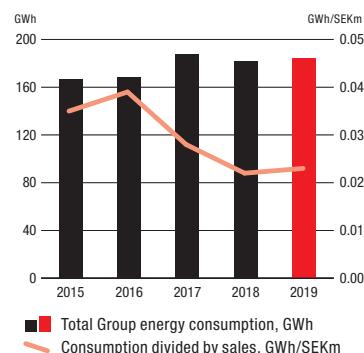


Environmental responsibility

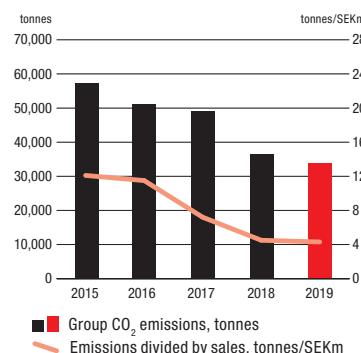
Climate change concerns Nolato in a number of ways, with the transition to a society with a smaller carbon footprint creating risks and opportunities for the Group. Boosting energy efficiency and phasing out fossil fuels is reducing Nolato's carbon footprint. These measures also create preparedness for 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.

Area	Goals for sustainable development	SDGs	Outcome
Energy	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.		Measures included investments in more energy-efficient production equipment (electric injection moulding machines), infrastructure and lighting (LED bulbs). Energy consumption was also affected by production changes at the plant in Beijing. Since 2011–2012, GWh/net sales has decreased by roughly 50 percentage points.
Carbon emissions	A 20% reduction in emissions of the greenhouse gas carbon dioxide (CO ₂) up to the year 2020 compared with the average for 2011–2012. The target relates to CO ₂ emissions from energy consumption. The group-wide KPI is tonnes of CO ₂ /net sales and there are also different types of local targets.		Climate-related measures include more efficient use of energy, installation of heat pumps, purchase of fossil-free electricity and HVO (hydrotreated vegetable oil) for heating. The changes in production at the Beijing plant are also contributing to a reduction in emissions. For Scope 1 and 2 emissions (GHG Protocol), the KPI has declined by around 75 percentage points.
Chemicals and raw materials	Hazardous chemical substances should be identified and, where possible, phased out.		Some 20 hazardous substances were phased out. A handful of chemical substances have been identified as candidates for risk reduction.
Waste	The amount of waste should continually decrease in relation to net sales. The percentage of recycled waste should increase. The Group's units often use detailed targets regarding scrap and waste management.		We are seeing a clear trend over the long term, with the percentage of waste disposed of in landfill declining and the percentage that is recycled rising. This target is part of the Group's continual improvement measures and has no specific deadline. The KPI indicates a downward trend.
Environmental management systems	All units to be ISO 14001-certified. Acquired companies should be certified within two years.		All production units are certified in accordance with ISO 14001.
Environmentally sustainable products	The percentage of bio-based and recycled 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.		During the year we used 43 tonnes of bioplastics and 626 tonnes of recycled plastics, which is an increase compared with the previous year. Interest is growing among our customers, but it will take time before these raw materials make up a significant proportion of the product portfolio.

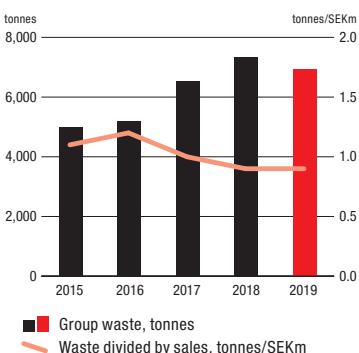
Energy consumption



Carbon dioxide emissions*



Waste volume



*Scope 1 (1,940 tonnes) and Scope 2 (31,990 tonnes) under GHG Protocol.

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.

Area	Goals for sustainable development	SDGs	Outcome
Anti-corruption	There should be no cases of bribery, corruption or cartel formation. Continued active information to employees.		Training, information and discussions are tools being used in anti-corruption work. The Group has introduced a whistleblowing system and no events relating to corruption or inadequate business ethics were recorded during the year.
Customers	Customer requirements regarding the environment and social responsibility shall be met by a comfortable margin.		Many customers imposed sustainable development requirements and several expressed interest in bio-based or recycled raw materials. During the year, customers carried out a significant number of evaluations. On the whole, Nolato received excellent feedback from these evaluations.
Suppliers	Improved evaluation of suppliers' sustainability work.		In 2019, roughly 200 (250) evaluations of suppliers' sustainability work were conducted. The suppliers satisfied Nolato's requirements at an acceptable or good level.
Society, investors and analysts	Reporting must be in accordance with GRI and CDP guidelines. Nolato will continue to endorse the Global Compact. We aim to achieve good results in evaluations by analysts and independent institutions through transparent information in the field of sustainability.		Sustainability work was reported in accordance with international standards. In daily business paper Dagens Industri's ranking 'Sustainable companies 2019', the Group came in at number five in the capital goods category.

Sustainable, innovative packaging

With biomaterial as a raw material, the packaging of the future is here already. Only green electricity is used where possible in production, and there is an emphasis on recycling.

Nolato has worked on this basis for many years and is constantly looking ahead to the next stage on the path to a sustainable society.

"Plastic is an amazing material with a good product life, for the right application. According to the motto 'Design for Environment', our objective is to contribute towards sustainable development with effective and smart plastic packaging for pharmaceuticals. In a second generation of packaging we've also succeeded in reducing the amount of material used by 25%, without compromising on properties," explains Glenn Svedberg, Managing Director of Nolato Cerbo AB.

Sustainable design

With sustainability in focus, the Nolato Group has switched over to green electricity at all plants that have access to it, that is everywhere except in China and the US.

"Besides switching to green electricity we are also

optimising our transport by maximising the number of products in each transport unit to avoid unnecessary emissions. Naturally we are also cutting the use of chemicals and continually trying to make our processes that bit cleaner. There's always room for improvement."

Designing for sustainability means always considering the recycling stage right from the start.

"For example, we need to try and avoid combining different plastics and refrain from using composite materials, as they are difficult to recycle."

Biomaterial and recycled material

"Nolato would love to use more recycled plastics, but at the moment there are restrictions due to regulatory requirements."

"In purely technical terms we could switch to using a large proportion of recycled material now, but we're not able to do so at present because regulatory authorities

require us to have traceability all the way back to the raw materials. But if in the long term our suppliers are able to classify recycled material in the same group as virgin material, then we'll be ready," explains Glenn Svedberg.

Biomaterial, however, satisfies all the requirements, and Nolato is already using polyethylene (PE) from sugarcane for some of its packaging.

"The material essentially has the same properties as PE from fossil raw material, so we can use our existing machinery and tools, and with some minor adjustments to the manufacturing process make products based on bioplastic that offer the same technical performance as traditional fossil plastic. In 2020, a large portion of our standard range will be validated for bioplastics."

Nolato, plastics and the environment

“Plastic as a material will continue to have a role in modern society. So it's vital to use all means to minimise plastic's footprint and contribute to a sustainable transition by increasing the use of recycled plastic and bioplastics.”

Interview – Christer Wahlquist, Nolato President and CEO [›](#)





The discussion on the role of plastic in our society is intensifying. What is Nolato's view on this?

On the whole I think the debate on plastic is both relevant and important, provided it is balanced. Plastic has both positive and negative effects from an environmental perspective, so it's not that simple. You have to have a degree of pragmatism and understand that in many ways plastic will continue to have an important role to play in society. For example, when plastic is used to replace metals and other heavy materials in the automotive and aviation industries, it helps reduce 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 both weight and fuel consumption. At the same time, plastic is based on fossil crude oil, and single-use plastic or plastic used in consumer products with a short lifespan tends to end up in the natural environment and oceans, where it can take hundreds of years to break down.

Products with a long or short lifespan – what does Nolato make?

We use somewhere in the region of 40,000 tonnes of plastic a year and we make 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 specific strategy does Nolato have to reduce the environmental impact of plastics?

Being a high-tech developer of polymer products is key for us. The customer approaches us with a concept or an initial outline of a product, which they plan to launch on their markets. By working alongside the customer at an early stage, we can contribute towards the development of a functional, cost-effective and environmentally sustainable product. Success factors include experience, in-depth knowledge of the materials and processes, involvement early on in the project, expert project management and a sound knowledge of customers and markets.

In environmentally sustainable product development, we focus specifically on reducing the

product's fossil raw material content and increasing recyclability. We have good examples within pharmaceuticals and consumer packaging where we are reducing the product's weight and thus its carbon footprint. It's also possible to increase the content of fossil-free filler material in the plastic, which is something that we're doing with breathing bags, for example.

We're currently using just over 625 tonnes of recycled plastic in products that are mainly for the automotive industry, and we're confident that usage will increase. The same applies to bioplastics, which we've been successfully testing as a raw material in Nolato's production technologies. Our offering therefore includes the possibility for customers to make an active choice and opt for an environmentally sustainable solution.

What's most important to customers – price, or are more of them recognising the value of environmentally sustainable plastics?

It varies hugely between different sectors. But overall I'd say that demand for materials that are more sustainable is growing. A key driver is the general transition to fossil-free alternatives that companies are having to go through. Increasing the proportion of products based on bioplastic or recycled plastic for example is often a strategic decision that can help strengthen a company's position in the market and generate new commercial value. For example, we know that one of our customers in the automotive industry has a strategic target of all new vehicles containing 25% recycled plastic by the year 2025.

What's next for Nolato?

Medical Solutions launched a product made from bioplastic derived from sugarcane during the year. It's an excellent material and we're now introducing it as an alternative in a number of ongoing customer projects. Other customers are increasingly interested in using more recycled plastic in their products. Whatever our customers choose, here at Nolato we have the expertise and capacity needed to guide companies, based on needs and opportunities, through the sustainability transition of phasing out of fossil raw materials.



Hörby's bees help maintain the thriving landscape around Nolato's site and provide locally produced honey.



Ten years of the Global Compact

It's 10 years since Nolato became a member of the UN Global Compact and the then Secretary-General Ban Ki-moon approved our application. Over the ensuing years, the network has grown to become the world's largest sustainable development network. Around 13,000 organisations have signed up to the Global Compact, 300 of which are in Sweden.

"The clear requirements for active measures by members sets the Global Compact apart from other sustainability initiatives. It's not enough to just sign a document and carry on as usual. As a member Nolato has committed to supporting 10 fundamental principles concerning human rights, labour law, the environment and anti-corruption. The Group also aims to contribute to the UN Sustainable Development Goals. In practice this means that each year Nolato has to report to the UN on what has been done. If a company fails to submit its

reporting, it is quickly excluded from the network.

The Global Compact is a global initiative focused on issues of importance for the whole of society. It is consequently an important element of Nolato's sustainable development strategy. The network also provides the Group with access to guidance and relevant reports, along with the opportunity to meet other companies and exchange experience. The annual report to the UN is part of Our Sustainability Work 2019 (www.nolato.com/sustainability).





One Nolato for the greatest possible customer benefit

Based on the same core values and technologies, Nolato's three business areas all work towards the same objective of being the customer's solutions provider. 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 is made up of a number of stand-alone companies organised into three business areas. All of them develop their business based on expertise, market conditions and the differing needs of customer segments. The decentralised business model is also one of Nolato's many strengths, providing each company with considerable freedom to tailor its offerings to the specific needs of each customer. A high degree of decentralisation also provides the basis for an organisation that's close to decisions, with significant opportunities for flexibility in customer relationships, and generates employee engagement and motivation.

The beneficial effects of this can be seen in the business areas' financial results and growth exceeding the level of each market segment.

Three business areas that form One Nolato

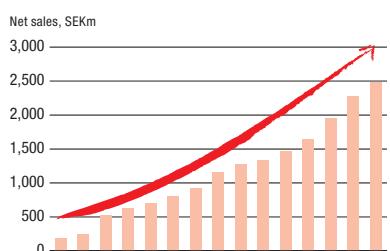
Collaboration between the business areas is becoming increasingly common as synergies generate real benefit for customers. Nolato's combined expertise is available to customers that wish to benefit from it. Comprehensive customer-specific solutions can be delivered in the form of subsystems or complete products by sharing production units, expertise in technologies, materials and processes. This simplifies and cuts

customer time to market and helps generate additional business value.

Examples include Industrial Solutions' establishment of operations at Medical Solutions' Wisconsin-based production unit in the US, enabling effective expansion together with an existing customer. In addition, the other two business areas can benefit from Industrial Solutions' in-depth experience of lean manufacturing, and as electronics and the Internet of Things are integrated into products, Integrated Solutions can assist through its expertise in both EMC shielding and heat dissipation for electronics.

Medical Solutions 2005–2019

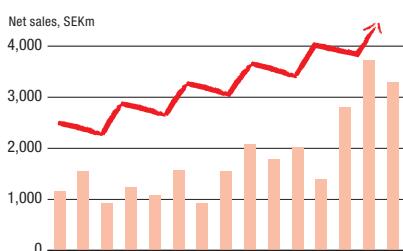
Global expansion



Growth-related

Integrated Solutions 2005–2019

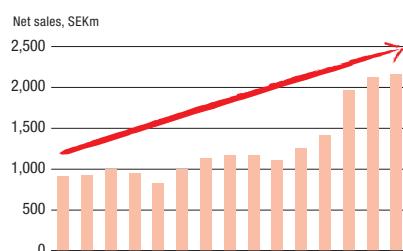
Expansion into new market segments



Project-related

Industrial Solutions 2005–2019

Technological and geographical expansion



Business cycle-related



Business areas' strategic growth markets

Medical Solutions

Express aim of growing on the American, European and Asian markets. 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. Acquisition opportunities are continually considered.

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 industrial sector on the Nordic market and selected Central European markets, with the possibility of bolt-on acquisitions. The establishment of production in the US brings a valuable increase in capacity and new business opportunities. The ability to supply high-quality cost-effective products with short lead times based on customer requirements is a key growth driver.

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.

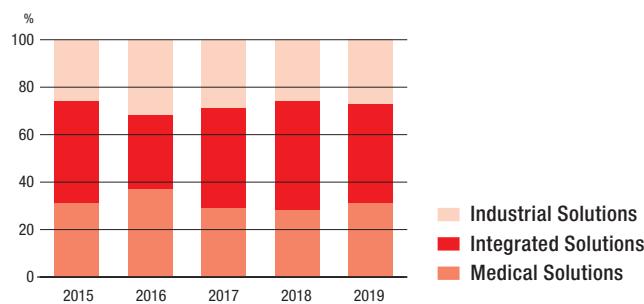
An end-to-end solution offering that generates increased customer value.

Nolato's combined expertise

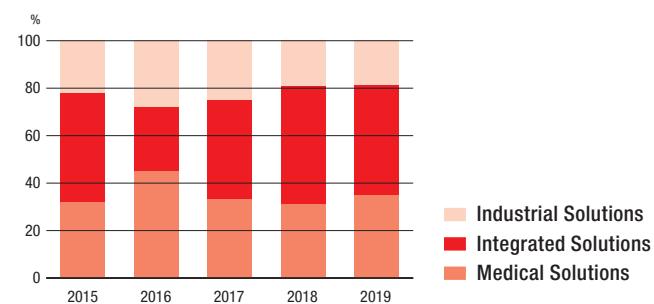
Nolato's local customer team

Putting the customer front and centre

The business areas' share of net sales



The business areas' share of operating profit (EBITA)





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

2019 highlights

Continued sales growth of 5%, with both Medical Devices and Pharma Packaging contributing healthy growth across most product areas. High project activity and gradually increasing production capacity as the investments made in production units were realised. Launch of a new bioplastic packaging product based on fossil-free polymers.

- Sales increased to SEK 2,484 million (2,270) and operating profit (EBITA) was SEK 320 million (295). Adjusted for currency, growth was 5%.
- Sales increased in both Medical Devices and Pharma Packaging, and most product areas experienced good growth.

Financial highlights:	2019	2018
Sales, SEKm	2,484	2,270
Operating profit (EBITA), SEKm	320	295
EBITA margin, %	12.9	13.0
Average no. of employees	1,624	1,497



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.



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.
- Projects that require shorter lead times and greater globalisation.
- Growing interest in product packaging and medical devices based on fossil-free materials.



Medical Solutions' global presence

- Development, production and sales take place in Sweden, the UK, Hungary, Switzerland, Poland, the US and China.
- Sales offices are in place in Denmark, Germany and France.

Some of Medical Solutions' customers

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

Some of Medical Solutions' competitors

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

Continued global expansion and development of offering

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.

Developments in 2019

- ▶ The business area achieved a growth rate of 5% (adjusted for currency), which is well in line with overall market growth of 4–5%. Growth was affected compared with the previous year, primarily by a strong second half of 2018 that included very high sales from development work and billing of production equipment.
- ▶ Medical Excellence continued to contribute to all of the business area's units through more effective global coordination of quality management resources, combined with lean manufacturing and continuous improvement.
- ▶ Further investment in equipment for prototype and pilot production, which also includes validated cleanroom-based production during the development phase.
- ▶ Expansion completed at Contour in the US and MediTech in Sweden.

A market with continued long-term growth

The expected global volume growth for medical devices remains stable at around 4–5%. The main drivers are global population growth, increased access to medication in developing countries, an aging population, and more people being affected by lifestyle diseases. This is resulting in a greater need for health care, much of which will have to take place in the form of self-care at home using medical devices that patients can easily handle themselves. The need for more precise diagnostics of clinical samples is also a key driver for in vitro diagnostics (IVD).

Medical Solutions' market is characterised by companies that:

- ▶ need to focus more on developing pharmaceuticals, i.e. the companies' core business. This increases the need for outsourcing to global cooperation partners for both advanced development and production of medical devices.
- ▶ are endeavouring to reduce the number of suppliers, which requires cooperation with global companies that can handle the entire value chain; from development and pilot projects to full-scale production and supply.
- ▶ are developing new medications that require new medical devices for administration.
- ▶ are conducting more and larger development projects that demand shorter lead times in the development phase.

One effect of these market trends is continued consolidation among both customers and competitors. On the one hand this means that small providers with limited offerings and a restricted geographical presence are at risk of being eliminated or bought up. On the other hand, established end-to-end providers with a global presence have good opportunities to grow faster than the market.

Two business sectors that solve customers' problems

Medical Solutions is well positioned to respond to the changes taking place on the market. This is primarily 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 solutions for a global market. It has good capabilities to meet the growing demand for green materials, i.e. to lead development towards a lower proportion of fossil raw materials in packaging solutions. And to respond to rapid technological development, particularly in the area of the Internet of Things (IoT).

Over the past decade, Medical Solutions 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. Pharma Packaging's forte is being one of only a few packaging system suppliers that is focused solely on the pharmaceutical and dietary supplements sector.

The favourable development for Medical Devices and Pharma Packaging was further bolstered during the year through a combination of earlier projects resulting in production at the same time as new projects were initiated and progressed according to plan.

Strategy for sustained 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 rapid global expansion. The strategy is also based on growing alongside customers' businesses, and ensuring offerings comprising global production, design optimisation, product development and integrated electronics. This is combined with the sale of standard products via own channels and distribution networks.

Forward-looking comments

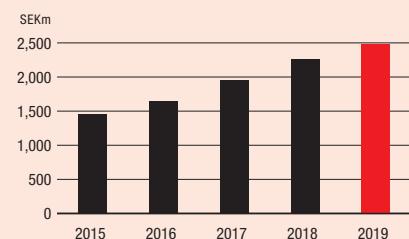
Medical Solutions' aim is to continue growing faster than expected market growth of 4–5%. Strong growth is expected in particular on

markets for autoinjectors, insulin products, diagnostics and incontinence products. Greater interest in reducing the proportion of fossil raw materials in the design optimisation of packaging solutions can also be anticipated to increase, offering Medical Solutions a number of business opportunities. The expanded production capacity that is being rolled out globally is also key to ensuring capacity in line with the many customer projects that are already up and running, as well as forthcoming development projects.

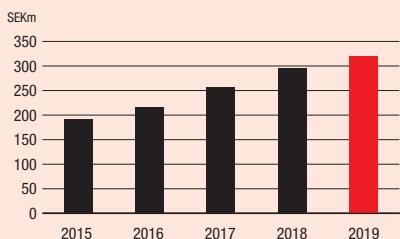
Sustained intensive active marketing to existing markets will take place in order to gain new customers while advancing Nolato's positions with existing customers.



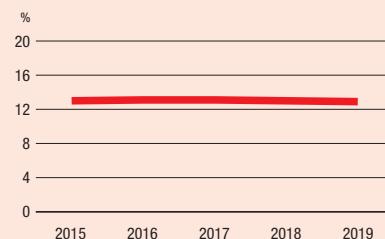
Net sales, full year



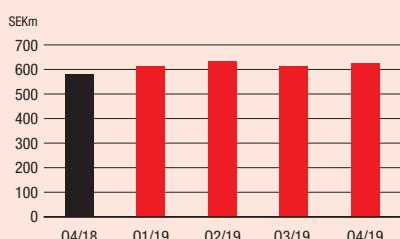
Operating profit (EBITA), full year



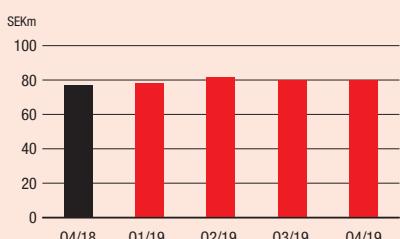
EBITA margin, full year



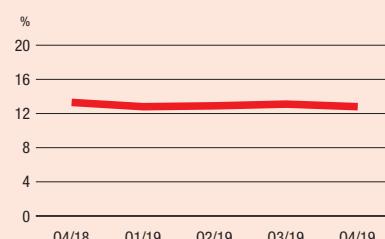
Net sales, quarter



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, uridiomes), 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

SEKm

Year	Investment (SEKm)
2015	110
2016	110
2017	110
2018	230
2019	180

Affecting cash flow, excluding acquisitions and disposals.

Change in sales

SEKm

Year	Change in sales (SEKm)	Volume	Price Mix	Currency
2018	2,200		+5%	
2019	2,500			+4%

Average no. of employees

No.

Year	Average no. of employees
2015	1,050
2016	1,150
2017	1,400
2018	1,450
2019	1,600

Cash flow

SEKm

Year	Cash flow (SEKm)
2018	130
2019	170

Operating cash flow after inv. activities ex. acq. & disp.

Return

%

Year	Return (%)
2018	23
2019	21

Return on operating capital.

Business area's units

Medical Devices:

Nolato Beijing Medical

Beijing, China
MD Thomas Hofflander
(from 1 Feb. 2019)

Nolato Contour

Baldwin, Wisconsin, US
MD Russell Steele

Nolato Hungary

Mosonmagyaróvár, Hungary
Negoiești, 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



2019 highlights

Solid performance in both business sectors, along with the successful transfer of production from Beijing to Shenzhen and Suzhou. Significant move into the US market with the acquisition of Ja-Bar Silicone. In addition, the inventory situation in vaporiser heating products (VHP) gradually normalised in the spring, followed by the start of deliveries of new product variants in the second half of the year.

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

► Sales totalled SEK 3,292 million (3,720) and operating profit (EBITA) was SEK 427 million (473). Adjusted for currency, sales decreased by 18%.

► The year began with inventory adjustments in VHP. After normalisation of the inventory situation, sales gradually increased each quarter.

Financial highlights:	2019	2018
Sales, SEKm	3,292	3,720
Operating profit (EBITA), SEKm	427	473
EBITA margin, %	13.0	12.7
Average no. of employees	3,201	3,868



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 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.
- Surge in the 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, Hungary and the US.
- Sales and technology offices are based in the US, India, Japan and Korea.

Some of Integrated Solutions' customers

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

Some of Integrated Solutions' competitors

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

Acquisition of US-based Ja-Bar complements the focus on EMC and bolsters presence in the US

The Integrated Solutions business area comprises two business sectors:

- ▶ Consumer Electronics: Design, development and manufacture of advanced components, subsystems and ready-packaged electronic products. Integrated electronics and the Internet of Things (IoT) also remain key drivers. Consumer electronics include 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 (Thermal). The automotive industry in particular is becoming increasingly important as electronics develop for all types of vehicle.

Developments in 2019

- ▶ The acquisition of Ja-Bar Silicone, which operates in the area of EMC, provides complementary production technologies, an expanded customer base and a stronger presence on the American continent.
- ▶ The relocation of some production from Beijing to the unit in Shenzhen is complete and is now supporting sales and technology operations through greater consumer electronics production capacity. The transfer of EMC production to Suzhou in eastern China also proceeded as planned.
- ▶ The inventory situation gradually normalised following inventory adjustments in vaporiser heating products (VHP) at the end of 2018 and the start of 2019. Heating Devices started delivering new product variants in the third quarter.

A volatile market driven by technological developments and customer requirements

The consumer electronics market is vast, agile and fast-changing. The mobile phone market, for instance, is highly volatile, having gone from being a growth industry to being regarded as a sector with relatively low overall growth expectations.

For Integrated Solutions the rapid growth of VHP products is positive, and the major regulatory changes occurring in the tobacco industry are a major driver, along with a general trend of healthier lifestyles.

This business area is adopting a strategic approach of introducing new offerings to gradually expand the customer base. This includes product areas such as Laser Applications and Ceramics, aimed at companies developing fitness trackers, loudspeaker systems, thermostats and webcams.

Growth on EMC's market is chiefly fuelled by growing needs for applications and products that can be tailored to 4G and 5G networks as the number of new connected products grows. Increased network traffic is in turn leading to greater requirement for process and materials solutions for shielding (EMC) and heat dissipation (Thermal). The business area is also well positioned to meet a rising need for materials that are used for demanding cooling of electronics in sectors such as telecom, automotive, home electronics, IT and medtech. These are known as thermal interface materials (TIM).

Market position varies between business sectors

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

Its role 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 of technically advanced products, such as shielding solutions for mobile phone network base stations and applications such as TIM in the automotive and other industries.

Strategy for sustained 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 being achieved through organic growth, with success factors including continued close relationships with existing customers and an expanded customer offering providing access to new customers and 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.

The VHP area remains focused on developing its position as a strategic partner for one of the market's leading operators. The aim is to grow alongside the customer's business and launches on new markets by providing product development, production and assembly of complete products, delivered direct to the customer's distributors.

In addition, it will be intensifying 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

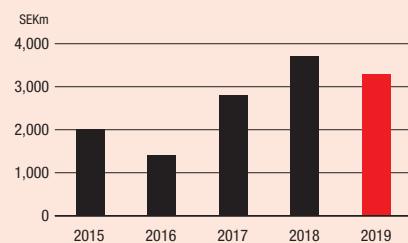
The overall objective to grow faster than the market in all segments continues to apply. The long-term growth potential for most consumer electronics areas are assessed as good. The same is true for the VHP product area, which with a normalised inventory situation and the introduction of new product variants is expected to perform in line with the performance of the customer's business and product launches on new markets.

Intensive product development in EMC & Thermal is continuing, with the aim of being at the cutting edge for the 5G network roll-out. In addition to this is the development of new products and expansion of production to respond to the rapid advance of electronics in the automotive industry.

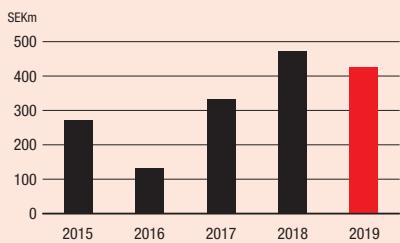
The acquisition of US-based Ja-Bar Silicone, offering additional production technologies and a large customer base, provides a basis for increasing value for both the business and customers.



Net sales, full year



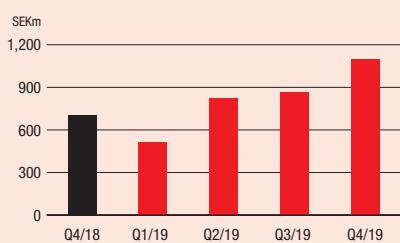
Operating profit (EBITA), full year



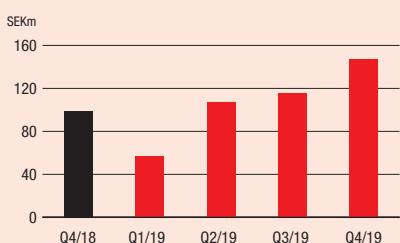
EBITA margin, full year



Net sales, quarter



Operating profit (EBITA), quarter



EBITA margin, quarter



Components, subsystems and ready-packaged 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', which are 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.



Business area's units

Consumer Electronics:

Nolato Beijing

Beijing & Suzhou, China

MD Thomas Hofflander (from 1 Feb. 2019)

Lövepac Converting

Beijing, China

Shenzhen, China

Penang, Malaysia

MD Dan Wong

EMC & Thermal:

Nolato Silikonteknik

Hallsberg, Sweden

Beijing, China

Suzhou, China

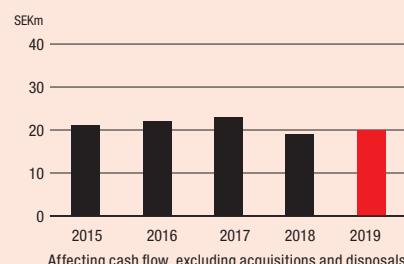
Penang, Malaysia

Györ, Hungary

New Jersey, US

MD Anders Ericsson

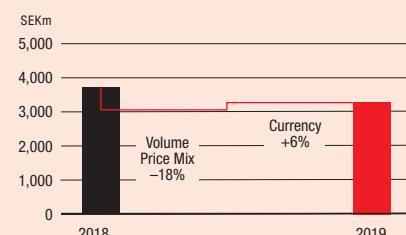
Investment



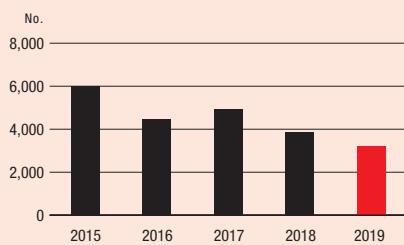
EMC & Thermal

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

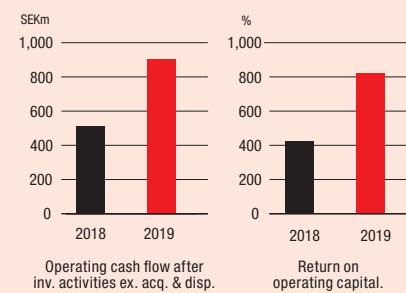
Change in sales



Average no. of employees



Cash flow





Industrial Solutions

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

2019 highlights

Establishment and successful start of production in Wisconsin, US. Production began in a number of large customer projects. Efficiency measures resulted in gradual improvements in the margin.

- Sales totalled SEK 2,159 million (2,119) and operating profit (EBITA) was SEK 181 million (186). Adjusted for currency and Group structure, sales were unchanged.
- Inventory adjustments in the hygiene area had a negative effect in the first half of the year, after which sales increased.

Financial highlights:	2019	2018
Sales, SEKm	2,159	2,119
Operating profit (EBITA), SEKm	181	186
EBITA margin, %	8.4	8.8
Average no. of employees	1,109	1,078



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

- Developing existing customers and winning 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.



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.
- Growing need for global operators with a local presence.



Industrial Solutions' global presence

- Development, production and sales in Sweden, Hungary, Switzerland, Romania and the US.

Some of Industrial Solutions' customers

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

Some of Industrial Solutions' competitors

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

Successful establishment of production in the US and focus on efficiency improvements

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 large volumes and long product series.

Developments in 2019

- ▶ In the spring Industrial Solutions, alongside an existing customer, began production at Medical Solutions' Wisconsin-based manufacturing unit in the US.
- ▶ Temporary inventory adjustments for a customer in the hygiene area had a negative effect, primarily in the first half of the year. Volumes were otherwise stable in most product areas.
- ▶ Efficiency measures at a production unit have gradually improved the EBITA margin.
- ▶ A new customer project within general industry resulted in growth in the second half of the year, but also in high start-up costs.

A market with numerous customers and suppliers

Industrial Solutions is active on markets that are competitive, fragmented and constantly under significant pricing pressure. In addition, fluctuations in industrial activity have an 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. Establishing a local presence is, in many respects, key for a global operator, both in building long-term, close customer relationships and because transporting large volumes of bulky products is expensive.

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. In view of Industrial Solutions' capacity and expertise as an end-to-end provider and high-tech cooperation partner, however, there are only a small number on the Swedish market that can be regarded as competitors.

The main driver for the business area's customers is being able to offer cost-effective high-quality products on their respective markets. There is a demand for end-to-end suppliers that offer capacity and expertise in integrated production processes, enabling higher added value for customers. Performance of the automotive industry on the Swedish market has been particularly favourable for Industrial Solutions, with customers like Scania and Volvo Cars, whose investment in new models is driving increased volumes.

Market position reflects customer needs and demands

Thanks to its in-depth expertise and experience, the business area has grown and adjusted its offering to the changing needs of the export industry. This means the market position reflects the needs and demands of customers, which Industrial Solutions encounters by being everything from a high-volume manufacturer of components to a high-tech solutions provider involved from development to delivery of a finished product to market.

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. The establishment of production in the US during the year also provides good opportunities to start building a position on a new market for Industrial Solutions.

Strategy for sustained growth

Industrial Solutions' 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. The business area's 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. 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 Group does and helps it achieve its strategic objectives. 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 warehousing and an aim to eliminate production defects.

Forward-looking comments

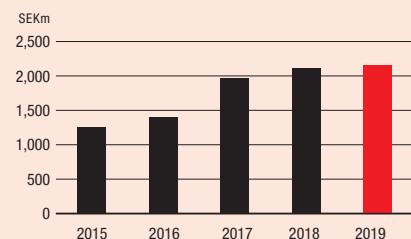
The investment made in Sweden and Central Europe alongside establishing a presence in the US is already providing a valuable increase in capacity and offers a sound basis for business and expansion opportunities on new markets.

Industrial Solutions intends to continue growing alongside customers, in terms of volumes and geographically, as well as in terms of technology. It still aims to do so while growing at a faster rate than the market.

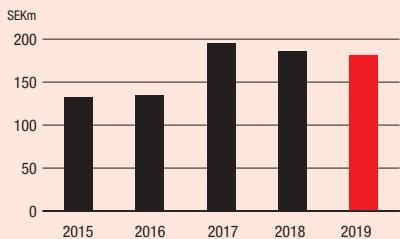
Efficiency improvements have been implemented to boost profitability, and they remain a priority.



Net sales, full year



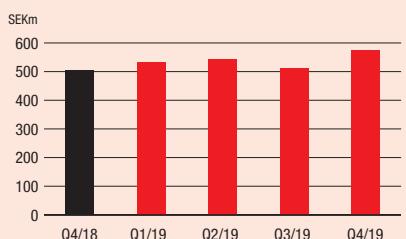
Operating profit (EBITA), full year



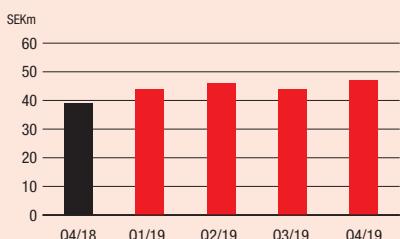
EBITA margin, full year



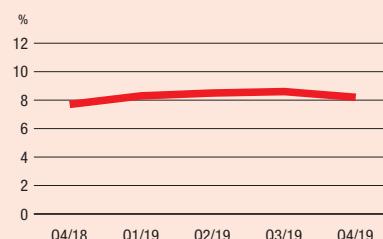
Net sales, quarter



Operating profit (EBITA), quarter



EBITA margin, quarter



General Industry

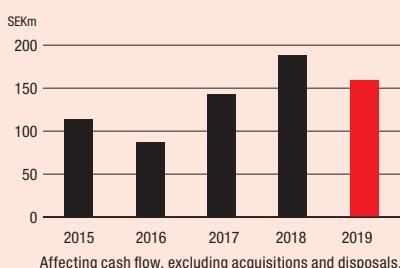
Ball retainers and storage seals for ball bearings, armrests etc. for office chairs and fireproof cable ducts. Components for microwave ovens, components for strimmers and chainsaws (recoil housing, filler caps, air filter holders, etc.), flushing mechanisms for toilets and brew units for coffee machines.



Automotive

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

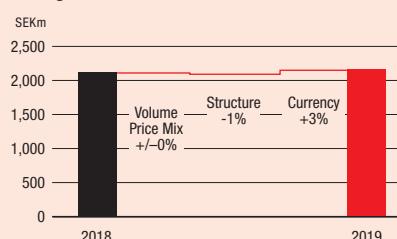
Investment



Average no. of employees



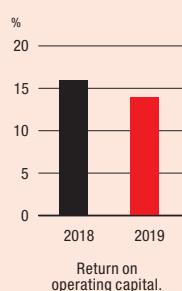
Change in sales



Cash flow



Return



Business area's units

Nolato Gota

Götene, Sweden
MD Olof Pettersson
(from 1 Sept. 2019)

Nolato Polymer

Torekov & Ängelholm,
Sweden
MD Anders Willman

Nolato Hungary

Mosonmagyaróvár, Hungary
MD Johan Arvidsson

Nolato Romania

Negoiești, Romania
MD Johan Arvidsson

Nolato Lövepac

Skånes Fagerhult, Sweden
MD Henrik Enoksson

Nolato Treff

Degersheim, Switzerland
MD Guido Vollrath

Nolato Plastteknik

Gothenburg, Sweden
MD Magnus Hettne

Nolato Contour

Baldwin, Wisconsin, US
MD Russell Steele

Shareholder information

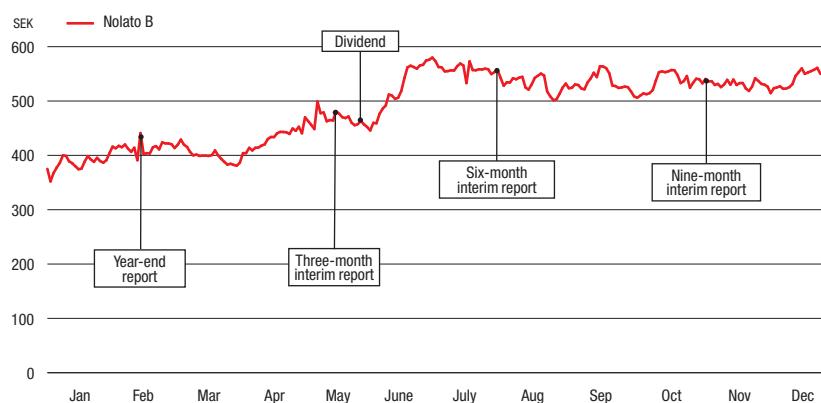
Listing

Nolato AB was listed on the Stockholm Stock Exchange in 1984 and its class B shares are currently listed on Nasdaq Stockholm in the Large Cap segment, where they are included in the Industrials sector. The share symbol is STO:NOLA B and the ISIN code is SE0000109811.

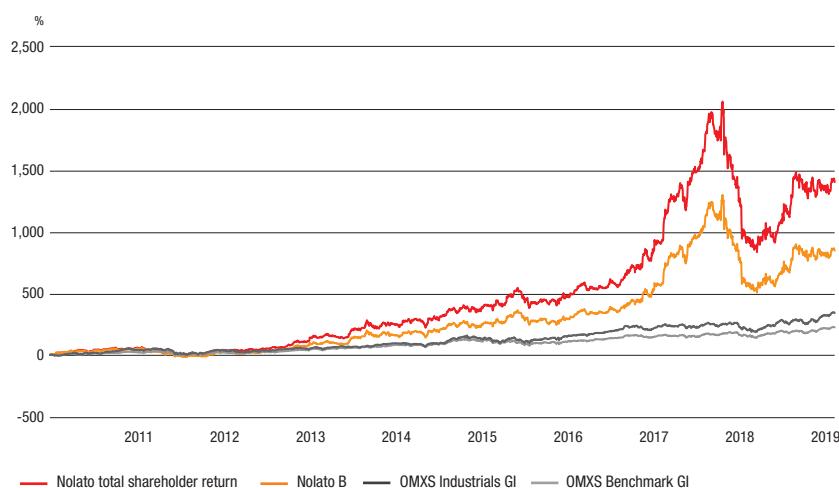
Share price performance

Nolato's B shares rose by 50% during the year (-32). The share price at the end of 2019 was SEK 550.00 (366.50). The highest closing price on Nasdaq Stockholm in 2019 was SEK 580.00 (03/07/2019) and the lowest closing price was SEK 352.00 (03/01/2019).

Share price performance 2019



Total shareholder return and share price performance 2010–2019



The highest price paid during the year was SEK 586.50 (19/07/2019) and the lowest was SEK 347.50 (03/01/2019). The market value of the shares at 31 December 2019 was SEK 14,601 million (9,642). In 2019 28.1 million Nolato class B shares were traded, of which 58% was in open exchange trading (Lit + auction market) and 42% in other trading (Dark, off-book and SI). Of open exchange trading, 80% took place on Nasdaq Stockholm, 13% on Cboe and 5% on Aquis.

The turnover rate, i.e. the degree of liquidity, in open exchange trading in 2019 was 68%. There were 11,592 (12,052) shareholders at 31 December.

Share capital

The share capital of Nolato AB totals SEK 133 million, divided into 26,548,000 shares. Of these, 2,759,400 are A shares and 23,788,608 are B shares. Each A share entitles the holder to ten votes, while a B share entitles the holder to one vote. All shares have equal rights to the assets and earnings of the company.

Incentive programmes

Nolato has two share warrant programmes for management that could result in dilution of the number of shares. For further information, see Note 27 on page 77.

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 2019 of SEK 14.50 (14.00), corresponding to SEK 385 million (368).

The pay-out ratio, i.e. the dividend in relation to profit after tax, is 55% (51). The dividend yield was 2.6% in relation to the share price at 31 December 2019. Over the last five years, the average yield from Nolato shares has been 3.3%.

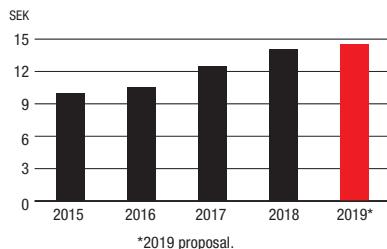
Transferability

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

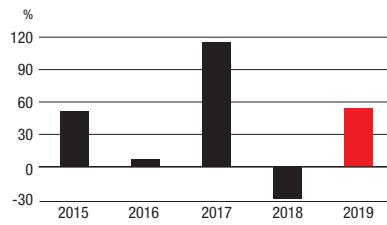
Financial information

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. On the website you will also find all interim reports, annual reports and press releases dating back 10 years.

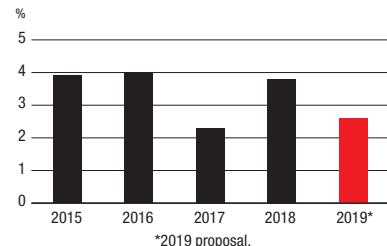
Dividend 2015–2019



Annual total shareholder return 2015–2019



Dividend yield 2015–2019



Total shareholder return:

10 years	1,378% (yearly average 31%)
5 years	266% (yearly average 29%)
3 years	128% (yearly average 32%)
2 years	7% (yearly average 4%)

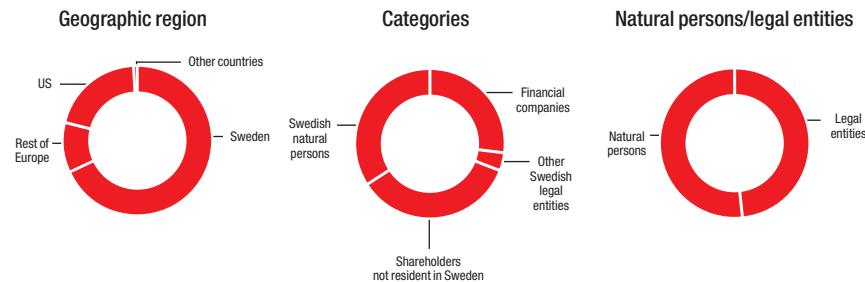
Definition of total shareholder return (not IFRS measure): Total shareholder return shows the change in the share price, including reinvested dividends over the period.

Analysts

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

- ABG Sundahl Collier – Oskar Vikström +46 8 5662 8663
- Carnegie – Mikael Laséen +46 8 5886 8721
- Handelsbanken – Daniel Lindkvist +46 8 701 2819
- Nordea – Carl Ragnerstam +46 10 1562 817

Breakdown of shareholders at 31 December 2019



The largest shareholders at 31 December 2019

Shareholders	% of capital		% of votes	
	31 December 2019	Change*	31 December 2019	Change*
Jorlén family	9.6	-0.1	24.3	-0.1
Boström family	9.3	-0.1	19.5	-0.1
Hamrin family	8.2	-0.3	18.6	-0.2
State Street Bank and Trust	13.1	0.6	6.8	0.4
Lannebo funds	6.9	2.1	3.5	1.0
Didner & Gerge Fonder Aktiebolag	3.8	1.1	2.0	0.6
Handelsbanken funds	2.4	0.1	1.2	0.0
JPM Chase NA	2.2	-0.1	1.1	-0.1
Nordea investment funds	2.1	1.7	1.1	0.9
CBNY Norges Bank	1.9	0.8	1.0	0.4
BNY Mellon NA	1.5	-0.6	0.8	-0.2
BNY Mellon SA/NV	1.4	-1.6	0.7	-0.8
Second Swedish National Pension Fund	1.2	0.0	0.6	0.0
Total for largest shareholders	63.6		81.2	
Other shareholders	36.4		18.8	

*Change (percentage points) in shareholdings compared with 31 December 2018.

Data per share

	2019	2018	2017	2016	2015
Basic earnings per share after tax (SEK) ¹⁾	26.60	27.44	21.74	12.77	15.97
Shareholders' equity per share, before dilution, SEK ²⁾	112	99	82	70	67
Cash flow after investing activities excl. acquisitions and disposals per share, before dilution, SEK	30.19	22.54	18.85	9.31	10.95
Share price at 31 December, SEK	550.00	366.50	539.00	263.00	257.50
Price/earnings ratio, times ³⁾	21	13	25	21	16
Turnover rate, %	68	92	66	58	75
Dividend (2019 proposal), SEK	14.50	14.00	12.50	10.50	10.00
Yield (2019 proposal), % ⁴⁾	2.6	3.8	2.3	4.0	3.9
Dividend as a percentage of earnings per share (2019 prop.)	55	51	57	82	63
Average number of shares before dilution, thousand	26,432	26,307	26,307	26,307	26,307
Price/equity ratio per share, times	4.9	3.7	6.6	3.8	3.8
Market capitalisation at 31 December, SEK million	14,601	9,642	14,180	6,919	6,774

Definitions

- 1) Profit after tax divided by the average number of shares, IFRS measure.
- 2) Shareholders' equity divided by the number of shares.
- 3) Quoted share price at 31 December divided by earnings per share after tax.
- 4) Dividend for the year divided by the market price quoted on 31 December.

Corporate governance

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. 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 Com-

mittee 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 2019 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 groupwide 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.

► Trade sanctions policy

This regulates the restrictions on employees having business relationships with certain individuals, companies, governments and countries according to sanctions, laws and rules issued by various countries at any given time.

► 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.

Targets
Strategies
Policy documents
CEO instructions

Reporting
Proposals
Documentation for decision-making

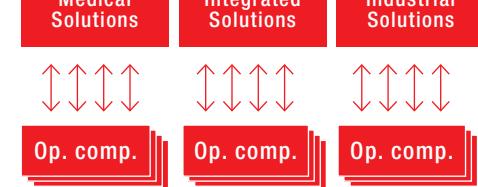
Commercial, financial and ethical governance and control

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

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

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

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
Elected	2009 (also member 1998–1999)	2014	2013	2017	2014
Position	Chairman of the Board and Chairman of the Remuneration Committee.	Board member	Board member	Board member	Board member
Born	1953	1961	1983	1973	1962
Education	Master of Science (Economics) and Ec. Doctor h.c.	Master of Science (Economics), Stockholm School of Economics. MBA INSEAD.	Bachelor of Science (Chemistry) Master of Science (Analytical Chemistry) and Bachelor of Science (Economics).	Master of Science (Economics and Business), Stockholm School of Economics and Bachelor of Science.	Master of Science (Biophysics), Bachelor of Science (Physics).
Other assignments	Chairman of Bravida Holding AB. Board member of Vattenfall and Swedfund International.	Board member of GHP AB (publ), Terveystalo OY (publ) and XVIVO AB (publ).	—	Chairman of the Carl-Olof and Jenz Hamrin Foundation. Board member of JIBS Strategy Board.	Board member of Tobii AB, Cellavision AB, C-Rad AB, Immunova AB and Industrifonden AB.
Background	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, owner and Executive Chairman of Herenco Holding AB, senior management positions at Hall Media AB and Schibsted.	Deputy CEO of Elekta AB. Senior management positions at Siemens Healthcare and Gambio AB.
Attendance	8 out of 8 meetings	7 out of 8 meetings	8 out of 8 meetings	7 out of 8 meetings	7 out of 8 meetings
Remuneration¹⁾	595,000	215,000	215,000	215,000	215,000
Shareholding²⁾	3,000 B (3,000 B)	5,000 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)
Dependence	Independent of the company and major shareholders.	Independent of the company and major shareholders.	Independent of the company but not independent of major shareholders.	Independent of the company but not independent of major shareholders.	Independent of the company and major shareholders.

¹⁾ For further information about remuneration, see Note 27 on page 77.

²⁾ Shareholding in Nolato at 31/12/2019 (31/12/2018) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com



Name	Henrik Jorlén	Lars-Åke Rydh	Jenny Sjödahl	Björn Jacobsson	Håkan Svensson
Elected	1974	2005	2016	2015 (also member 2000–2013) Deputy 2014	2014 Deputy 2009–2014
Position	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).
Born	1948	1953	1973	1971	1960
Education	Business school	Master of Science (Engineering)	Master of Science (Industrial Economics), MBA	Upper secondary school	Upper secondary school. Completed PTK employee representative course.
Other assignments	—	Chairman of Danfo AB, Olja ek. för., Schuchardt Maskin AB, Chiffonjén AB, CombiQ AB and Prototypen AB. Board member of Nefab AB, Garo AB, Spectria Invest Fond AB, Söderbergsföretagen AB, Hjo Verktyg AB and Östrand o Hansen AB.	Board member of Nibe Industrier AB.	—	—
Background	Senior management positions within the Nolato Group.	President and CEO of Nefab.	CEO of Westermo Network Technologies AB (ongoing). Senior management positions within ABB.	Employed at Nolato Gota.	Employed at Nolato Cerbo.
Attendance	8 out of 8 meetings	8 out of 8 meetings	7 out of 8 meetings	8 out of 8 meetings	8 out of 8 meetings
Remuneration¹⁾	262,000	285,000	215,000	0	0
Shareholding²⁾	294,000 A + 37,950 B (294,000 A + 37,950 B)	2,000 B (2,000 B)	0 (0)	0 (0)	0 (0)
Dependence	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 Arif Mislimi (LO Swedish Trade Union Confederation), Mats Larsson and Reynaldo Mejedo (PTK organisation).

¹⁾ For further information about remuneration, see Note 27 on page 77.

²⁾ Shareholding in Nolato at 31/12/2019 (31/12/2018) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com

Nolato Group management



Name	Christer Wahlquist	Per-Ola Holmström	Johan Ivelberg	Jörgen Karlsson	Johan Arvidsson
Employed	1996	1995	2010	1995	1994
Position	President and CEO since 2016.	Executive Vice President and CFO since 1995.	President of Medical Solutions since 2016.	President of Integrated Solutions since 2009.	President of Industrial Solutions since 2012 and MD of Nolato Hungary since 2008.
Born	1971	1964	1969	1965	1969
Education	Master of Science (Engineering) MBA	Bachelor of Science (Economics)	Master of Science (Engineering)	Polymer Engineering	Master of Science (Engineering)
Background	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.
Shareholding ¹⁾	17,712 B (15,712 B)	15,084 B (14,084 B)	5,500 B (3,000 B)	2,000 (0)	10,000 B (5,000 B)
Warrants	38,000 (Series 2017/2020) 38,000 (Series 2018/2021)	19,000 (Series 2017/2020) 19,000 (Series 2018/2021)	19,000 (Series 2017/2020) 19,000 (Series 2018/2021)	19,000 (Series 2017/2020) 19,000 (Series 2018/2021)	19,000 (Series 2017/2020) 19,000 (Series 2018/2021)

¹⁾ Shareholding in Nolato at 31/12/2019 (31/12/2018) incl. family and companies, according to Euroclear Sweden. For current information see www.nolato.com

Directors' report and financial statements

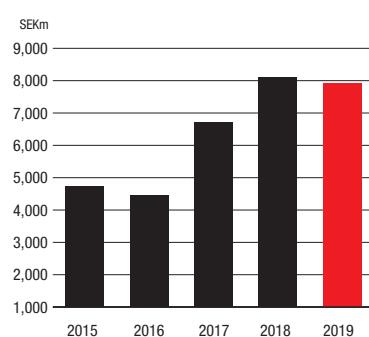
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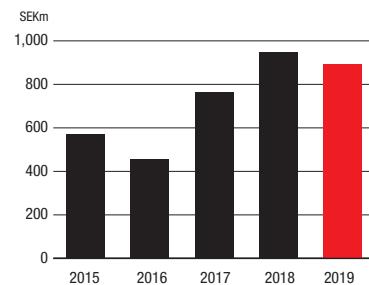
*The content of pages 47–92 has been audited.

Directors' report

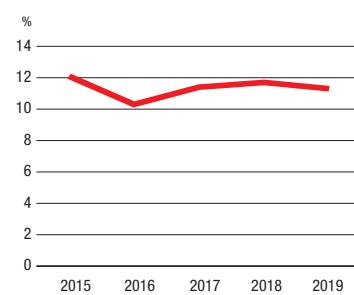
Sales



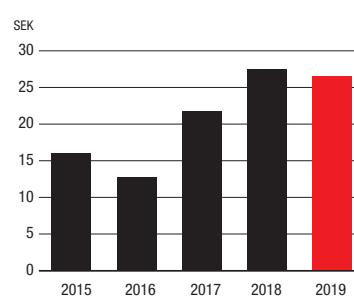
Operating profit (EBITA)



EBITA margin



Basic earnings per share



Operations in 2019

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 2019 financial year.

Nolato is a Swedish publicly listed group with 5,941 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, furniture and other selected industrial segments.

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

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

The operations of these business areas are presented in more detail on pages 28–39.

Financial summary

Consolidated sales declined by 2% in 2019, amounting to SEK 7,919 million (8,102). Adjusted for currency and Group structure, sales decreased by 7%. Operating profit (EBITA) fell to SEK 895 million (949), giving an EBITA margin of 11.3% (11.7).

Operating profit (EBIT) totalled SEK 887 million (941) after an expense of SEK 8 million in amortisation of intangible assets arising in connection with acquisitions. The EBIT margin was 11.2% (11.6). For further financial information, see the five-year review on page 83.

Consolidated profit after tax was SEK 703 million (722). Basic earnings per share were SEK 26.60 (27.44). Adjusted basic earnings per share excluding amortisation of intangible assets arising from acquisitions

Sales, operating profit and EBITA margin by business area, 2017–2019

	Sales			Operating profit EBITA			EBITA margin (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
SEKm									
Medical Solutions	2,484	2,270	1,955	320	295	257	12.9	13.0	13.1
Integrated Solutions	3,292	3,720	2,810	427	473	332	13.0	12.7	11.8
Industrial Solutions	2,159	2,119	1,968	181	186	195	8.4	8.8	9.9
Intra-Group adj., Parent Co.	–16	–7	–13	–33	–5	–21	—	—	—
Group total	7,919	8,102	6,720	895	949	763	11.3	11.7	11.4

amounted to SEK 26.82 (27.67). The effective tax rate was 18.0% (21.6).

► Sales for the Medical Solutions business area amounted to SEK 2,484 million (2,270); adjusted for currency, sales increased by 5%. Sales increased in both Medical Devices and Pharma Packaging, and most product areas experienced good growth. Growth in the second half of the year was affected by strong comparative figures, which contained very high sales from development work and billing of production equipment.

Operating profit (EBITA) rose to SEK 320 million (295). The EBITA margin was 12.9% (13.0).

► Integrated Solutions sales amounted to SEK 3,292 million (3,720); adjusted for currency, sales decreased by 18%. Following inventory adjustments in vaporiser heating products (VHP) towards the end of the previous year and in the first quarter of 2019, the inventory situation normalised. The first quarter consequently began with low volumes, but these grew sequentially over the remaining quarters of the year. Heating Devices started delivering new product variants in the third and fourth quarters, which made a positive contribution. Volumes in the EMC area were stable over the period, while mobile phones were initially weak but performed well in the second half of the year.

Operating profit (EBITA) was SEK 427 million (473). The EBITA margin was a strong 13.0% (12.7).

Nolato completed the acquisition of US-based Ja-Bar Silicone Corporation in the fourth quarter. The final purchase price for the company was SEK 93 million (debt free company). The company, which has annual sales equivalent to approximately SEK 150 million with good profitability, strengthens Nolato's offering in process- and materials-based electronics shielding solutions for electromagnetic compatibility or 'EMC'. The company was consolidated into the Group as of 18 December 2019. The transaction is expected to have a marginal positive effect on Nolato's earnings per share in 2020. The acquisition was financed using existing credit agreements.

► Industrial Solutions sales were SEK 2,159 million (2,119); adjusted for currency and Group structure, sales were unchanged. Inventory adjustments in the hygiene area in the first half of the year had a negative effect. New customer projects in general industry were started in the fourth quarter,

boosting sales. A proportion of this invoicing is non-recurring. Volumes were stable during the year in most other product areas.

Operating profit (EBITA) totalled SEK 181 million (186), with an EBITA margin of 8.4% (8.8). The lower margin is due to the unsatisfactory efficiency of a production plant and high start-up costs in the fourth quarter for new general industry customer projects. Implemented and ongoing efficiency improvements are gradually having an effect.

For additional comments on financial performance, see page 57 part of the directors' report.

Responsible business

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

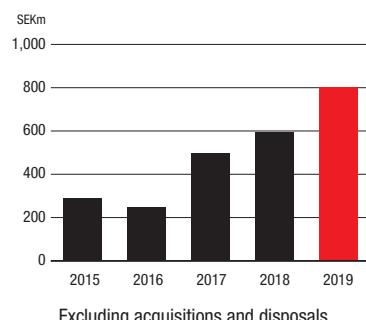
According to ÅRL Chapter 6, Section 11, the company has opted to summarise the statutory sustainability report in the annual report, and to provide a more detailed account in a separate Sustainability Report as per the guidelines in the Global Reporting Initiative (GRI). The Sustainability Report is available on our website at www.nolato.com. 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	14–15
Policies, framework, stakeholders and material topics	50–51
Targets and KPIs	20–22
Environmental responsibility	21, 51
Working conditions and social responsibility	20, 51
Anti-corruption	22, 51
Risks and risk management	55
Diversity on the Board and in management	51

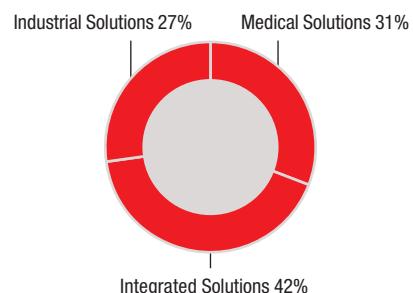
Key guidelines

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 ten principles on the environment, human rights,

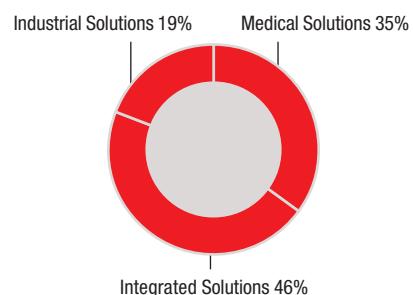
Cash flow after investments



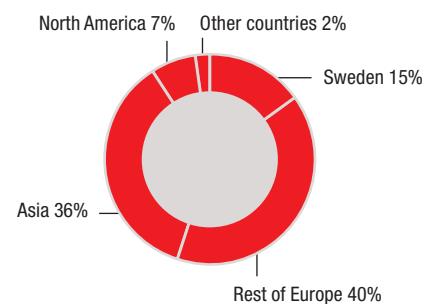
Share of sales

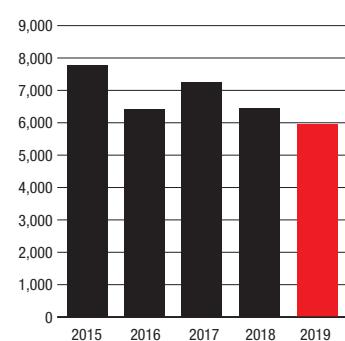
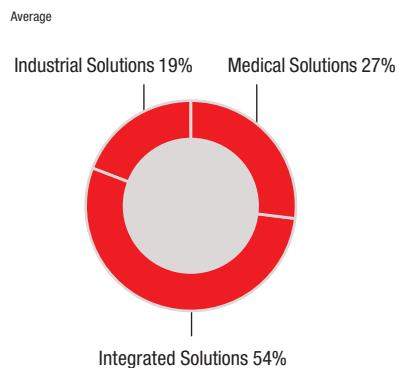
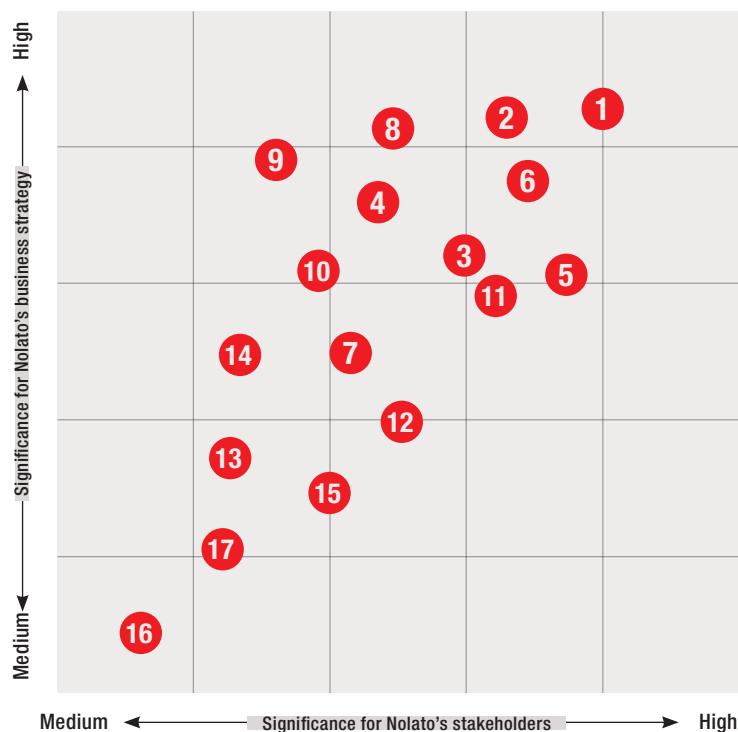
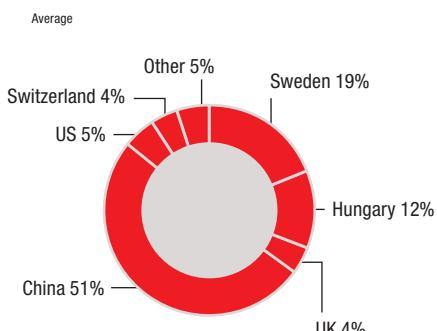


Share of operating profit (EBITA)



Sales by geographic markets



Average no. of 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 Disruption in surrounding area (noise, odour)
- ⑰ Use of chemical products

labour and anti-corruption. These ten principles are incorporated into The Nolato Spirit. Nolato's long-term goals are linked to the UN Sustainable Development Goals introduced by 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 20–22).

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 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 issues

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

All production units in Sweden apart from one are obliged to provide notifications pursuant to the Swedish Environmental Code. Most of the Group's units outside Sweden require permits or are covered by similar requirements in accordance with

environmental legislation in the country in question. Sales from operations with permit requirements and notification obligations make up the majority of the Group's net sales. Routine updates to the environmental permits will be carried out at four plants in 2020. 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 significant breaches of environmental legislation were registered in 2019.

Employees

The average number of employees at Nolato in 2019 was 5,941 (6,449). Of the total number of employees in the Group, 47% (46) were women. Local management teams are made up of approximately 25% (22) women. Of Nolato's Board members, 30% (30) are women, while the corresponding figure for Group management is 0% (0). 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 48% (51) of its employees, an Employee Care Programme was introduced and further developed in 2019. 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 reported in 2019.

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 2019. 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 of Nolato's production units are certified in accordance with requirements in the ISO 9001 quality management system, while 90% of the units are certified to industry-specific ISO standards, for example with a focus on the automotive industry (IATF 16949), medical technology (ISO 13485), food industry (ISO 22000) and pharmaceutical packaging (ISO 15378).

For the environment and work environment, all companies with the exception of the recently acquired Ja-Bar Silicone are certified according to the environmental management standard (ISO 14001), almost 30% according to the health and safety standards (OHSAS 18001/ISO 45001), 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 133 million, divided among 26,548,008 shares. Of these, 2,759,400 are A shares and 23,788,608 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 2019, Nolato had 11,592 (12,052) shareholders. The largest shareholders are the Jorlén family with 10%, the Boström family with 9%, the Hamrin family with 8%, Capital Group and Lannebo Funds with 7% each, Didner & Gerge Funds with 4% and Handelsbanken Funds with 2%.

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 2017, 2018 and 2019, Nolato's management were offered the opportunity to acquire warrants for the purchase of shares at a predetermined price.

At the end of the period, the Group had two Incentive Programmes: Incentive Programme 2016/2021 and Incentive Programme 2019/2024. In Incentive Programme 2016/2021, Series 2017/2020 has redemptions from 01/05/2020 to 15/12/2020 and Series 2018/2021 from 01/05/2021 to 15/12/2021.

The subscription price is SEK 485.10 for Series 2017/2020 and SEK 502.00 for Series 2018/2021. In Incentive Programme 2019/2024, Series 2020/2023 has redemptions from 01/05/2023 to 15/12/2023 and Series 2021/2024 from 01/05/2024 to 15/12/2024. The programmes have been taken into account in calculating the number of shares after dilution. Upon full subscription, the programmes provide a maximum of 921,700 new class B shares.

Further information about Nolato's shares can be found on pages 40–41. Up-to-date information about the share price and shareholders is always available at www.nolato.com.

Corporate governance

Basic information about the company's governance, Board of Directors and management can be found on pages 42–46. Nolato's formal corporate governance report is available at www.nolato.com/corpgov.

Remuneration guidelines

The guidelines for the remuneration of senior executives agreed on at the latest annual general meeting are detailed in Note 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 2020 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 60 million (63). Profit after financial income and expense was SEK 396 million (414).

Proposed appropriation of profits

The profit at the disposal of the annual general meeting is as follows:

Retained earnings	SEK 848 million
Profit for the year	SEK 563 million
Total	SEK 1,411 million

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

Div. to shareh. of SEK 14.50 per share	SEK 385 million
To be carried forward	SEK 1,026 million
Total	SEK 1,411 million

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

Future performance

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

Nolato has an excellent platform for its future operations through a high level of technological expertise and professionalism, modern production units, a clear focus on sustainability and a customer-specific geographic presence in Europe, Asia and North America, as well as a strong financial position. For Medical Solutions, we see opportunities for sustained growth by investing in new projects and customer relationships. For Integrated Solutions, we will carry on extending our offering into related products with our integrated solutions. Industrial Solutions will continue expanding into new markets and growing through acquisitions.

We are 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.

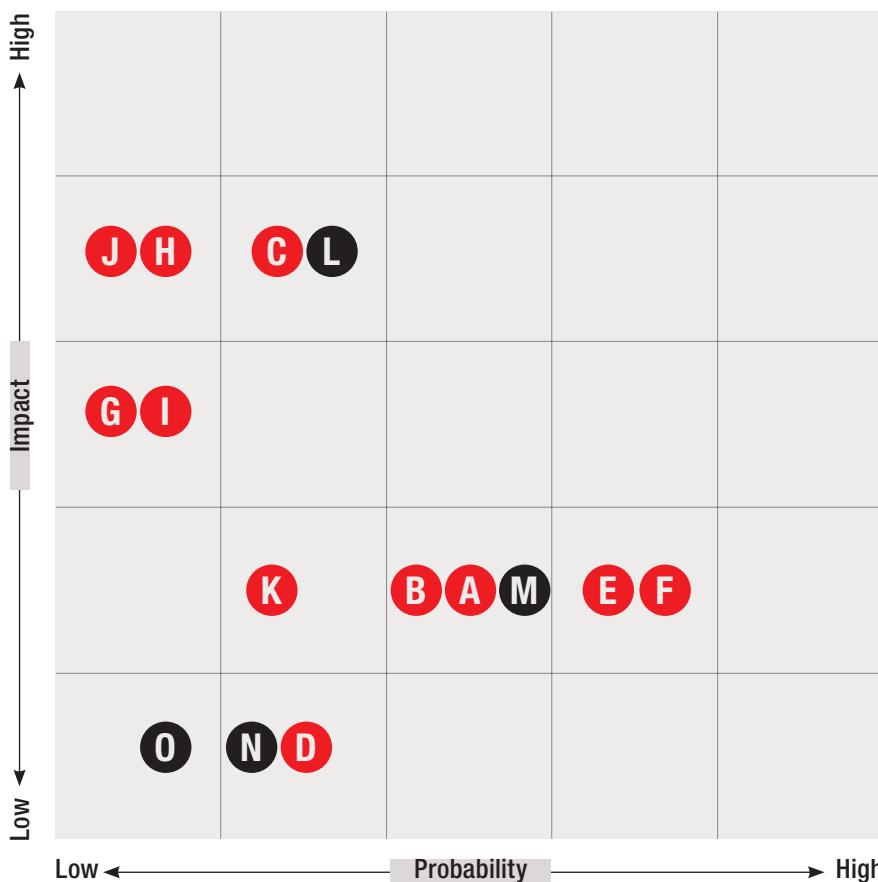
However, Nolato does not provide any earnings forecast because as a supplier, the company conducts operations that are highly dependent on its customers' internal decisions and commercial performance. Factors among customers that we cannot influence in the short term, such as postponed or cancelled projects,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

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

Financial risks

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

Operational risks	Risk exposure	Risk management
A Business cycle risk 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 Subcontractor risk The risk that changes at customers could have a significant negative impact on Nolato's performance and earnings.	As a subcontractor, Nolato is highly dependent on customers' internal decisions and commercial performance. Factors among customers that we cannot influence include postponed or cancelled projects, higher or lower sales volumes and longer or shorter product 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.
C Customer dependence The risk that changes at individual customers could have a significant negative impact on Nolato's performance and earnings.	Dependence on individual customers is lowest in 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.
D Supplier dependence The risk of a supplier being unable to deliver to Nolato on time or at the right quality.	If a significant, strategic supplier does not fulfil its undertakings we could face problems supplying on time and at the right quality to our customers.	For input goods and machinery, this risk is limited by the fact that there are a number of alternative suppliers. In terms of components for system products, the choice of supplier is usually made in consultation with Nolato's customer.
E Raw material price risk The risk of an important raw material increasing in price and having a significant negative effect on various projects. In Nolato, this mainly applies to various plastic raw materials.	Quantities of plastic raw material in our production vary from business area to business area. For 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.
F Energy cost risk The risk of the cost of energy rising and having a significant negative impact on profitability. Within Nolato this mainly applies to the purchase of electricity.	Nolato primarily uses electrical energy in production. In 2019, energy costs totalled SEK 158 million, of which 93% related to electricity.	The risk of negative effects from rising electricity prices is addressed by the Group entering into fixed price agreements for 20–80% of electricity requirements for the next four to 12 quarters.
G Production risks The risk of significant supply delays and/or quality issues.	As a subcontractor, the products and components that we manufacture are supplied in accordance with customer specifications and quality requirements. Disruptions can mainly occur during the start-up of a project, but also during ongoing production.	In order to counteract disruptions, the Group follows an advanced concept involving competent staff, quality assurance systems, vision monitoring systems and checklists. All production units 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).
H Property damage and disruptions The risk of a negative impact on earnings and customer confidence as a result of a fire, explosion, natural disaster, damage to machinery, etc.	Major property damage to a building or production equipment can lead to production losses that could impact the Group's profit. Our base technologies are in place at most of the Group's production units, making it possible to relocate production from one affected unit to another unit in the event of disruptions and consequently mitigate the effects of the damage.	All units must follow Nolato's risk management manual to achieve the specified level of risk and thereby reduce the risk of significant damage and create strong security of supply. The risk manual also provides guidelines for the Group's property insurance. External risk engineers inspect the production units based on a rolling schedule to verify that risks are being managed in line with the manual.
I Legal risks The risk of significant disputes with different external stakeholders.	Legal risks can primarily arise in connection with the supply of products. This may concern issues relating to quality or liability and intellectual property rights.	To prevent disputes Nolato works with external lawyers and consultants on legal issues, for example on agreements with customers and suppliers. The Group also has internal policies and regulations relating to which agreements senior executives are authorised to enter into.
J Product liability risk 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
K Sustainable development risks 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
L Customer credit risk The risk of a major customer becoming insolvent and being unable to pay for orders made.	In terms of customers within Industrial Solutions and Medical Solutions, this risk is mitigated by sales taking place in a large number of countries to a large number of customers, which diversifies the risk. Integrated Solutions has fewer customers. If any of the Group's major customers were to suffer financial difficulties, the Group could sustain significant bad debt losses. The Group's maximum exposure of accounts receivable amounted to SEK 1,051 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.
M Foreign exchange risk 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 410 million at year-end, 48% of which was hedged. This means that SEK 214 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 10 million on Group profit. The Group has SEK 1,357 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 68 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 tables under Note 30 on pages 80–81.
N Interest rate risk The risk that the Group's net interest expense will significantly increase in the event of changes to market interest rates.	At 31 December, interest-bearing liabilities amounted to SEK 1,219 million. An increase in the interest rate of one percentage point would result in an increase of SEK 12 million in annual interest expense. At 31 December, the Group's financial net assets amounted to SEK 143 million, including pension and lease liabilities.	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%.
O Financing and liquidity risk The risk of the Group having problems accessing capital.	Total credit lines granted in the Group amount to SEK 1,260 million (1,232). Of this amount, SEK 527 million matures on 27/09/2021 and SEK 600 million on 24/04/2022. Other credit commitments of SEK 133 million (131) mature between 2020 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	2019	2018
Net sales	3, 4	7,919	8,102
Cost of goods sold	5, 6	– 6,671	– 6,845
Gross profit		1,248	1,257
Selling expenses	6	– 126	– 119
Administrative expenses	6	– 231	– 217
Other operating income and operating expenses, net	7	– 4	20
		– 361	– 316
Operating profit		887	941
Financial income	8	16	11
Financial expenses	8	– 46	– 31
		– 30	– 20
Profit after financial income and expenses		857	921
Tax	9	– 154	– 199
Profit for the year attributable to Parent Company shareholders		703	722
Basic earnings per share, (SEK)	10	26.60	27.44

Consolidated comprehensive income

SEKm	2019	2018
Profit for the year attributable to Parent Company shareholders	703	722
Other comprehensive income		
<i>Items that cannot be transferred to profit for the period</i>		
Revaluations of defined benefit pension schemes	– 66	3
Tax attributable to items that cannot be reversed to profit for the period	11	– 1
	– 55	2
<i>Items transferred or that could be transferred to profit for the period</i>		
Translation differences for the year on translation of foreign operations	21	36
Changes in the fair value of cash flow hedges for the year	2	– 1
Tax attributable to changes in the fair value of cash flow hedges	—	—
	23	35
Total other comprehensive income, net	– 32	37
Comprehensive income for the year attributable to Parent Company shareholders	671	759

Comments on the consolidated income statement

Net sales

Net sales for the Group in 2019 saw a decline of 2% to SEK 7,919 million (8,102). Adjusted for currency and Group structure, sales decreased by 7%.

Medical Solutions sales totalled SEK 2,484 million (2,270). Adjusted for currency, sales increased by 5%. Sales increased in both Medical Devices and Pharma Packaging, and most product areas experienced good growth. Growth in the second half of the year was affected by strong comparative figures, which contained very high development sales and billing of production equipment.

Integrated Solutions sales amounted to SEK 3,292 million (3,720); adjusted for currency, sales decreased by 18%. Following inventory adjustments in vaporiser heating products (VHP) towards the end of the previous year and in the first quarter of 2019, the inventory situation normalised. The first quarter consequently began with low volumes, but these grew sequentially over the remaining quarters of the year. Heating Devices started delivering new product variants in the third and fourth quarters, which made a positive contribution. Volumes in the EMC area were stable over the period, while mobile phones were initially weak but performed well in the second half of the year.

Industrial Solutions sales were SEK 2,159 million (2,119); adjusted for currency and Group structure, sales were unchanged. Inventory adjustments in the hygiene area in the first half of the year had a negative effect. New customer projects in general industry were started in the fourth quarter, boosting sales. A proportion of this invoicing is non-recurring. Volumes were stable during the year in most other product areas.

Gross profit

Gross profit totalled SEK 1,248 million (1,257). The cost of goods sold consists of production costs for materials and manufacturing salaries, as well as other production expenses. The gross margin was 15.8% (15.5). Total depreciation/amortisation increased and amounted to SEK 376 million (248). This consisted mainly of depreciation of non-current assets in production, which is included in the cost of goods sold in the income statement at SEK 366 million (236). Other depreciation/amortisation primarily relates to amortisation of intangible assets arising in connection with acquisitions. The increase in depreciation/amortisation is due to the investments made by the

Group over the past few years to expand production capacity, with higher investments than depreciation/amortisation. The Group has also applied an impairment to machinery and other technical facilities in the amount of SEK 18 million, as part of restructuring costs relating to the approved closure of a production facility at Nolato Jaycare in the UK.

Selling and administrative expenses

Selling and administrative expenses saw a slight increase compared with 2018 and amounted to SEK 357 million (336). 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 (8). 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 a cost of SEK 4 million in 2019 compared with income of SEK 20 million for 2018. It comprises changes in net currency effects with losses of SEK 3 million (gains of SEK 1 million), compensation received from Chinese authorities amounting to SEK 2 million (14) and acquisition expenses of SEK 3 million (0).

Operating profit

Operating profit totalled SEK 887 million (941). The decrease is partly due to restructuring costs within the British business unit Nolato Jaycare of SEK 22 million, along with lower earnings for Integrated Solutions, for which sales dropped by 18% adjusted for currency.

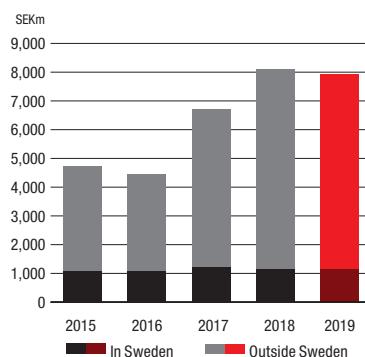
Net financial income/expense

Net financial income/expenses amounted to SEK -30 million in 2019 (-20). The higher net cost is largely due to the introduction of IFRS 16 Leases as of 1 January 2019, which has contributed SEK -11 million in interest expenses on lease liabilities.

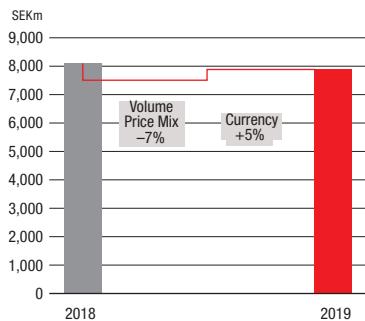
Profit after tax

Profit after tax totalled SEK 703 million (722), with basic earnings per share of SEK 26.60 (27.44). The effective tax rate was 18.0% (21.6). Excluding non-recurring items and adjustment to a lower tax rate in Switzerland (one-off effect), the tax rate was 18.2% (22.1).

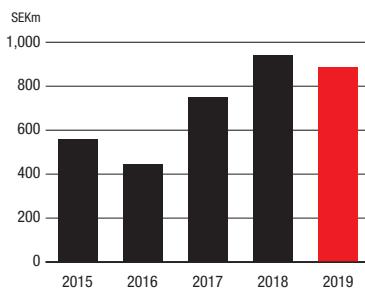
Sales



Change in sales



Operating profit (EBIT)



Consolidated balance sheet

SEKm	Note	2019	2018
Assets			
Non-current assets			
Non-current intangible assets			
11	852	780	
Property, plant and equipment	12	1,565	1,518
Rights of use	13	274	—
Non-current financial assets	14	2	2
Other non-current receivables		1	1
Deferred tax assets	9	58	111
Total non-current assets		2,752	2,412
Current assets			
Inventories	15	667	566
Accounts receivable	14	1,051	949
Current tax assets		47	39
Other current assets	16	250	232
Other current financial assets	14	5	5
Cash and cash equivalents	14	1,362	953
Total current assets		3,382	2,744
Total assets		6,134	5,156
Shareholders' equity and liabilities			
Equity attributable to Parent Company shareholders			
Share capital	17	133	132
Other capital contributed		298	228
Other reserves	18	159	136
Retained earnings, (incl. profit for the year)		2,376	2,096
Total shareholders' equity		2,966	2,592
Non-current liabilities			
Provisions for pensions and similar obligations	20	246	182
Non-current financial liabilities	13, 19	834	522
Deferred tax liabilities	9	110	116
Other provisions	21	99	91
Total non-current liabilities		1,289	911
Current liabilities			
Accounts payable	19	839	594
Current tax liabilities		31	123
Other current financial liabilities	13, 19	140	94
Other current liabilities	22	869	842
Total current liabilities		1,879	1,653
Total liabilities		3,168	2,564
Total liabilities and shareholders' equity		6,134	5,156

Comments on the consolidated balance sheet

Assets

Non-current assets increased primarily due to new accounting rules, in which leases are to be recognised in the balance sheet as rights of use as of 2019. Rights of use according to IFRS 16 Leases contributed net SEK 274 million. Furthermore, Nolato acquired Jabar in the US at the end of the year, which contributed intangible assets of SEK 50 million and property, plant and equipment of SEK 21 million. Net investments in property, plant and equipment amounted to SEK 286 million excluding acquisitions (479 excluding disposals). Total depreciation/amortisation increased and amounted to SEK 376 million (248). 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.

Current assets increased by SEK 638 million. The acquisition of Jabar in the US contributed SEK 35 million. The balance sheet item 'Inventories' increased by SEK 101 million, while accounts receivable saw a rise of SEK 102 million, both including acquisitions. The increase in inventories and accounts receivable was largely the effect of higher levels of activity towards the end of 2019. Cash and cash equivalents increased by SEK 409 million via the positive cash flow and amounted to SEK 1,362 million (953).

Shareholders' equity

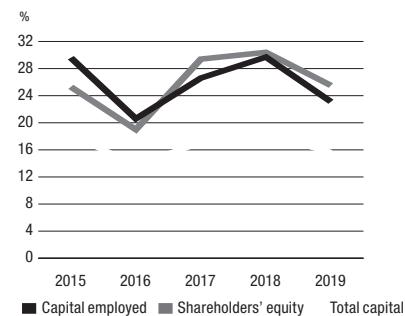
Shareholders' equity increased as a result of comprehensive income for 2019 of SEK 671 million, which consists of profit after tax and

currency effects from translation differences and the revaluation of defined benefit pension schemes. Dividends to shareholders in the amount of SEK 368 million were paid, thereby reducing shareholders' equity. The return on shareholders' equity was 25.5% (30.4) and the decline was due to higher average equity.

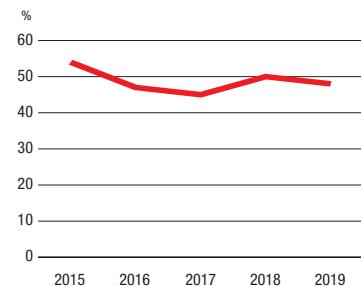
Liabilities

Non-interest-bearing liabilities and provisions increased and amounted to SEK 1,949 million (1,770), largely owing to an increase in trade payables as a result of higher activity in the final quarter of 2019. The average total working capital requirement in relation to sales was 3.2% (3.8). The return on capital employed was 23.1% (29.7). Roughly two percentage points of the lower return is attributable to the introduction of IFRS 16 Leases, along with lower earnings combined with higher average capital employed. Interest-bearing liabilities and provisions increased and amounted to SEK 1,219 million (794); IFRS 16 Leases contributed SEK 277 million and there was an increase in pension liabilities of SEK 64 million. Interest-bearing assets amounted to SEK 1,362 million (953), and accordingly, net financial assets totalled SEK 143 million (159), including pension and lease liabilities. 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



Changes in consolidated shareholders' equity

SEKm	Attributable to Parent Company shareholders					
	Share capital	Other capital contributed	Hedging reserves	Translation reserves	Retained earnings	Total shareholders' equity
Opening balance, 1 January 2018	132	228	—	101	1,698	2,159
Profit for the year	—	—	—	—	722	722
Other comprehensive income for the year	—	—	-1	36	2	37
Comprehensive income for the year	—	—	-1	36	724	759
Dividend for 2017	—	—	—	—	-329	-329
Warrants included in incentive programme (Series 3)	—	—	—	—	3	3
Closing balance, 31 December 2018	132	228	-1	137	2,096	2,592
Opening balance, 1 January 2019	132	228	-1	137	2,096	2,592
Profit for the year	—	—	—	—	703	703
Other comprehensive income for the year	—	—	2	21	-55	-32
Comprehensive income for the year	—	—	2	21	648	671
Warrants exercised in incentive programme	1	70	—	—	—	71
Dividend for 2018	—	—	—	—	-368	-368
Closing balance, 31 December 2019	133	298	1	158	2,376	2,966

Consolidated cash flow statement

SEKm	Note	2019	2018
	25		
Operating activities			
Operating profit		887	941
<i>Adjustments for items not included in cash flow:</i>			
Depreciation/amortisation and impairment		376	248
Provisions		7	3
Unrealised exchange rate differences		– 21	– 5
Other items		5	19
Pension payments		– 5	– 5
Interest received		16	11
Interest paid		– 35	– 23
Realised exchange rate differences		– 22	– 25
Income tax paid		– 203	– 204
Cash flow from operating activities			
before changes in working capital		1,005	960
Cash flow from changes in working capital			
Changes in inventories		– 75	– 25
Changes in accounts receivable		– 71	206
Changes in accounts payable		306	– 119
Other changes in working capital		– 5	23
		155	85
Cash flow from operating activities		1,160	1,045
Investing activities			
Acquisition of non-current intangible assets		– 5	– 8
Acquisition of property, plant and equipment		– 355	– 446
Business combinations, excluding cash and cash equivalents		– 93	—
Sale of property, plant and equipment		—	2
Sale of business, net of cash and cash equivalents		—	54
Cash flow from investing activities		– 453	– 398
Cash flow before financing activities		707	647
Financing activities			
Borrowings	25	89	5
Repayment of loans	25	– 107	– 72
Warrants paid for in incentive programme		—	3
Warrants exercised in incentive programme		71	—
Dividend paid		– 368	– 329
Cash flow from financing activities		– 315	– 393
Cash flow for the year		392	254
Cash and cash equivalents, opening balance		953	669
Exchange rate difference in cash and cash equivalents		17	30
Cash and cash equivalents, closing balance		1,362	953

Comments on the consolidated cash flow statement

Cash flow from operating activities

Cash flow before investments rose to SEK 1,160 million (1,045). Changes in working capital had a positive impact of SEK 155 million (85) on cash flow.

Cash flow from investing activities

Net investments affecting cash flow totalled SEK 360 million excluding acquisitions (452 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 allocated between the Group's business areas as SEK 183 million (248) for Medical Solutions, SEK 20 million (18) for Integrated Solutions and SEK 159 million (187) for Industrial Solutions. For Medical Solutions, investments chiefly consisted of additional machinery capacity, primarily for new customer projects 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.

Investments (net)	2019	2018
Non-current intangible assets	5	8
Buildings and land	11	56
Machinery and equipment	118	121
Construction in progress	226	267
Total investments	360	452

Affecting cash flow, excluding acquisitions and disposals

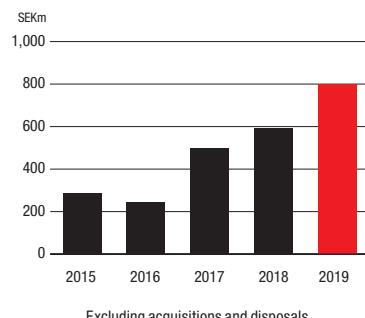
Cash flow after investing activities

Cash flow after investments amounted to SEK 800 million excluding business acquisitions (593 excluding sales of subsidiaries). Including business acquisitions, cash flow was SEK 707 million (647 including disposals of subsidiaries).

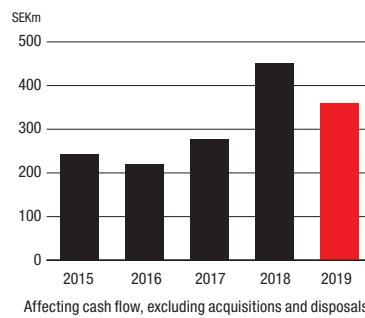
Cash flow from financing activities

Financing activities describe the Group's financing and dividends to shareholders, and totalled a net amount of SEK -315 million (-393). This consists of net amortised borrowings of SEK -18 million (-67), dividends paid totalling SEK -368 million (-329) and warrants exercised under the incentive programme of SEK 71 million (0).

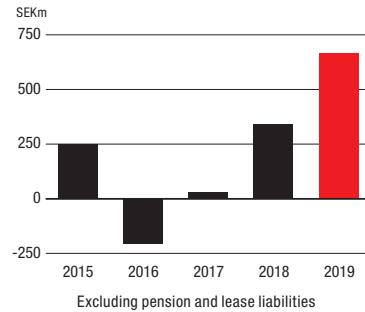
Cash flow after investments



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, pharmaceuticals, consumer electronics, telecom, automotive products, hygiene 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 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 13, which also gives further information regarding the transition to IFRS 16.

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 2020 or later. There are no plans for the early application of new or amended standards for future application.

None of the standards or interpretations published by IASB are expected to have a material impact on the Group or Parent Company's financial statements.

Basis for preparing the financial statements

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

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

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

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 Europe, and a growing position in China and the US. Development and production are carried out in Sweden, Hungary, the US, the UK, Switzerland, Poland and China. A more detailed presentation of the business area can be found on pages 28–31.

Integrated Solutions business is divided into two sectors: consumer electronics and EMC & Thermal. Consumer electronics comprises selected electronics products where Nolato designs, develops and produces advanced components, subsystems and ready-packaged products. EMC & Thermal develops techniques and materials for shielding of electronics to achieve electromagnetic compatibility and heat dissipation of electronics. 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, the US 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, furniture 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 the US. A more detailed presentation of the business area can be found on pages 36–39.

	Medical Solutions		Integrated Solutions		Industrial Solutions		Group adjustment, Parent Company		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External sales	2,483	2,270	3,277	3,713	2,159	2,119	—	—	7,919	8,102
Internal sales	1	—	15	7	—	—	—16	—7	—	—
Net sales	2,484	2,270	3,292	3,720	2,159	2,119	—16	—7	7,919	8,102
Profit										
Operating profit (EBITA)	320	295	427	473	181	186	—33	—5	895	949
Amort. of intang. assets arising from acq.	—3	—4	—	—	—5	—4	—	—	—8	—8
Operating profit	317	291	427	473	176	182	—33	—5	887	941
Financial income									16	11
Financial expenses									—46	—31
Tax expenses for the year									—154	—199
Profit for the year									703	722
Receivables and liabilities										
Segments' assets	2,256	1,928	1,270	959	1,730	1,589	—558	—398	4,698	4,078
Unallocated assets									1,436	1,078
Total assets	2,256	1,928	1,270	959	1,730	1,589	—558	—398	6,134	5,156
Segments' liabilities	645	645	1,316	889	363	457	—584	—338	1,740	1,653
Unallocated liabilities									1,428	911
Total liabilities	645	645	1,316	889	363	457	—584	—338	3,168	2,564
Other information										
Investments (capitalised)	171	261	90	21	103	205	—	2	364	489
Depreciation/amortisation and impairment	160	113	78	41	131	103	19	1	388	258
Significant items, other than depr./amort./impairment with no offsetting payments, impairment and provisions	54	—14	11	—1	2	—19	—	—	67	—34

Cash flow from operations, allocated by segment

	2019				2018			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Cash flow from operations								
before changes in working capital	477	493	307	1,277	404	504	285	1,193
Changes in working capital	– 124	428	– 145	159	– 21	28	70	77
Cash flow from operating activities	353	921	162	1,436	383	532	355	1,270
Unallocated items ¹⁾				– 276				– 225
Total cash flow from operations				1,160				1,045

Cash flow from investing activities, allocated by segment

	2019				2018			
	Medical Solutions	Integrated Solutions	Industrial Solutions	Total	Medical Solutions	Integrated Solutions	Industrial Solutions	Total
Acquisition of non-current assets ²⁾	– 183	– 20	– 159	– 362	– 248	– 19	– 188	– 455
Business combinations, excl. cash and cash equivalents	—	– 93	—	– 93	—	—	—	—
Sale of non-current assets	—	—	—	—	—	1	1	2
Sale of business				—				54
Group elimination, Parent Company				2				1
Cash flow from investing activities	– 183	– 113	– 159	– 453	– 248	– 18	– 187	– 398

1) For 2019, the Group's change in working capital was SEK 155 million and, allocated by business area according to the above, was SEK 159 million. The difference of SEK –4 million is included in the SEK –276 million. Other unallocated items consist chiefly of operating loss of SEK –33 million (with the Parent Company accounting for the majority), income tax paid at SEK –203 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 –67 million (34).

Information about geographic markets

In the Nordic region, the rest of Europe, Asia and North America, the Group manufactures and sells products from all three business areas.

	Sweden		Other Nordic countries		Rest of Europe		North America		Asia		Other countries		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External sales	1,167	1,186	204	202	2,943	2,687	608	564	2,843	3,311	154	152	7,919	8,102
Assets	2,034	1,719	—	—	1,776	1,668	532	317	1,792	1,452	—	—	6,134	5,156
Average no. of employees	1,135	1,055	—	—	1,362	1,336	281	233	3,163	3,825	—	—	5,941	6,449
Investments (capitalised)	117	231	—	—	118	170	123	81	6	7	—	—	364	489

Note 4 Revenue**Accounting policies**

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 14, with the average period of credit being 46 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 93% of net sales in 2019, 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 income

	2019			2018		
	Total	Medical Solutions	Integrated Solutions	Total	Medical Solutions	Integrated Solutions
Sweden	1,173	157	35	981	1,189	140
Rest of Europe	3,148	1,620	548	980	2,889	1,492
North America	608	464	14	130	564	408
Asia	2,852	105	2,683	64	3,315	94
Other countries	154	138	12	4	152	136
Elimination internal sale	– 16				– 7	
Total revenue from contracts with customers	7,919	2,484	3,292	2,159	8,102	2,270
						3,720
						2,119

The above table essentially covers products transferred following delivery. For 2019, the Group has an increased provision for anticipated credit losses on accounts receivable and contract assets, with SEK 12 million among the cost of goods sold.

Contract balances

	2019	2018
Accounts receivable	1,051	949
Opening balance for contract assets relating to development work and development of production tools	107	120
Recognised as income during the year	– 149	– 178
Additional during the year	145	181
Reclassification to contract liabilities	– 13	– 16
Closing balance for contract assets relating to development work and development of production tools (see also Note 16)	90	107
Opening balance for contract liabilities relating to development work and development of production tools	298	316
Recognised as income during the year	– 156	– 179
Additional during the year	146	170
Reclassification to contract assets	– 56	– 20
Currency effects	7	11
Closing balance for contract liabilities relating to development work and development of production tools (see also Note 22)	239	298

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

	2019	2018
Development expenditure for customer-specific products	– 478	– 604

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

	2019	2018
Material costs	– 3,499	– 3,705
Employee benefits	– 1,352	– 1,291
Social security contributions	– 280	– 225
Employee pensions	– 112	– 99
Energy costs	– 158	– 137
Other costs	– 1,257	– 1,463
Depreciation/amortisation/impairment	– 376	– 248
Total	– 7,034	– 7,168
Depreciation/amortisation/impairment is included in operating expenses as follows:		
Software	– 3	– 2
Customer relationships	– 8	– 8
Buildings and land improvements	– 104	– 28
Machinery and other technical facilities	– 228	– 184
Equipment, tools, fixtures and fittings	– 33	– 26
Total non-current assets	– 376	– 248
Accounts receivable	– 12	– 10
Total	– 388	– 258
Depreciation/amortisation/impairment has been allocated as follows:		
Cost of goods sold	– 378	– 246
Selling expenses	– 8	– 10
Administrative expenses	– 2	– 2
Total	– 388	– 258

Note 7 Other operating income and operating expenses

	2019	2018
Other operating income		
Effect of exchange rate on operating receivables/liabilities	—	1
Compensation from bankruptcy payment	—	20
Other*	2	16
Total	2	37
Other operating expenses		
Effect of exchange rate on operating receivables/liabilities	– 3	—
Capital loss on sale of subsidiary	—	– 17
Acquisition expenses	– 3	—
Total	– 6	– 17
Other operating income and operating expenses, net	– 4	20

*SEK 2 million (14) 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.

	2019	2018
Interest income	16	11
Interest expenses	– 18	– 8
Foreign exchange gains and losses, net	– 11	– 7
Other financial expenses	– 17	– 16
Net financial income/expense	– 30	– 20
Recognised as:		
Financial income	16	11
Financial expenses	– 46	– 31
Net financial income/expense	– 30	– 20

Total net financial income/expense per category of financial instrument

	2019			2018		
	Interest income	Interest expenses	Foreign exchange gains/losses, net	Interest income	Interest expenses	Foreign exchange gains/losses, net
Derivatives used to hedge intra-group loans	—	—	—	—	—	– 3
Bank deposits	16	—	—	11	—	—
PRI pension liability	—	– 3	—	—	– 3	—
Borrowings and lease liabilities	—	– 15	—	—	– 5	—
Supplier financial agreements	—	– 12	—	—	– 13	—
Other financial assets/liabilities	—	– 5	– 11	—	– 3	– 4
Total	16	– 35	– 11	11	– 24	– 7

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

	2019	2018
Current tax expenses		
Tax expenses for the period	– 102	– 246
Adjustment for tax attributable to previous years	2	—
	– 100	– 246
Deferred tax income/expense		
Deferred tax in relation to temporary differences	– 54	47
Total recognised tax expense	– 154	– 199

Reconciliation of effective tax

	2019	2018
Profit before tax	857	921
Tax according to applicable Parent Company tax rate	– 183	– 203
Effect of other tax rates for foreign Group companies	8	15
Non-deductible expenses	– 6	– 5
Non-taxable income	9	13
Tax attributable to previous years	2	—
Effect of change in tax rates	19	– 9
Effect of non-capitalised deficits arising during the year	– 3	– 10
Recognised effective tax	– 154	– 199

Swedish corporation tax amounted to 21.4% (22.0) and the effective tax rate was 18.0% (21.6).

Recognised in the balance sheet

	Deferred tax assets		Deferred tax liabilities		Net	
	2019	2018	2019	2018	2019	2018
Non-current intangible assets	—	—	23	19	— 23	— 19
Property, plant and equipment	25	31	79	80	— 54	— 49
Inventories	14	29	3	3	11	26
Accounts receivable	5	3	—	—	5	3
Provisions for pensions	41	32	2	1	39	31
Tax allocation reserves	—	—	50	44	— 50	— 44
Other	33	61	16	18	17	43
Loss carry-forwards	3	4	—	—	3	4
Tax assets/liabilities	121	160	173	165	— 52	— 5
Offsetting	— 63	— 49	— 63	— 49	—	—
Tax assets/liabilities, net	58	111	110	116	— 52	— 5

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the Group in relation to loss carry-forwards totalling SEK 44 million (27). The loss carry-forwards relate to the business in India in the amount of SEK 28 million (27) and in China in the amount of SEK 16 million (0), and it is unlikely that it will be possible to use them against future taxable gains. The company in India is expected to be liquidated in 2020.

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

	Balance at 1 Jan. 2018	Recognised in profit for the year	Recognised in other comprehensive income	Business acquisitions	Business disposals	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
Total	— 51	47	— 1	—	—	— 5

	Balance at 1 Jan. 2019	Recognised in profit for the year	Recognised in other comprehensive income	Business acquisitions	Business disposals	Balance at 31 Dec. 2019
Non-current intangible assets	— 19	—	—	— 4	—	— 23
Property, plant and equipment	— 49	— 5	—	—	—	— 54
Inventories	26	— 15	—	—	—	11
Accounts receivable	3	2	—	—	—	5
Provisions for pensions	31	— 3	11	—	—	39
Tax allocation reserves	— 44	— 6	—	—	—	— 50
Other	43	— 26	—	—	—	17
Loss carry-forwards	4	— 1	—	—	—	3
Total	— 5	— 54	11	— 4	—	— 52

Tax attributable to other comprehensive income

	2019	2018
Deferred tax attributable to provisions for pensions (PRI)	11	— 1
Deferred tax on currency forwards	—	—
Total	11	— 1

Note 10 Earnings per share

	2019	2018
Profit for the year attributable to Parent Company shareholders	703	722
Average number of ordinary shares outstanding	26,431,806	26,307,408
Basic earnings in kronor per share (SEK)	26.60	27.44
Non-recurring items*	16	–7
Profit for the year attributable to Parent Company shareholders after adjustment for non-recurring items	719	715
Basic earnings in kronor per share excluding non-recurring items (SEK)	27.20	27.18
<hr/>		
	2019	2018
Dilutive shares from Series 2016/2019 incentive programme (exercise price SEK 296.30 per share; total 240,600 warrants)	—	76,613
Dilutive shares from Series 2017/2020 incentive programme (exercise price SEK 485.10 per share; total 196,200 warrants)	195	—
Dilutive shares from Series 2018/2021 incentive programme (exercise price SEK 502.00 per share; total 193,500 warrants)	—	—
Average number of shares after dilution	26,432,001	26,384,021
Diluted earnings in kronor per share (SEK)	26.60	27.37
Diluted earnings in kronor per share excluding non-recurring items (SEK)	27.20	27.10

* 2019: Non-recurring item for closure of production facility at Nolato Jaycare in the UK which had a negative effect on operating profit in the amount of SEK –22 million, and tax effects of SEK +6 million, which impacted post-tax profit in the amount of SEK –16 million. This non-recurring item has been recognised at Group level and has consequently not affected the profit of the business areas.
 2018: 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.

Incentive Programme 2016/2021

The warrants in Series 2016/2019 (total 240,600) have been exercised to subscribe for shares in 2019.

The warrants in Series 2017/2020 (total 196,200) can be exercised to subscribe for shares as of 1 May 2020 up to and including 15 December 2020.

The warrants in Series 2018/2021 (total 193,500) can be exercised to subscribe for shares as of 1 May 2021 up to and including 15 December 2021.

Incentive Programme 2019/2024

The warrants in Series 2019/2022 (max. 266,000) have not been exercised to subscribe for shares in 2019.

The warrants in Series 2020/2023 (max. 266,000) can be exercised to subscribe for shares as of 1 May 2023 up to and including 15 December 2023.

The warrants in Series 2021/2024 (max. 266,000) can be exercised to subscribe for shares as of 1 May 2024 up to and including 15 December 2024.

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. Nolato Jabar LLC is included in the Integrated Solutions business area and the acquisition took place at the end of the year. For Nolato Jabar LLC, impairment testing will be carried out as of 2020.

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.zo.o in Poland, Nolato Treff AG in Switzerland and Nolato Jabar LLC in the US. 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 ¹⁾	Capitalised development expenditure	Goodwill ¹⁾	Total
ACQUISITION COST						
At 1 January 2018	21	3	194	3	754	975
Investments	7	1	—	—	—	8
Divested subsidiary	—	—	-20	—	-63	-83
Translation effects	—	—	6	—	28	34
At 1 January 2019	28	4	180	3	719	934
Investments	5	—	—	—	—	5
Acquisitions	—	—	14	—	36	50
Scraping	—	—	—	-3	—	-3
Translation effects	—	—	7	—	26	33
At 31 December 2019	33	4	201	—	781	1,019
ACCUMULATED DEPRECIATION/AMORTISATION						
At 1 January 2018	-16	-3	-140	-3	—	-162
Depreciation/amortisation for the year	-2	—	-8	—	—	-10
Divested subsidiary	—	—	20	—	—	20
Translation effects	—	—	-2	—	—	-2
At 1 January 2019	-18	-3	-130	-3	—	-154
Depreciation/amortisation for the year	-3	—	-8	—	—	-11
Scraping	—	—	—	3	—	3
Translation effects	-1	—	-4	—	—	-5
At 31 December 2019	-22	-3	-142	—	—	-167
Carrying amount at 31 December 2018	10	1	50	—	719	780
Carrying amount at 31 December 2019	11	1	59	—	781	852

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

Goodwill is allocated to Group segments as follows:

	2019	2018
Medical Solutions	521	505
Industrial Solutions	224	214
Integrated Solutions		
Nolato Jabar LLC	36	—
Total	781	719

Assumptions for establishing the discount rate

	Medical Solutions		Industrial Solutions	
	2019	2018	2019	2018
Risk-free rate, %	0.73	1.30	0.24	1.00
Tax rate, %	17.8	19.3	17.8	17.9
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, %	8.2	9.0	8.7	9.6

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 equipment, 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 other technical facilities	Equipment, tools, fixtures and fittings	Construction in progress and advance payments	Total
ACQUISITION COST					
At 1 January 2018	638	2,535	277	98	3,548
Investments	57	97	24	302	480
Divested subsidiary	—	— 36	— 10	— 2	— 48
Sales/disposals	— 2	— 39	— 5	—	— 46
Reclassifications	18	145	11	— 174	—
Translation effects	19	57	6	4	86
At 1 January 2019	730	2,759	303	228	4,020
Investments	11	103	15	159	288
In new companies on acquisition	19	—	2	—	21
Sales/disposals	—	— 43	— 2	—	— 45
Reclassifications	88	223	12	— 323	—
Translation effects	9	39	4	3	55
At 31 December 2019	857	3,081	334	67	4,339
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	— 304	— 1,793	— 208	—	— 2,305
Depreciation/amortisation for the year	— 27	— 184	— 27	—	— 238
Divested subsidiary	—	33	9	—	42
Sales/disposals	1	39	5	—	45
Translation effects	— 5	— 38	— 3	—	— 46
At 1 January 2019	— 335	— 1,943	— 224	—	— 2,502
Depreciation/amortisation for the year	— 33	— 210	— 29	—	— 272
Sales/disposals	—	43	—	—	43
Impairment losses due to restructuring	—	— 18	—	—	— 18
Translation effects	— 2	— 22	— 1	—	— 25
At 31 December 2019	— 370	— 2,150	— 254	—	— 2,774
Carrying amount at 31 December 2018	395	816	79	228	1,518
Carrying amount at 31 December 2019	487	931	80	67	1,565

Note 13 Leases

Accounting policies

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.

Leases consist mainly of rental contracts for production premises, primarily in China, the UK and Sweden. They are in some cases restricted by index clauses and/or such terms that may provide entitlement to extend or acquire the leased items.

Carrying amounts per asset class in rights of use

	Buildings	Leasehold	Other equipment	Total
ACQUISITION COST				
At 31 December 2018	—	—	—	—
Transition to IFRS 16 Leases at 1 January 2019	336	15	11	362
Revaluation of IFRS 16 lease liability due to restructuring in the UK	— 20	—	—	— 20
Other revaluations of IFRS 16 lease liabilities	— 3	—	—	— 3
Translation effects	8	—	—	8
At 31 December 2019	321	15	11	347
ACCUMULATED DEPRECIATION/AMORTISATION				
At 31 December 2018	—	—	—	—
Depreciation/amortisation for the year	— 71	—	— 4	— 75
Other revaluations of IFRS 16 lease liabilities	1	—	—	1
Translation effects	1	—	—	1
At 31 December 2019	— 69	—	— 4	— 73
Carrying amount at 31 December 2018	—	—	—	—
Carrying amount at 31 December 2019	252	15	7	274

Carrying amounts in the consolidated balance sheet for lease liabilities and changes during the year

	2019
At 31 December 2018	—
Transition to IFRS 16 Leases at 1 January 2019	362
Revaluation of IFRS 16 lease liability due to restructuring in the UK	– 20
Other revaluations of IFRS 16 lease liabilities	– 2
Repayments	– 71
Translation effects	8
At 31 December 2019	277
Long-term financial lease liability	207
Short-term financial lease liability	70
Total financial lease liability	277

Maturity structure for lease liabilities

	2019
Matures 2020	70
Matures 2021	57
Matures 2022	47
Matures 2023	24
Matures 2024 and after	79
Total financial lease liability	277

Carrying amounts for leases in the consolidated income statement

	2019
Amortisation of rights of use	– 75
Interest expenses on lease liabilities	– 11
Lease expenses for short-term leases	– 3
Lease expenses for low-value assets	– 1
Total in consolidated income statement	– 90

Effects of IFRS 16 on consolidated income statement

	2019
Cost of goods sold	80
EBITDA (increase in performance indicator)	80
Amortisation in cost of goods sold	– 75
EBITDA/EBIT (increase in performance indicator)	5
Interest expenses	– 11
Profit after financial income and expenses (reduction in performance indicator)	– 6
Tax	1
Profit after tax (reduction in performance indicator)	– 5
Effect on basic earnings per share (SEK)	– 0.19

Effects of IFRS 16 on consolidated cash flow statement

	2019
Operating profit	5
<i>Adjustments for items not included in cash flow:</i>	
Depreciation/amortisation	75
Interest paid	– 11
Cash flow from operating activities before changes in working capital	69
Other changes in working capital	2
Cash flow from operating activities	71
Cash flow from financing activities	– 71
Cash flow for the period	—

Recognised assets in the balance sheet attributable to leases amount to SEK 362 million at 1 January 2019. The commitment for leases in the 2018 annual report totalled SEK 213 million. The difference between the commitment for future lease payments and the opening lease liability at 1 January 2019 comprises discount effect, exercise of extension options, short-term contracts and leases relating to low-value assets.

Note 14 Financial assets

Accounting policies

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

Accounts receivable are 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 2019

	Amortised cost	Fair value via other comprehensive income	Derivatives – identified for hedge accounting	Derivatives at fair value via profit or loss	2019 Total
Non-current financial assets¹⁾		2			2
Accounts receivable	1,051				1,051
Other current financial assets (see Note 30)			2	3	5
Cash and cash equivalents	1,362				1,362
Carrying amount	2,413	2	2	3	2,420
Fair value	2,413	2	2	3	2,420

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

Cash and cash equivalents and credit rating

	Amortised cost
Moody's: Aa3	18
Standard & Poor's: AA+	57
Standard & Poor's: AA-	116
Standard & Poor's: A+	844
Standard & Poor's: A	266
Standard & Poor's: BBB+	40
Standard & Poor's: BBB	5
No credit rating available for Acrevis Bank AG (Switzerland)	11
Other (credit rating not available)	5
	1,362

Financial assets per category 2018

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

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.

	2019	2018
Accounts receivable	1,077	963
Deduction: Provision for expected credit losses	– 26	– 14
Carrying amount	1,051	949

The average period of credit in 2019 was 46 days (47). Accounts receivable as a percentage of sales amounted to 13.3% (11.7%). During the year, the Group reversed SEK 0 million (4) of provisions for expected credit losses at 1 January. Provisions for the year totalled SEK 12 million (14). 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	1,077	922	98	28	11	18
Expected credit losses	– 26	– 25	—	—	—	– 1
31 December 2019	1,051	897	98	28	11	17
Expected gross amount	963	828	78	16	25	16
Expected credit losses	– 14	– 10	– 1	– 2	—	– 1
31 December 2018	949	818	77	14	25	15

Note 15 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.

	2019	2018
Raw materials and supplies	366	307
Products in manufacturing	74	54
Finished goods and goods for resale	227	205
Total	667	566

During the year, the Group impaired inventories by SEK 63 million (115). 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 96 million (48). The reversal of previously impaired stocks is due to the fact that these items could be sold or were no longer deemed obsolete.

Note 16 Other current assets

	2019	2018
Other receivables	114	90
Prepaid expenses	44	34
Accrued income	2	1
Contract assets relating to development work and development of production tools (see also Note 4)	90	107
Closing balance	250	232

Note 17 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.:

	2019	2018
Share capital	133	132
Other capital contributed	298	228
Translation reserve	158	137
Hedging reserves	1	-1
Retained earnings, incl. profit for the year	2,376	2,096
Total capital attributable to Parent Company shareholders	2,966	2,592

The Group has two Incentive Programmes: Incentive Programme 2016/2021 which may result in a dilution in the number of shares by 196,200 shares in 2020 and 193,500 shares in 2021, and Incentive Programme 2019/2024 which may result in a dilution of a maximum of 266,000 shares in 2023 and max. 266,000 shares in 2024. The maximum total number of dilutive shares consequently amounts to 921,700 shares. Further information can be found under Note 27.

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 2019 is shown below.

	2019		2018	
	Financial targets	Outcome	Financial targets	Outcome
EBITA margin	>10%	11.3%	>10%	11.7%
Cash conversion	>75%	88.0%	>75%	60.0%
Equity/assets ratio	>35%	48.0%	>35%	50.0%

The Board's dividend proposal shall take into consideration Nolato's long-term development potential, financial position and investment needs. The Board's dividend policy means that the Board shall intend to propose a dividend which corresponds on average to at least 50% of profit after tax. For 2019, the Board proposes a dividend of SEK 14.50 per share (14.00), corresponding to SEK 385 million (368). The pay-out ratio is 55% (51).

Note 18 Other reserves

	Hedging reserves	Translation reserve	Total
Opening balance, 1 January 2018	—	101	101
<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
Closing balance, 31 December 2018	-1	137	136
Opening balance, 1 January 2019	-1	137	136
<i>Cash flow hedges:</i>			
Gain from fair value measurement during the year	2	—	2
Tax from fair value measurement	—	—	—
Translation differences	—	21	21
Closing balance, 31 December 2019	1	158	159

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 19 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 with regard to non-current liabilities has been calculated using valuation techniques, primarily via discounted cash flows based on observable market information (Level 2). For current liabilities, carrying amount is deemed to be a good approximation of fair value.

	Year of maturity	2019		2018	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>Non-current financial liabilities</i>					
Bank loan in CHF (fixed rate)	2020	—	—	9	9
Bank loan in CHF (fixed rate)*	2021	527	508	501	473
Bank loan in CHF (fixed rate)	2022	5	5	5	5
Bank loan in CHF (fixed rate)	2023	7	7	7	7
Bank loan in USD (variable rate)	2022	88	88	—	—
Lease liabilities (see Note 13)		207	207	—	—
Subtotal of non-current financial liabilities		834	815	522	494
<i>Current financial liabilities</i>					
Accounts payable	2019–2020	839	839	594	594
Bank loan in CHF (fixed rate)	< 12 months	12	12	2	2
Working capital finance USD (zero interest)		57	57	88	88
Derivatives		—	—	1	1
Derivatives identified for hedge accounting, at fair value via other comprehensive income (see Note 30)		1	1	3	3
Lease liabilities (see Note 13)		70	70	—	—
Subtotal of current financial liabilities		979	979	688	688
Total		1,813	1,794	1,210	1,182

*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.

Interest-bearing liabilities

At the end of the year, the Group's interest-bearing liabilities excluding pension liability and lease liabilities and including working capital finance amounted to SEK 696 million (612). The average interest rate was 0.7% (0.7). The average remaining fixed-interest term is 21 months (25).

Terms and repayment periods

Total credit lines granted in the Group amount to SEK 1,260 million (1,232). Of this amount, SEK 527 million matures on 27/09/2021 and SEK 600 million on 24/04/2022. Credit facilities totalling SEK 1,127 million are conditional upon normal covenants. These include requirements in terms of financial key ratios for the Group, including net debt in relation to operating profit before depreciation/amortisation (EBITDA). At 31 December, all loan conditions were met.

Other credit lines of SEK 133 million (131) mature between 2020 and 2023, according to the table above. Pledged assets for other credit facilities amount to SEK 86 million (97) 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 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 2019 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	2019	2018
Net present value of defined benefit pension schemes in Sweden	155	131
Net present value of pension scheme in Switzerland	90	50
Other pension schemes	1	1
Total	246	182

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:

	2019	2018
Balance on 1 January	181	183
Change in scheme provision in Switzerland	—	—3
Benefits vested during the period	3	3
Interest expenses	3	3
Benefits redeemed	—	—
Pension payments	—5	—5
Exchange rate effect	3	4
Actuarial gain (—)/loss (+)	60	—4
Total	245	181

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

	2019	2018
Net present value of pension commitments, funded pension scheme	383	308
Fair value of pension assets	—293	—258
Net debt, funded pension scheme*	90	50

*The net present value of expected net debt for 2020 is SEK 94 million (balance sheet date rate at 31 Dec. 2019).

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

	2019	2018
Cash and cash equivalents	1.9%	3.2%
Shares	29.2%	30.4%
Bonds	43.8%	44.1%
Property funds	19.4%	17.2%
Other investments	5.6%	5.1%

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

	2019	2018
Expenses related to service during the financial year	3	3
Interest expense	3	3
Expense for special employer's contribution	2	1
Total expense for defined benefit pension schemes	8	7
Expense for defined contribution schemes	93	83
Expense for special employer's contribution	11	9
Total pension expense	112	99

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

	2019	2018
<i>Amounts charged to operating profit:</i>		
Cost of goods sold	4	3
Administrative expenses	1	1
<i>Amounts charged to financial expenses:</i>		
Interest expenses	3	3
Total	8	7

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

	2019	2018
Actuarial gains (+)/losses (–)	– 60	4
Special employer's contribution	– 6	– 1
Deferred income tax	11	– 1
Total	– 55	2

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

	2019	2018
Discount rate	1.40%	2.30%
Inflation	1.85%	1.80%
Future annual salary increases	2.75%	2.75%
Employee turnover	5.00%	5.00%
Lifespan	DUS 14	DUS 14
Duration regarding pension commitments (years)	18.0	17.0

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

	2019	2018
Discount rate	0.20%	0.85%
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)	17.8	17.3

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

	Sweden	Switzerland
	2019	2019
Discount rate +0.5%	– 13	– 29
Discount rate –0.5%	15	34
Inflation +0.5%	11	4
Inflation –0.5%	– 10	– 4
Salary increase +0.5%	5	5
Salary increase –0.5%	– 3	– 5

Pension commitments within Alecta in Sweden

Charges for the year for pension insurance policies held with Alecta totalled SEK 7 million (6). Alecta's surplus can be allocated to policyholders and/or insured parties. At year-end 2019, Alecta's surplus, as expressed by the collective funding ratio, was a preliminary 148% (142). 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:

	2019	2018
Restoration of rental property	15	10
Special employer's contribution acc. to IAS 19 for PRI pension liability	16	11
Special employer's contribution regarding endowment insurance	9	11
Product guarantees and customer claims	56	57
Other	3	2
Amount at 31 December	99	91

Note 22 Other current liabilities

	2019	2018
Customer advances, products	1	1
Contract liabilities relating to development work and development of production tools (see also Note 4)	239	298
Other current liabilities	76	57
<i>Accrued expenses and deferred income</i>		
Salary liabilities	285	120
Social security contributions	58	52
Deliveries of goods received, not invoiced	31	59
Energy costs	21	18
Rents	4	29
Claims	67	98
Maintenance	22	36
Tools	4	2
Machinery and spare parts	13	19
Other items	48	53
Subtotal of accrued expenses and deferred income	553	486
Total	869	842

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

	2019	2018
Property mortgages in Switzerland	86	97
Blocked bank deposits*	13	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

	2019	2018
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:

	2019	2018
Cash and bank balances	1,144	894
Credit balance on Group account in Parent Company	218	59
Total cash and cash equivalents reported in the cash flow statement	1,362	953

Unutilised credit

At the balance sheet date, unutilised credit within the Group stood at SEK 621 million (708).

Acquisition of businesses, excluding cash and cash equivalents

In 2019, Nolato acquired US-based Ja-Bar Silicone Corporation. The purchase price transferred for the company was SEK 93 million and cash and cash equivalents acquired totalled SEK 0 million.

Reconciliation of liabilities attributable to financing activities

	2019	2018
Opening balance for non-current and current financial liabilities	616	638
<i>Changes affecting cash flow</i>		
Borrowings	89	5
Repayment of loans	– 107	– 72
<i>Changes not affecting cash flow</i>		
Translation effects	35	41
Transition to IFRS 16 Leases, see Note 13	340	—
Derivatives	1	4
Closing balance for non-current and current financial liabilities	974	616

Note 26 Events after the end of the financial year

In January, Nolato announced that it plans to close a production unit in the UK in 2020. Costs relating to the closure have been accounted for in part in the fourth quarter of 2019 and are expected to impact the first quarter of 2020 as well. No other significant events have occurred since the end of the period, but Nolato is operating in an environment that at the time of the annual report's publication is affecting primarily our China-based operations in various ways due to the spread of COVID-19.

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 2019, Group management comprised four individuals, in addition to the President and CEO. These are CFO Per-Ola Holmström, President Medical Solutions Johan Ivezberg, 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 2019, the outcome for the President and CEO was 41% of base salary (50) and for senior executives it was 16–32% of base salary (20–40).

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.

Incentive Programme 2016/2021

An extraordinary general meeting of 5 December 2016 approved the issue of up to 798,000 share warrants in three different series: Series 2016/2019, Series 2017/2020 and Series 2018/2021 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 the Incentive Programme's two remaining series is expected to amount to a total of approximately 1.5% of share capital and 0.8% of votes (calculated on the basis of the number of existing shares), assuming full exercise of all warrants.

Incentive Programme 2016/2021 – Series 2016/2019

Total subscribed warrants amounted to 240,600 and all have been exercised to subscribe for shares in 2019.

Incentive Programme 2016/2021 – Series 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.

Incentive Programme 2016/2021 – Series 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.

Incentive Programme 2019/2024

The ordinary general meeting of 8 May 2019 approved the issue of up to 798,000 share warrants in three different series: Series 2019/2022, Series 2020/2023 and Series 2021/2024 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.

Incentive Programme 2019/2024 – Series 2019/2022

No warrants were subscribed for in this series.

Pensions

The retirement age for the President and CEO and other senior executives is 65. The President and CEO's pension premium amounted to 25% (24) of pensionable salary, and follows a defined contribution pension scheme.

Other senior executives have defined contribution pension schemes. For 2019, the average pension premium was 22% of base salary (21). 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

	2019		2018	
	Men	Women	Men	Women
Parent Company Board including CEO	8	3	8	3
Group management including CEO	5	—	5	—

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

SEK thousand	Base salary/ Directors' fee ¹⁾	Bonus ²⁾	Other benefits ³⁾	Pension premiums	Other remuneration ^{4) 5)}	Total
Remuneration and other benefits in 2019						
Chairman of the Board, Fredrik Arp ⁵⁾	– 445	—	—	—	– 150	– 595
Board member, Dag Andersson	– 215	—	—	—	—	– 215
Board member, Sven Boström-Svensson	– 215	—	—	—	—	– 215
Board member, Lovisa Hamrin	– 215	—	—	—	—	– 215
Board member, Åsa Hedin	– 215	—	—	—	—	– 215
Board member, Henrik Jorlén	– 262	—	—	—	—	– 262
Board member, Lars-Åke Rydh	– 285	—	—	—	—	– 285
Board member, Jenny Sjödahl	– 215	—	—	—	—	– 215
President and CEO, Christer Wahlquist	– 4,320	– 2,376	– 192	– 1,060	– 104	– 8,052
Other senior executives in Group management (four people)	– 12,453	– 4,049	– 446	– 2,780	– 228	– 19,956
Total	– 18,840	– 6,425	– 638	– 3,840	– 482	– 30,225

Remuneration and other benefits in 2018

Chairman of the Board, Fredrik Arp ⁵⁾	– 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
Total	– 18,059	– 6,653	– 601	– 3,551	– 652	– 29,516

1) Including remuneration for committee work. According to AGM decision regardless of payment period.

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. Remuneration received has been offset against for social security contributions.

Note 28 Information on remuneration of auditors

The company's auditing firm has received remuneration:

SEK thousand	2019	2018
EY		
Auditing	– 4,549	– 3,338
Taxation assignments	– 314	– 56
Other assignments	– 227	– 186
Total	– 5,090	– 3,580

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 854,000 (82,000).

Note 29 Average number of employees

	2019		2018	
	Number	Of which men	Number	Of which men
Parent Company in Sweden				
Nolato AB, Torekov	10	70%	9	78%
Subsidiaries in Sweden				
Nolato Cerbo AB, Trollhättan	142	70%	136	68%
Nolato Gota AB, Götene	256	67%	245	80%
Nolato Hertila AB, Åstorp	—	—	14	71%
Nolato Lövepac AB, Skånes Fagerhult	46	59%	47	60%
Nolato MediTech AB, Hörby	293	70%	256	67%
Nolato MediTor AB, Torekov	85	52%	77	55%
Nolato Plastteknik AB, Gothenburg	137	69%	122	70%
Nolato Polymer AB, Torekov	88	81%	74	77%
Nolato Silikonteknik AB, Hallsberg	78	64%	75	71%
	1,125	68%	1,046	70%
Subsidiaries abroad				
Cerbo France Sarl, France	1	0%	1	0%
Lövepac Converting Ltd, China	153	35%	253	42%
Lövepac Converting Private Ltd, India	—	—	2	100%
Lövepac Technology (Shenzhen) Co., Ltd, China	83	40%	52	44%
Nolato Mobile Comm. Polymers (Beijing) Ltd, China	2,431	48%	3,053	51%
Nolato Contour, Inc., US	281	59%	233	55%
Nolato EMC Kft, Hungary	12	83%	9	56%
Nolato EMC Production Center SDN BHD, Malaysia	136	46%	131	55%
Nolato Hungary Kft, Hungary	695	45%	711	43%
Nolato Jaycare Ltd, UK	249	75%	250	74%
Nolato Medical Device Co. Ltd, China	62	56%	52	62%
Nolato Romania Srl, Romania	56	41%	56	41%
Nolato Silikonteknik (Beijing) Co., Ltd, China	209	50%	229	51%
Nolato Stargard Sp.zo.o., Poland	121	24%	113	24%
Nolato Technology (Suzhou) Co., Ltd, China	89	43%	53	43%
Nolato Treff AG, Switzerland	228	72%	196	72%
	4,806	50%	5,394	51%
	5,941	53%	6,449	54%

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 2019, Nolato's sales to countries outside Sweden accounted for 85% (86) 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 China-based 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 3 million. The consolidated income statement includes exchange rate differences in a net amount of SEK –3 million (1) 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 –11 million (–7) in net financial income/expense.

At the end of 2019, the Group had the following currency hedges in relation to anticipated payment flows in CNY, EUR, GBP and USD for 2020. 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 2019 was SEK 4 million (1). The fair value of contracts identified as cash flow hedges that meet the conditions for hedge accounting was SEK 1 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
CNY (net sales)	252	1.3263	1	2	—
Q2-2020	252	1.3263	—	—	—
EUR (net purchasing)	– 79	10.5577	—	—	—
Q1-2020	– 22	10.5577	—	—	—
Q2-2020	– 27	10.5577	—	—	—
Q3-2020	– 21	10.5577	—	—	—
Q4-2020	– 9	10.5577	—	—	—
GBP (net sales)	72	12.2861	1	—	—
Q4-2020	72	12.2861	—	—	—
USD (net sales)	382	9.2971	2	– 2	1
Q1-2020	41	9.4174	—	—	—
Q2-2020	37	9.4679	—	—	—
Q3-2020	26	9.5477	—	—	—
Q4-2020	278	9.2343	—	—	—
Total	627		4	—	1

Gains and losses in other comprehensive income in relation to currency forward contracts at 31 December 2019 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-month estimated net flows	Total hedges	Percentage	Average rate
EUR	167	79	47%	10.5577
USD	243	117	48%	9.4542
Total	410	196	48%	

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 2019, the effect of the currency derivatives on operating profit was SEK 1 million (–2).

Transaction exposure at 31 December 2019 (cash flow hedges)

SEKm	12-month unhedged estimated net flows	Exchange rate change	Impact on earnings
EUR	88	+/- 5%	+/- 4
USD	126	+/- 5%	+/- 6
Total	214		+/- 10

At the end of the year, the Group had SEK 214 million in unhedged estimated currency flows, including effects from currency hedges. A change in the value of the Swedish krona of +/- 5% would have an impact of SEK +/- 10 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 18 Other reserves.

Translation exposure in foreign subsidiaries

SEKm	Net assets	5% increase in value of krona
Nolato Romania, RON	7	—
Nolato Holding USA, USD	88	−4
Nolato Holdings UK, GBP	138	−7
Nolato Automotive Components (Beijing), CNY	−1	—
Nolato Medical Device (Beijing), CNY	−23	1
Nolato Mobile Comm. Polymers (Beijing), CNY	612	−31
Nolato Technology (Suzhou), CNY	38	−2
Nolato Silikonteknik (Beijing), CNY	19	−1
Lövepac Converting, CNY	35	−2
Lövepac Converting India, INR	−22	1
Lövepac Technology (Shenzhen), CNY	−21	1
Nolato EMC Prod. Center, USD	21	−1
Nolato Hungary, EUR	455	−23
Nolato EMC Hungary, EUR	1	—
Nolato Stargard, PLN	10	—
Cerbo France, EUR	—	—
Total	1,357	−68

The Group has SEK 1,357 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 −68 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 a loan in CHF in the Parent Company.

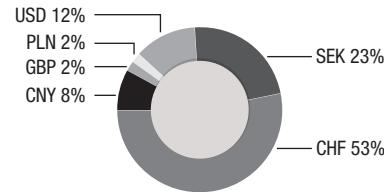
Interest rate risk

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 696 million (612). 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:

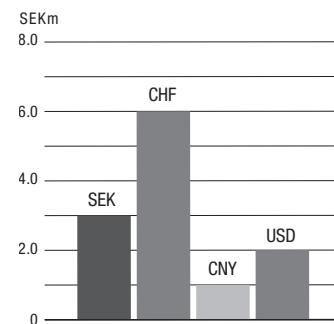
- Up to one year: 35–65%
- More than one year: 35–65%

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 12 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 credit lines granted of SEK 1,260 million, of which SEK 527 million matures on 27/09/2021, SEK 600 million matures on 24/04/2022 and SEK 133 million between 2020 and 2023.

Interest-bearing net assets at 31 December

	Outstanding amount (SEKm)	Future interest expense during term outstanding	Term outstanding (mths)	Fixed interest period outst. (mths)	Average interest (%)
Interest-bearing liabilities					
Bank loans, USD	−88	5	28	28	2.5
Bank loans, CHF	−551	7	21	21	0.7
Working capital finance, USD	−57				—
Lease liability, CHF	−4				0.9
Lease liability, CNY	−101				4.4
Lease liability, EUR	−2				4.7
Lease liability, GBP	−24				2.2
Lease liability, PLN	−22				3.8
Lease liability, RON	−3				5.6
Lease liability, SEK	−119				2.3
Lease liability, USD	−2				5.0
Pension liability, SEK	−156				2.1
Pension liability, CHF	−90				3.8
Total	−1,219	12			1.8
Interest-bearing assets					
Cash and cash equivalents	1,362				1.6
Net financial assets	143				

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. 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 28 million	9.2293	16 December 2020
Nolato Holdings UK Ltd, UK	GBP 6 million	12.2861	16 December 2020

At 31 December the Group's financial liabilities stood at SEK 2,059 million (1,392). Non-interest-bearing liabilities are attributable primarily to accounts payable, with the term outstanding shown in the table below.

Maturity	1–3		4–12		Total
	< 1 month	months	months	> 1 year	
Accounts payable	483	319	36	1	839

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 2,420 million (1,909) at the balance sheet date. The exposure comprises the carrying amount of all financial assets.

Credit risk (SEKm)

	2019	2018
Accounts receivable	1,051	949
Contract assets relating to development work and development of production tools (see also Note 4)	90	107
Other receivables	2	2
Derivatives	5	5
Cash and cash equivalents	1,362	953
Total	2,420	1,909

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 (5) and derivative liabilities of SEK 1 million (4) included in enforceable netting arrangements.

Hedge accounting

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

Derivatives that constitute effective financial hedges, but that either do not qualify for hedge accounting according to 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 –26 million (–37) before tax for 2019 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 Acquisitions

Acquisition of Ja-Bar Silicone Corporation

Description of the company

Nolato has acquired US-based Ja-Bar Silicone Corporation. The company, which has annual sales equivalent to approximately SEK 150 million with good profitability, strengthens Nolato's offering in process- and materials-based electronics shielding solutions for electromagnetic compatibility or 'EMC'.

Description of the acquisition

Nolato has acquired the business, consisting of net assets of Ja-Bar Silicone Corporation, controlling influence has been obtained and the company was consolidated into the Nolato Group as of 18 December. The acquisition was reported using the acquisition method, with the total purchase price being allocated among the assets acquired and liabilities assumed based on their fair values. Fair value of the net assets was determined using generally accepted principles and methods. The purchase price comprises a cash payment. The acquired business will be reported under the Integrated Solutions business area. If the company had been owned for the full year, the acquisition would have contributed SEK 157 million to the Nolato Group's sales in 2019. The transaction is expected to have a marginal positive effect on Nolato's earnings per share in 2020. The acquisition analysis is still preliminary as the value of the assets and liabilities assumed from the acquisition has not yet been finally established.

Acquisition value, goodwill and cash flow effects (preliminary)

Acquisition value

Consideration transferred	93
Less fair value of acquired net assets (according to spec. below)	– 57
Goodwill	36

Goodwill arising in connection with the transaction consists of synergies that are expected to be achieved primarily as a result of increased sales volumes for the Nolato Group to customers in the Integrated Solutions business area. But also partly by means of lower costs through better purchasing terms from external suppliers, and other involvement at different levels in the Integrated Solutions business area. The goodwill is tax-deductible according to US tax rules.

Net assets (preliminary)

	Balance sheet at time of acquisition	Adjustment to fair value	Fair value
Non-current intangible assets	—	14	14
Property, plant and equipment	21	—	21
Current assets	35	—	35
Deferred tax liabilities	—	– 4	– 4
Current liabilities	– 9	—	– 9
Net assets acquired	47	10	57

Non-current intangible assets in the form of customer relationships are estimated to amount to SEK 14 million and will be amortised for accounting purposes over a period of 10 years. Gross value, fair value and the value expected to be settled on for the balance sheet item 'Accounts receivable' are all SEK 14 million. Acquisition expenses of SEK 3 million were expensed as other operating expenses.

Cash flow effects

Cash paid acquisition value	– 93
Less acquired cash and cash equivalents	—
Net cash flow from acquisition	– 93

Five-year review key performance indicators

	2019	2018	2017	2016	2015
Performance indicators according to IFRS¹⁾					
Operating profit (EBIT) (SEK million)	887	941	749	443	556
Basic earnings per share after tax (SEK)*	26.60	27.44	21.74	12.77	15.97
Performance indicators (alternative performance measures)¹⁾					
Reversal of amortisation of intangible assets arising in connection with acquisitions	8	8	14	14	14
Operating profit (EBITA) (SEK million)	895	949	763	457	570
Performance indicators per share (alternative performance measures)¹⁾					
Profit/loss after tax for the year (SEKm)	703	722	572	336	420
Reversal of amortisation of intangible assets arising in connection with acquisitions	8	8	14	14	14
Tax on reversal of amortisation of intangible assets arising in connection with acquisitions	– 2	– 2	– 3	– 3	– 4
Adjusted profit/loss after tax (SEKm)	709	728	583	347	430
Average number of shares before dilution*	26,431,806	26,307,408	26,307,408	26,307,408	26,307,408
Adjusted basic earnings per share after tax (SEK)*	26.82	27.67	22.16	13.19	16.35
Sales and profit (alternative performance measures)¹⁾					
Net sales (SEK million)	7,919	8,102	6,720	4,447	4,726
Sales growth (%)	– 2	21	51	– 6	12
Profit after financial income and expenses (SEK million)	857	921	731	438	555
Profit for the year (SEK million)	703	722	572	336	420
Cash flow (alternative performance measures)¹⁾					
Cash flow from operations (SEK million)	1,160	1,045	773	466	532
Investing activities (SEK million)	– 453	– 398	– 277	– 619	– 244
Cash flow after investing activities (SEK million)	707	647	496	– 153	288
Cash flow from operating activities per share, before dilution (SEK)*	43.81	39.72	29.38	17.71	20.22
Cash flow after investing activities excluding acquisitions and disposals per share, before dilution, (SEK)*	30.19	22.54	18.85	9.31	10.95
Cash conversion (%)	88	60	66	55	52
Financial position (alternative performance measures)¹⁾					
Total assets (SEK million)	6,134	5,156	4,752	3,924	3,233
Shareholders' equity (SEK million)	2,966	2,592	2,159	1,850	1,759
Interest-bearing liabilities and provisions (SEK million)	– 1,219	– 794	– 822	– 819	– 281
Financial net assets (+)/net debt (–), excluding pension and lease liabilities (SEK million)	666	341	31	– 206	249
KPIs (alternative performance measures)¹⁾					
Return on total capital before tax (%)	15.6	18.4	17.1	13.7	18.3
Return on capital employed before tax (%)	23.1	29.7	26.6	20.6	29.6
Return on operating capital before tax (%)	31.0	40.0	32.1	24.4	35.3
Return on net shareholders' equity (%)	25.5	30.4	29.4	19.0	25.3
EBITA margin (%)	11.3	11.7	11.4	10.3	12.1
Profit margin (%)	10.8	11.4	10.9	9.8	11.7
Equity/assets ratio (%)	48	50	45	47	54
Debt/equity ratio (times)	0.4	0.3	0.4	0.4	0.2
Interest coverage ratio (times)	25	40	56	67	78
Average number of employees	5,941	6,449	7,249	6,418	7,759

1) 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 two Incentive Programmes: Incentive Programme 2016/2021 and Incentive Programme 2019/2024. For further information, see Note 27.

Alternative performance measures

SEKm unless otherwise specified		2019	2018
Operating profit (EBITDA)		1,263	1,189
Non-recurring items		4	–3
Adjusted operating profit (EBITDA)		1,267	1,186
Operating profit (EBIT)		887	941
Reversal of amortisation of intangible assets arising in connection with acquisitions		8	8
Operating profit (EBITA)		895	949
Non-recurring items		22	–3
Adjusted operating profit (EBITA)		917	946
EBITA margin (%)		11.3	11.7
Adjusted EBITA margin (%)		11.6	11.7
Profit after financial income and expenses		857	921
Non-recurring items		22	–3
Adjusted profit after financial income and expenses		879	918
Profit margin (%)		10.8	11.4
Adjusted profit margin (%)		11.1	11.3
Profit after tax		703	722
Non-recurring items		22	–3
Tax on non-recurring items		–6	–4
Adjusted profit/loss after tax		719	715
Cash flow after investment, excl. acquisitions and disposals		800	593
Non-recurring items (affecting cash flow)		—	–29
Adjusted cash flow after investments, excluding acquisitions and disposals		800	564
Operating profit (EBIT)		887	941
Non-recurring items		22	–3
Adjusted operating profit (EBIT)		909	938
Cash conversion (%)		88	60

2019: Non-recurring item for closure of production facility at Nolato Jaycare in the UK which had a negative effect on operating profit in the amount of SEK –22 million, and tax effects of SEK +6 million, which impacted post-tax profit in the amount of SEK –16 million. This non-recurring item has been recognised at Group level and has consequently not affected the profit of the business areas.

2018: 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 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
SEKm unless otherwise specified									
Profit after financial income and expenses, rolling 12 mths	856	831	797	831	921				
Financial expenses, rolling 12 mths	36	30	29	26	24				
Adjusted profit after financial exp., rolling 12 mths	892	861	826	857	945				
Total capital at end of period	6,134	6,051	5,593	5,733	5,156	5,229	5,381	5,148	4,752
Average total capital, past five quarters	5,733	5,552	5,418	5,329	5,133				
Return on total capital (%)	15.6	15.5	15.2	16.1	18.4				
Adjusted profit after financial exp., rolling 12 mths	892	861	826	857	945				
Capital employed at end of period	4,184	4,022	3,771	3,982	3,387	3,225	3,131	3,188	2,980
Average capital employed, past five quarters	3,869	3,677	3,499	3,383	3,182				
Return on capital employed (%)	23.1	23.4	23.6	25.3	29.7				
Operating profit (EBIT), rolling 12 mths	887	855	821	853	941				
Capital employed at end of period	4,184	4,022	3,771	3,982	3,387	3,225	3,131	3,188	2,980
Cash and bank balances at end of period	–1,362	–851	–828	1,034	953	818	891	817	669
Operating capital at end of period	2,822	3,171	2,943	2,948	2,434	2,407	2,240	2,371	2,311
Average operating capital, past five quarters	2,864	2,781	2,594	2,480	2,353				
Return on operating capital (%)	31.0	30.7	31.6	34.4	40.0				
Profit after tax, rolling 12 mths	703	655	623	647	722				
Shareholders' equity at end of period	2,966	2,833	2,604	2,783	2,592	2,422	2,301	2,412	2,159
Average shareholders' equity, past five quarters	2,756	2,647	2,540	2,502	2,377				
Return on shareholders' equity (%)	25.5	24.7	24.5	25.9	30.4				

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 shares outstanding.

► 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 shares outstanding 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.

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).

► Extrusion

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

► 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.

► Dip moulding

Method used to manufacture breathing bags, ventilator bellows and catheter balloons from synthetic or natural latex rubber. Pre-heated formers are dipped into liquid latex and the products are shaped by the geometry of the formers.

► Injection 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.

► 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	2019	2018
Net sales	2	60	63
Selling expenses	6, 12	–7	–7
Administrative expenses	3, 6, 12	–48	–49
Other operating income	4	3	5
Other operating expenses	5	–48	–47
	12	–100	–98
Operating profit		–40	–35
Revenue from investments in Group companies	7	468	495
Financial income	8	10	14
Financial expenses	9	–42	–60
		436	449
Profit after financial income and expenses		396	414
Appropriations	10	210	252
Tax	11	–43	–55
Profit for the year		563	611

Parent Company comprehensive income

SEKm	2019	2018
Profit for the year	563	611
<i>Items transferred or that could be transferred to profit for the period</i>		
Exchange rate difference on monetary item regarding overseas net investment	–1	—
Comprehensive income for the year	562	611

Parent Company balance sheet

SEKm	Note	2019	2018
Assets			
Non-current assets			
Non-current intangible assets			
		1	1
Property, plant and equipment		1	1
Total non-current assets		2	2
Financial assets			
Investments in Group companies	13	1,411	1,231
Receivables from Group companies	16	441	442
Other non-current receivables		2	2
Total non-current financial assets		1,854	1,675
Total non-current assets		1,856	1,677
Current assets			
Receivables from Group companies		908	870
Other receivables		40	30
Prepaid expenses and accrued income		6	4
Total current assets		954	904
Cash and bank balances		218	59
Total assets		3,028	2,640
Shareholders' equity and liabilities			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital (26,548,008 shares)	14	133	132
Statutory reserve		298	228
Total restricted equity		431	360
<i>Unrestricted equity</i>			
Translation reserve		–4	–3
Retained earnings		852	609
Profit for the year		563	611
Total unrestricted equity		1,411	1,217
Total shareholders' equity		1,842	1,577
Untaxed reserves	19	229	199
Provisions			
Deferred tax liabilities	11	5	6
Other provisions	17	11	12
Total provisions		16	18
Non-current liabilities			
Liabilities to credit institutions	15	615	501
Liabilities to Group companies	16	55	55
Total non-current liabilities		670	556
Current liabilities			
Accounts payable		5	3
Liabilities to Group companies		235	258
Other liabilities		12	12
Accrued expenses and deferred income	18	19	17
Total current liabilities		271	290
Total liabilities and shareholders' equity		3,028	2,640

Parent Company changes in shareholders' equity

SEKm	Restricted equity		Unrestricted equity		Total shareholders' equity
	Share capital	Statutory reserve	Translation reserve	Retained earnings	
Opening balance, 1 Jan. 2018	132	228	– 3	938	1,295
Profit for the year			—	611	611
Other comprehensive income for the year			—	—	—
Comprehensive income for the year	—	—	—	611	611
Dividend for 2017			—	– 329	– 329
Closing balance, 31 Dec. 2018	132	228	– 3	1,220	1,577
Opening balance, 1 Jan. 2019	132	228	– 3	1,220	1,577
Profit for the year			—	563	563
Other comprehensive income for the year			– 1	—	– 1
Comprehensive income for the year	—	—	– 1	563	562
Warrants exercised in incentive programme	1	70	—	—	71
Dividend for 2018	—	—	—	– 368	– 368
Closing balance, 31 Dec. 2019	133	298	– 4	1,415	1,842

Parent Company cash flow statement

SEKm	Note	2019	2018
Operating activities			
Operating profit		– 40	– 35
Adjustments for items not included in cash flow		– 1	—
Dividends from subsidiaries		182	131
Liquidation profit from subsidiaries		—	6
Interest received		10	14
Interest paid		– 6	– 5
Realised exchange rate differences		– 23	– 25
Income tax paid		– 52	– 66
Cash flow from operating activities before changes in working capital		70	20
Changes in working capital			
Changes in operating receivables and operating liabilities		220	102
Cash flow from operating activities		290	122
Investing activities			
Acquisition of non-current intangible assets		—	– 2
Acquisition of non-current financial assets		– 26	– 46
Shareholders' contribution		– 160	—
Sale of non-current intangible assets		—	3
Sale of non-current financial assets		—	55
Cash flow from investing activities		– 186	10
Cash flow before financing activities		104	132
Financing activities			
Borrowings	15	88	—
Repayment of loans	15	—	– 70
Change in long-term intra-Group transactions		13	– 29
Dividend paid		– 368	– 329
Group contribution received		257	288
Group contribution paid		– 6	– 6
Warrants exercised in incentive programme		71	—
Cash flow from financing activities		55	– 146
Cash flow for the year		159	– 14
Cash and cash equivalents, opening balance		59	73
Cash and cash equivalents, closing balance*		218	59

*Credit balance on Group account in Parent Company

Notes to the Parent Company financial statements

Note 1 Accounting and valuation policies

The Parent Company's annual accounts have been drawn up in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The Swedish Financial Reporting Board's statements relating to listed companies have also been applied. RFR 2 involves the Parent Company, in the annual accounts for the legal entity, applying all IFRS standards and statements adopted by the EU as far as possible within the framework of the Swedish Annual Accounts Act and the Swedish Law on Safeguarding Pension Obligations, and in view of the relationship between accounting and taxation. The recommendation details which exceptions from and additions to IFRS shall apply.

The accounting policies of the Parent Company otherwise comply with the accounting policies of the Group, with the following exceptions:

Investments in Group companies

Investments in subsidiaries are recognised in the Parent Company in accordance with the cost method. Transaction charges attributable to the acquisition of shares in subsidiaries are included in the acquisition cost of investments in Group companies in the balance sheet. Impairment testing occurs annually by comparing the Parent Company's recorded acquisition costs with the subsidiaries' net worth, including their long-term earning capacity.

Classification and formats

The income statement and balance sheet have been produced for the Parent Company in accordance with the Swedish Annual Accounts Act's format, while the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Cash Flow Statements. The differences compared with the consolidated reports that are in the Parent Company's income statements and balance sheets consist primarily of reporting financial income and expenses and the classification of shareholders' equity.

IFRS 16 Leases

IFRS 16 rules are not applied for legal entities, which are instead subject to the rules in RFR 2 p. 2–5. The Parent Company recognises lease payments as costs on a straight-line basis over the term of the lease. Expensed lease payments during the year amounted to SEK 754,000 (754,000). Over the next two years, lease payments will amount to a total of approx. SEK 578,000.

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

The Parent Company applies the section on IFRS 9 Financial Instruments in RFR 2 according to point 2. Outstanding derivative instruments at 31 December 2019 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 352,000 (286,000). 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

	2019	2018
Sales of services to subsidiaries	60	63
Purchase of services from subsidiaries	– 8	– 6

Note 3 Information on remuneration of auditors

The company's auditing firm has received remuneration:

SEK thousand	2019	2018
EY		
Auditing	– 565	– 805
Taxation assignments	– 110	– 50
Other assignments	– 84	—
Total	– 759	– 855

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

	2019	2018
Effect of exchange rate on operating receivables/liabilities	3	5

Note 5 Other operating expenses

	2019	2018
Effect of exchange rate on operating receivables/liabilities	– 12	– 9
Costs for personnel who are not employed by the Parent Company and their overheads	– 36	– 38
Total	– 48	– 47

Note 6 Personnel

Average no. of employees

	2019	2018		
	Number	Of which men	Number	Of which men
Nolato AB, Torekov	10	70%	9	78%

Employee benefits expense

	2019	2018
Salaries and remuneration	– 25	– 26
Pension expenses, defined contribution schemes	– 4	– 4
Social security contributions	– 9	– 9
Total	– 38	– 39

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 28 million (27), of which SEK 6 million (7) 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

	2019		2018	
	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

	2019	2018
Dividend received from Group companies	182	131
Anticipated dividend from Group companies	293	344
Capital gain on sale of subsidiary	—	14
Liquidation profit from Group companies	—	6
Impairment of investments in Group companies	— 7	—
Total	468	495

Note 8 Financial income

	2019	2018
Interest income, Group companies	10	14
Total	10	14

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

Note 9 Financial expenses

	2019	2018
Interest expenses, credit institutions	— 5	— 4
Other financial expenses	— 1	— 1
Insurance recourse ¹⁾	—	— 10
Exchange rate differences	— 36	— 45
Total	— 42	— 60

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

	2019	2018
Group contributions received	240	257
Group contributions paid	—	— 6
Reversal of tax allocation reserve	—	47
Provision for tax allocation reserve	— 30	— 46
Total	210	252

Note 11 Tax

Recognised in the income statement

	2019	2018
Current tax expense (—)/income (+)		
Tax expenses for the period	— 43	— 44
	— 43	— 44
Deferred tax expense (—)/income (+)		
Deferred tax in relation to temporary differences	—	— 11
Total recognised tax expense	— 43	— 55

Reconciliation of effective tax

The tax rate applicable is 21.4% (22%).

	2019	2018
Profit before tax		
	606	666
Tax according to applicable Parent Company tax rate	— 130	— 147
Coupon tax on anticipated dividends	— 15	— 17
Non-deductible expenses	— 1	—
Non-taxable income	103	109
Recognised effective tax	— 43	— 55
Deferred tax recognised in the balance sheet		
Other provisions	2	2
Other	— 7	— 8
Total	— 5	— 6

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

	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
Total	5	— 11	—	— 6

	Balance at 1 Jan. 2019	Recognised in profit for the year	Recognised in shareholders' equity	Balance at 31 Dec. 2019
Other provisions	2	—	—	2
Other	— 8	1	—	— 7
Total	— 6	1	—	— 5

Note 12 Expenses allocated by type of cost

	2019	2018
Employee benefits expense	— 38	— 39
Consulting expenses	— 5	— 5
Travel expenses	— 3	— 2
Advertising and PR	— 4	— 4
Effect of exchange rate on operating receivables/liabilities, net	— 9	— 4
Costs for personnel who are not employed by the Parent Company and their overheads (charged on)	— 36	— 38
Other costs	— 5	— 6
Total	— 100	— 98

Note 13 Investments in Group companies

	2019	2018
Acquisition cost at 1 January	1,591	1,586
Newly formed subsidiary	27	46
Shareholders' contribution	160	—
Disposals	—	− 41
Accumulated acquisition cost at 31 December	1,778	1,591
Accumulated impairment losses at 1 January	− 360	− 360
Impairment losses for the year	− 7	—
Accumulated impairment losses at 31 December	− 367	− 360
Carrying amount	1,411	1,231

	Participating interest		Carrying amount	
	2019	2018	2019	2018
AB Cerbo Group, Trollhättan, Sweden	100%	100%	268	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%	—	—
Lövepac Technology (Shenzhen) Co., Ltd, China	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%	100%	9	—
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 Jabar LLC, US	100%	—	—	—
Nolato Gota AB, Götene, Sweden	100%	100%	129	129
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 Silikonteknik (Beijing) Co. Ltd, China	100%	—	20	—
Nolato Stargard Sp.zo.o., Poland	100%	100%	9	9
Nolato Technology (Suzhou) Co. Ltd, China	100%	100%	46	46
Nolato Torekov AB, Torekov, Sweden	100%	100%	12	12
Nolato Treff AG, Switzerland	100%	100%	488	488
Carrying amount			1,411	1,231

Note 14 Share capital

The share capital of Nolato AB totals SEK 133 million, divided into 26,548,008 shares. Of these, 2,759,400 are A shares and 23,788,608 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. 2018	26,307,408	SEK 5	SEK 131,537 k
Share capital, 31 Dec. 2019	26,548,008	SEK 5	SEK 132,740 k

Note 15 Borrowings

	Maturity date	2019	2018
Long-term bank loan in CHF (fixed rate)	2021	527	501
Long-term bank loan in USD (variable rate)	2022	88	—
Total		615	501

Reconciliation of liabilities attributable to financing activities

	2019	2018
Opening balance for non-current and current financial liabilities	501	534
<i>Changes affecting cash flow</i>		
Borrowings	88	—
Repayment of loans	—	—70
<i>Changes not affecting cash flow</i>		
Translation effects	26	37
Closing balance for non-current and current financial liabilities	615	501

Note 16 Receivables and liabilities, Group companies

Receivables from Group companies

At 1 January 2018	396
Change	46
At 1 January 2019	442
Change	—1
At 31 December 2019	441

Liabilities to Group companies

At 1 January 2018	55
Change	—
At 1 January 2019	55
Change	—
At 31 December 2019	55

All items relate to internal loans, for which interest is calculated on an ongoing basis in line with the market. There are no contractually regulated durations.

Note 17 Other provisions

	2019	2018
Amount at 1 January	12	13
Provisions for the year	—	1
Amounts claimed	—1	—2
Amount at 31 December	11	12

Relates to future salary tax for endowment insurance.

Note 18 Accrued expenses and deferred income

	2019	2018
Salary liabilities	10	8
Social security contributions	7	7
Other items	2	2
Total	19	17

Note 19 Untaxed reserves

	2019	2018
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	46
Provision for tax allocation reserve (taxation year 2019)	30	—
Total	229	199

Note 20 Contingent liabilities

	2019	2018
Guarantees on behalf of subsidiaries	252	145

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 60 million (63), 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 10 million (14) 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 441 million (442) 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 (475), of which SEK 293 million (344) refers to anticipated dividend.

Note 22 Appropriation of profit

Proposed allocation of earnings

	2019	2018
The Board proposes that unappropriated funds:		
Retained earnings	848	606
Profit for the year	563	611
Total	1,411	1,217

be allocated as follows:

Dividend to the shareholders	385	368
To be carried forward	1,026	849
Total	1,411	1,217

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 2020. 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 4 May 2020.

Torekov, Sweden, 12 March 2020



Fredrik Arp
Chairman of the Board



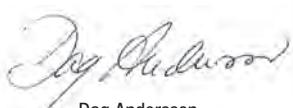
Sven Boström-Svensson
Board member



Henrik Jorlén
Board member



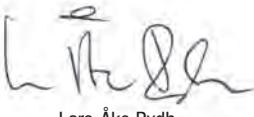
Lovisa Hamrin
Board member



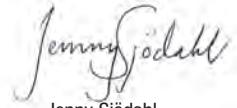
Dag Andersson
Board member



Åsa Hedin
Board member



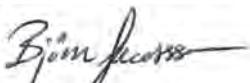
Lars-Åke Rydh
Board member



Jenny 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 2020.
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 2019. 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 2019 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 2019 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

Goodwill is recognised at SEK 781 million and investments in Group companies are recognised at SEK 1,411 million at 31 December 2019. 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.

The impairment test for 2019 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.

How our audit addressed this key audit matter

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.

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 2019 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.

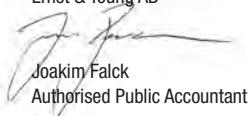
Our examination has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance 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 8 May 2019 and has been the company's auditor since the 29 April 2015.

Torekov, Sweden, 19 March 2020

Ernst & Young AB


Joakim Falck
Authorised 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.

1984

Nolato shares are listed on the Stockholm Stock Exchange OTC list.

1994

The Group achieves sales of SEK 650 million. Acquisition of companies in Lomma, Sunne, Hallsberg, Gothenburg and Ängelholm in Sweden.

1997

Nolato doubles its sales through the acquisition of Ericsson's plastics factory in Kristianstad, Sweden (mobile phone division).

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 the mobile phone division to China begins.

2005

Medical Solutions starts production in Hungary.

2006

Sweden-based Medical Rubber is acquired.

2007

Sweden-based Cerbo Group is acquired.

2008

Medical Solutions starts production in China.

2010

Medical Solutions starts production in the US through the acquisition of Contour Plastics.

2011

Industrial Solutions starts production in Romania.

2012

Medical Solutions starts production in the UK through the acquisition of Cope Allman Jaycare.

2013

Sweden-based Nolato Sunne is sold.

2014

Integrated Solutions establishes own production in Malaysia.

2016

Treff AG in Switzerland and Grizzly Medical in Poland are acquired.

2018

Sweden-based Hertila is sold.

2019

Integrated Solutions acquires US-based Ja-Bar Silicone Corporation.



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