



Oleg Pavlov, Nolato Tallinn



Holly Li, Nolato Beijing



Johnny Svensson, Nolato Gota

## Nolato AB (publ) Annual Report 2003

## The Nolato Group's business areas and subsidiaries

### Nolato Telecom

Number of employees 1,563  
Head of business area:  
Tommy Johansson

### Nolato Alpha

Kristianstad, Sweden  
Number of employees 400  
President Claes Bjäreholt

### Nolato Beijing

Beijing, China  
Number of employees 625  
President Jonas Persson

### Nolato Lövepac

Skånes Fagerhult, Sweden  
Number of employees 65  
President Glenn Schmidinger

### Nolato Silikonteknik

Hallsberg, Sweden  
Number of employees 168  
President Jan-Erik Lans

### Nolato Tallinn

Tallinn, Estonia  
Number of employees 295  
President Peeter Mõrd

### Nolato Industrial Sweden

Number of employees 528  
Head of business area:  
Georg Brunstam

### Nolato Gota

Götene, Sweden  
Number of employees 120  
President Anders Wallgren

### Nolato Plastteknik

Gothenburg, Sweden  
Number of employees 122  
President Leif Thörneby

### Nolato Polymer

Torekov & Ängelholm, Sweden  
Number of employees 103  
President Johan Arvidsson

### Nolato STG

Lönsboda, Sweden  
Number of employees 47  
President Håkan Hillqvist

### Nolato Sunne

Sunne, Sweden  
Number of employees 135  
President Ulf Hilding

### Nolato Industrial Central Europe

Number of employees 298  
Head of business area:  
Magnus Nilsson

### Nolato Protec

Mosonmagyaróvár, Hungary  
Number of employees 295  
President Magnus Nilsson

### Nolato Medical

Number of employees 87  
Head of business area:  
Peter Krikström

### Nolato Medevo

Torekov & Lomma, Sweden  
Number of employees 87  
President Peter Krikström

The chart shows the operating Group.  
In external financial information, Nolato Industrial Sweden and Nolato Industrial Central Europe are reported as one profit center.

Number of employees as of December 31, 2003

## Nolato Annual Report 2003

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This document is, in all essential respects, a translation from Swedish. In the event of any difference between this translation and the Swedish original, the Swedish original shall govern.

The Nolato Group is a high-tech developer and manufacturer of polymer components and product systems for leading customers in telecommunications, household appliances, automotive products, consumer electronics, medical technology and other selected industrial sectors.

Nolato's overall strategy is to work closely with its customers and, by participating in their projects at an early stage, help them develop their products and offer high-quality manufacturing and further processing of customer products and complete systems.

Key principles that underpin our operations are expertise, being businesslike, long-term customer relationships, decentralization, being well organized and safeguarding the environment.

Nolato carries out its business operations through twelve companies in Europe and Asia, organized in four business

areas that are close to their customers. Customers are primarily international corporations such as AstraZeneca, Electrolux, Ericsson, Flextronics, Husqvarna, IKEA, Motorola, Nokia, Novo Nordisk, Philips, Saab, Siemens, Sony Ericsson, Volvo and Whirlpool.

The Group's development work focuses on creating new processes and technologies that benefit customers through shorter lead-times for product development and improved total cost, plus other added value that increases the attractiveness of the products.

Nolato was founded in 1938. The company was registered on the Stockholm Stock Exchange in 1984. Today, Nolato's Class B shares are quoted on the O-list of the exchange (now called Stockholmsbörsen) and are part of the exchange's "Attract 40" list.



## 2003 in brief

- High capacity utilization and strong growth in sales and earnings.
- Nolato Telecom's operations in China continued to develop satisfactorily and expanded sharply.
- Hungarian operations were consolidated into one unit. The entire book value of goodwill related to Hungarian operations was written down.
- The Board of Directors proposes a dividend of SEK 0.80 (0.50) for 2003.

## Group highlights

	2003	2002
Net sales, SEK M	2,671	2,011
Nonrecurring items, SEK M	-93	31
Operating income, SEK M *	150	42
Income after financial items *	99	5
Net income, SEK M *	58	17
Cash flow after investments, SEK M	228	-37
Earnings per share, SEK *	2.20	0.70
Average number of shares (thousands)	26,307	24,466

\* Excluding nonrecurring items

## The CEO's comments

*Dear shareholders,*

This past year was favorable to the Nolato Group, with sharply improved earnings, a broadened customer base and very strong cash flow.

The efforts of the past few years to strengthen Nolato's competitiveness and adjust the Group's resources to customer demand have yielded good results. Today Nolato is a stable and well-positioned Group. With our in-depth expertise concerning polymers and with our international presence, we are in a strong position as a development partner and a systems supplier to global customers.

Our structure, with good market positions in three areas – or “three legs” – gives us good stability for continued growth:

Nolato Telecom, with most of its customers in the mobile (cellular) telephone industry, enjoyed very strong growth during the year. Its business benefited from the general upturn in the telecom sector. Meanwhile, this improvement was largely also an effect of vigorous measures that were undertaken in the business area.

Nolato Industrial, which operates in a more fragmented market – with customers in the automotive, household appliance and consumer electronics industries in Sweden and Central Europe – also boosted its sales and improved its earnings. The Swedish units continued to develop satisfactorily, with higher sales and good profitability. Unfortunately, operations in Central Europe showed negative earnings due to lower volume and increasingly depressed prices. During the year, we therefore closed Nolato Jász

and moved its production to our unit in Mosonmagyaróvár, western Hungary. We also intensified marketing efforts, resulting in a broadening of the customer base.

At Nolato Medical, with customers in the fields of medical devices and pharmaceuticals, growth has slowed somewhat because certain new customer products have been delayed and are showing lower volume than expected. However, the business of existing customers is developing favorably. We also foresee good opportunities to participate actively in the restructuring of the market.

### International presence

Today Nolato is an international company, with almost 70 percent of its sales outside Sweden.

We act globally, and the guiding principle of our international expansion has always been to follow our customers and to produce where they operate.

### Expansion in Asia

Our recently established business in China has been very successful and accounts for a growing proportion of both the development and production of telecom-related products in the Nolato Group. In the space of two years, operations in Beijing have grown from 53 to 625 employees, and further growth is expected.

During 2003, production in Beijing became more diverse. Today it encompasses not only injection moulding of polymer systems products but also production of EMC shielding products and self-adhesive tapes for the mobile telephone industry. Thanks to

broad applications expertise and good technical resources, the range of products and services we can offer customers is becoming steadily more competitive.

We are thus continuing to expand our production in Beijing. During 2003 we decided to invest both in expanded capacity and in a painting unit for mobile telephone polymer components, among other things.

But production is not all that is expanding. We also sharply increased the resources of the project organization in Beijing during the year. This strengthening of resources is based entirely on our customers' wishes that Nolato should have a technology development and project management organization in China as well, in order to ensure proximity to customers' own development units in the region.

### Capacity adjustment in Europe

As a result of our customers' transfer of manufacturing from Europe to Asia, capacity cutbacks at Nolato's development and production units in Kristianstad, Sweden, continued during 2003.

In October, 146 people in Kristianstad received layoff notices. After this adjustment, the number of employees is expected to be about 300. However, the unit retains significant resources and continues to be Nolato's center for development and project management expertise in the mobile telephone sector.

### Restructuring in Hungary

As I indicated above, Nolato's operations in Hungary continued to have profitability

problems during 2003, resulting in nonrecurring expenses for restructuring and a write-down of goodwill totaling SEK 93 M. During the year, Central European operations were restructured. Among other things, this meant concentration of production at a single unit, extensive improvements in efficiency and intensified marketing efforts.

### **Continued competitiveness in Scandinavia**

Thanks to customer focus, expertise, cost effectiveness and quality, Nolato was able to further strengthen its positions and consolidate its role as a leading developer and manufacturer of polymer products in Sweden.

I believe one factor contributing to this is the basic principle of decentralization by which we work, in which all employees have important roles and initiative and knowledge are natural elements of day-to-day operations, combined with a high degree of automation.

However, we can foresee a risk that our Swedish customers might not be able to maintain their competitiveness with production in Sweden and will thus be compelled to move abroad.

### **Good share price performance**

Nolato's share price performance during 2003 was very pleasing. The price of a Nolato Class B share went from SEK 30.00 on December 31, 2002 to SEK 49.40 on December 31, 2003, an increase of 65 percent.

As of 2004, Nolato Class B shares are included in Stockholmsbörsen's Attract 40 list, which may lead to additional interest in these shares.

### **Changes in the Board of Directors**

Board member Carl-Gustav Gejde has announced that he is declining re-election at the Annual Meeting on April 28. Mr. Gejde was elected to the Board of Directors at the Annual Meeting in 2000 and had previously

been a senior executive of the Group since 1986.

I want to express Nolato's heartfelt gratitude for his valuable contributions.

### **Priorities in 2004**

During 2004 we will continue the task of strengthening the Group's financial position. Priorities during the year will include additional customer focus, steps to ensure continued growth in telecommunications, improvements in Hungarian operations, efforts to increase market share in the Nordic region and continued strong cash flow.

The Nolato Group is well-positioned in all its business areas and we foresee an opportunity for volume growth in all areas. We also foresee opportunities for acquisitions in both Nolato Industrial and Nolato Medical and intend to participate actively in the restructuring of the telecom sector.

With regard to 2004 sales, as we have stated in our financial reports, customer products with a significantly higher value of purchased components contributed more than

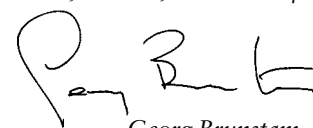
SEK 400 M to our sharp sales increase during 2003. However, the manufacture of these mobile telephone models is of a temporary nature. Therefore, sales of Nolato Telecom, given its currently known project and product portfolio, will be lower during 2004 than in 2003.

Sales of Nolato's other business areas are expected to increase during 2004.

### **Gratitude for fine contributions**

It has required many extraordinary contributions to strengthen our operations despite stiff competition and a sometimes weak economy. I want to take this opportunity to thank all Nolato employees for their dedicated and excellent work during the past year.

*Torekov, Sweden, March 2004*



*Georg Brunstam  
President and CEO*



*Georg Brunstam, President and CEO*

## Nolato's mission

### Vision

Nolato shall be a leading, global, high-tech partner in the field of polymer materials for selected customers.

#### The Nolato Group shall:

- Offer components, product systems and services that give the customer competitive advantages
- Provide its employees with a stimulating environment
- Offer its shareholders good growth in value

### Business mission

The Nolato Group is a high-tech developer and manufacturer of polymer components and product systems for leading customers in telecommunications, white goods, the automotive industry, consumer electronics, medical technology and other selected industrial sectors.

#### Our way of doing business is guided by:

- Expertise and being businesslike
- Long-term customer relationships
- Decentralization
- Being well organized
- Safeguarding the environment

### Growth objective

The Nolato Group's objective is to achieve growth in the customer segments where it operates that is at least on par with the overall growth in each respective market segment.

### Financial objectives

On average over a business cycle, Nolato's targets are to achieve:

- An operating margin in excess of 7 percent
- Return on capital employed in excess of 15 percent
- An equity/assets ratio in excess of 35 percent



Eric Liu and Jiao Zhiqiang, Nolato Beijing



## Overall strategies

### Customer focus

- Work more closely and expand business with existing customers
- Analyze and improve knowledge about the needs of end customers
- Broaden the customer base through intensified marketing to potential customers

### Systems deliveries

- Cover the entire value-added chain from development to assembly and logistics
- Increase value-added
- Expand the customer relationship from supplier to technology partner

### Efficiency

- Offer flexible, cost-effective manual production as well as highly automated production
- Focus on productivity improvements, quality improvement measures and cost control
- Streamline and coordinate purchasing and logistics functions

### Expansion within the current structure

- Further develop the four business areas
- Make supplementary acquisitions in Nolato Industrial and Nolato Medical
- Continue the expansion of production in low-cost countries

## The path to our financial targets

On average over the five-year period 1999 – 2003, Nolato did not achieve its financial objectives. The main reason was the stagnation in the telecommunications industry that occurred during 2001 and 2002, especially for Nolato's main customers in its Telecom business area. During the preceding years, Nolato made heavy investments, mainly at Nolato Telecom, which led to an excessive cost level in relation to volume starting in 2001. When sales again rose during 2003 and expenses were more in line with volume, Nolato reported sharply improved margins. In 2003, operating margin was 5.6 percent and return on capital employed was 11.0 percent, excluding nonrecurring items.

Nolato Telecom's operating margin was 6.5 percent in 2003. It is estimated that within two to three years, the business unit's operating margin will reach the Group's target. Profitability is affected by a powerful and continuing price squeeze, which may have an adverse effect on margins. Meanwhile, this price squeeze is being offset by a shift in pro-

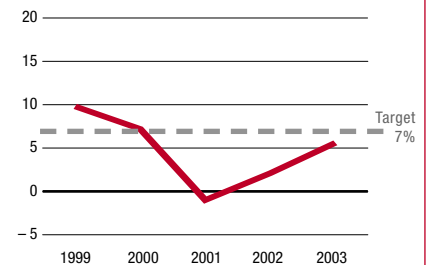
duction to low-cost countries, thereby reducing expenses. Another factor that will affect margins in a positive direction is that the proportion of products containing purchased components with substantially higher value than normal is shrinking.

Nolato Industrial's operating margin was 6.5 percent in 2003. It is projected that within two to three years the business area will achieve the target for operating margin by turning negative earnings in Hungary to profitability. Meanwhile, there is price pressure from customers and a clear trend for customers and production to move to low-cost countries.

Nolato Medical's operating margin amounted to 15.7 percent in 2003, exceeding the Group's target. The business area is expected to be able to maintain this level.

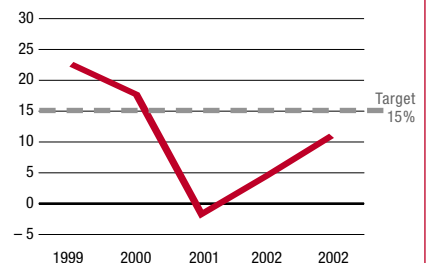
For the Group as a whole, when the business areas have been charged parent company costs and after intra-Group adjustments, it is believed that the above financial targets can be achieved within two to three years.

## Operating margin

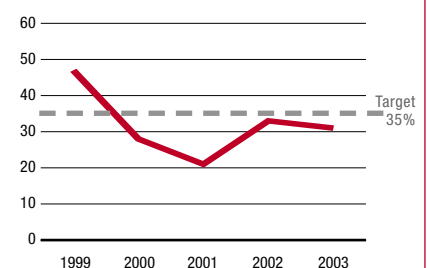


## Return

### Return on capital employed

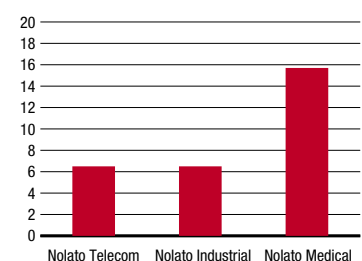


## Equity/assets ratio



## Operating margin, 2003

### By profit center



## Corporate governance

### Board of Directors

#### The working methods of the Board of Directors

Nolato's Board of Directors consists of eight members elected by the Annual Meeting and three members appointed by the employees.

During the financial year 2003, the Board of Directors held nine meetings. At its regular meetings, the Board of Directors dealt with fixed agenda items for each respective Board meeting specified in the Board's rules of procedure, such as long-term strategies, the business situation, investments, forecasts, interim reports and the year-end report. Furthermore, the Board discussed overall structural and organizational changes and the appointment of a new President and Chief Executive Officer (CEO).

Nolato's Chief Financial Officer (CFO) was co-opted during Board meetings and served as secretary to the Board. Group employees participated in Board meetings as needed, serving as presenters or as experts on specific issues. Minutes of the meetings were kept.

Each month, the Board of Directors received a report on the Company's earnings, cash flow and financial position. The President and CEO was also in continuous contact with the Chairman of the Board.

The Chairman of the Board initiated a process for evaluating the work of the Board.

#### Decision-making process

The Board of Directors deals with all issues of importance specified in the Board's rules of procedure, or with other issues as needed.

#### Nomination committee

A portion of the Board of Directors functions as a nomination committee, which is appointed by the Annual Meeting. In preparation for the 2004 Annual Meeting, this committee consists of Carl-Gustaf Sondén, Chairman; Erik Paulsson and Henrik Jorlén. Following contacts with the Company's major shareholders, each year the nomination committee is entrusted with submitting nominations and proposing compensation for Board members at the Annual Meeting as well as seeking the support of the Annual Meeting for certain other proposals.

The nomination committee also accepts nominations for Board members from other shareholders.

#### Compensation committee

The Board of Directors also has a compensation committee, consisting of Carl-Gustaf Sondén, Chairman, and Henrik Jorlén. The committee proposed, and the Board of Directors approved, the current principles for variable remuneration of senior

executives, including the President and CEO. The committee also decided on all remuneration and benefits for the President and CEO, which were presented to and approved by the Board. The committee approved the remuneration for the Group's Executive Committee.

#### Auditor

During the year, the Company's Auditor met with the full Board of Directors on three occasions. In preparation for adoption of the annual accounts by the Annual Meeting, the Auditor presents his overall observations from a review of the Group's internal controls and annual accounts. For this reason, Nolato's Board of Directors has concluded that there is no need to appoint a separate audit committee.

#### Information about remuneration

For information on fees, salaries, pensions and other benefits for the Board of Directors, the President and CEO and other senior executives, see Note 3 on page 46.

#### Executive Committee

The Executive Committee consists of the CEO, the CFO and the heads of the Nolato Industrial Sweden, Nolato Telecom and Nolato Medical business areas.

This Executive Committee meets every other week and constitutes the Group's operating management, which makes decisions about current operating issues.

#### Group Management

The Group Management consists of the







Peeter Mõrd and Bruno Engel, Nolato Tallinn

Executive Committee supplemented by the head of the Nolato Industrial Central Europe business area and the marketing managers of Nolato Telecom and Nolato Medical.

The Group Management prepares and oversees strategic, marketing and organizational issues for the Group. It meets six to eight times per year.

### Business operations

All business operations in the Group are conducted by subsidiaries, in keeping with the decentralized corporate culture that always has characterized Nolato.

### Business areas

Each subsidiary belongs to one of the Group's four business areas.

With regard to current operating issues, the head of each business area is continuously in touch with the presidents and managements of the subsidiaries that belong to the business area.

### Subsidiaries

The success of the Nolato Group success is based on the close business relationships that each Group company has with its customers. Their understanding of and sensitivity to local needs, business practices and distribu-

tion requirements are, and will remain, of the greatest importance to their success.

Each subsidiary is managed by a Board of Directors, which approves and makes decisions on long-term strategies, investments, forecasts and overall structural and organizational changes, as specified by the Board's rules of procedure.

Each subsidiary has a president who is responsible for operations at the respective company, as specified in the instructions to the president issued by the Board of Directors. Assisting the President is a management team, with members from different departments in the company.

## Corporate philosophy

The foundation for Nolato's corporate philosophy – *Our Basic Principles* – grew out of the down-to-earth, ethical and businesslike philosophy that has guided Nolato from its beginnings 66 years ago.

They are thus the common foundation for all operations at Nolato. While they are based on long experience, they are alive, developing along with Nolato and reflecting the demands and opportunities of today.

### Being businesslike

Everything we do at Nolato shall have the aim of strengthening our long-term profitability. That means that at all times, we shall prioritize being businesslike.

Profitability is crucial for our job security and thus the foundation of our common future.

Growth is important in itself, but profitability is the basic precondition for all business operations.

Consequently, we must be businesslike and consider customer benefits in everything we

do, regardless of what our job is and at what level of the organization we work.

### Long-term customer relationships

At Nolato, our customers are the basis of all our operations. Therefore, their long-term needs, interests and desires shall direct our development.

We shall serve as a partner to our customers and work so they perceive us as an obvious strategic resource for development work as well as production. Our goal is to join the development process at an early stage, in order to create customer-specific, comprehensive solutions. Through active, close collaboration between the various parts of the Group, we bring our customers unique expertise within our field.

### Expertise

We believe in the inherent capabilities of people, that all Nolato employees are equally important to our success in reaching the goals we have established.

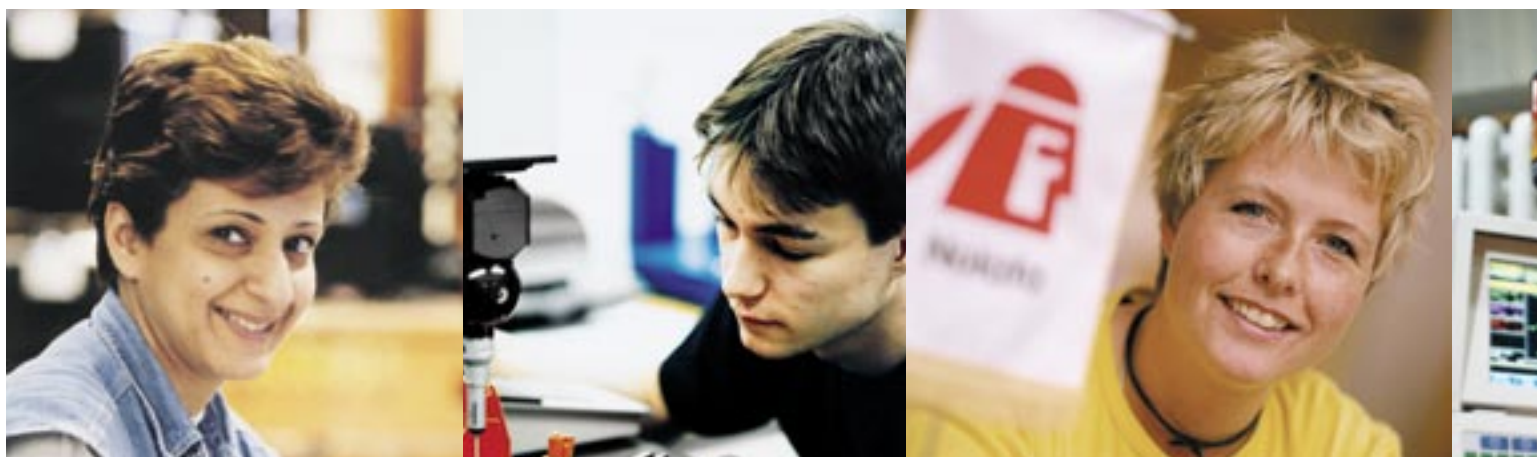
A precondition for this is that everyone is provided opportunities for growth based on personal and corporate preconditions and objectives.

While we set high standards, we shall support each individual by creating good conditions for personal development. As far as possible, management shall be recruited from within the Group.

Through the Nolato school, we shall promote increasing expertise and success through insight, dedication and training.

### Decentralization

We shall always endeavor to seize opportunities and solve problems where they arise. Among other things, this means that proximity to our customers and confidence in our employees are important foundations of our operations. We shall therefore delegate responsibility and authority as far as possible and make sure that every individual in the organization has opportunities to be seen and heard.



Using active networks, both internal and external, we efficiently solve tasks that require more than our own capabilities.

### Being well organized

Being well organized is a basic precondition at Nolato, whatever we do. And this is not just about good housekeeping at our workplaces. Our entire operation shall be characterized by being well organized down to the smallest detail. We shall also endeavor to “do things right the first time” and everything we do must demonstrate quality.

By being well organized we also create safer workplaces and greater satisfaction as we work. Working with continuous improvements shall come naturally to all of us.

### Safeguarding the environment

Safeguarding the environment, both internal and external, is very important to us.

A bright, healthy and airy indoor environment creates a more enjoyable, safer and thus more attractive workplace. Our operations shall have a minimal impact on the external environment.

We shall act as good neighbors and set an example from an environmental standpoint.

We shall work toward adapting the materials in our products and processes to an eco-cyclical way of thinking.



### Nolato's history – 66 years of experience

- 1938** Nordiska Latex-fabriken in Torekov is started.
- 1954** Göteborgs Gummibolag is acquired.
- 1979** STG-plast in Lönsboda, Sweden is acquired.
- 1982** The Group changes its name to Nolato, an abbreviation of the previous name. It had been used for years as a trademark and popular name.
- 1984** The Malmö-based wholesaling company Texan is acquired. The Nolato share is listed on the Stockholm Stock Exchange's OTC list.
- 1986** The packaging manufacturer Lövepac in Skånes Fagerhult and the plastic company Gejde in Lomma outside Malmö are acquired.
- 1988** Sunnex AB, Sunnex Gummifabrik in Sunne, and Silikonteknik in Hallsberg are acquired. Group sales double to more than SEK 400 million.
- 1989** The first company in the Group is ISO 9000 certified.
- 1994** Plast-Teknik, with operations in Gothenburg and Ängelholm, is acquired. Sales have now risen to more than SEK 650 million.
- 1995** Introduction of a common brand: All subsidiaries begin to use the Nolato name. Texan is divested.
- 1997** Ericsson's plastic plant in Kristianstad is acquired. The acquisition doubles Group sales to more than SEK 1.5 billion. Medical technology production at Nolato Polymer is incorporated as a separate company, Nolato Medevo. Manufacturing is established in Norrköping to meet increasing Ericsson production volume.
- 1998** The Kristianstad plant is divided into three companies: Nolato Mobile, Nolato Alpha and Nolato Autec. The first major unit outside Sweden is established: a plant for mobile telephone components in Fort Worth, Texas. The first company is ISO 14001 certified. The Group is divided into five customer-oriented business areas: Mobile Communication, Industrial Components, Medical Components, Automotive Components and Branded Products.
- 1999** Nolato established a mobile telephone components plant in Estonia, Nolato Tallinn.
- 2000** Shieldmate Robotics in Chicago, Illinois; Gotaplast in Götene, Sweden; and Protec in western Hungary are acquired. Electrolux's plastics production for vacuum cleaners in Hungary is taken over and incorporated under the name Nolato Jász. Nolato Gejde is split into one part for mobile telephones – Nolato Mobitec, and one part for medical technology – Nolato Gejde. The production unit in Norrköping closes. Operations at Nolato Autec close and operations at Automotive Components are transferred to Industrial Components.
- 2001** A manufacturing unit in China, Nolato Beijing, is established. Nolato Texas and Nolato Mobitec are discontinued. Nolato Shieldmate is closed. Nolato Sunnex Equipment is divested.
- 2002** Nolato Elastoteknik is divested and the Branded Products business area ceases operations. Hungarian operations become a separate region at Nolato Industrial Components. A new Nolato Jász factory goes into service. Nolato Gejde and Nolato Medevo merge under the name Nolato Medevo. Nolato Polymer and Nolato Termoform merge under the name Nolato Polymer. Nolato Mobile and Nolato Alpha merge under the name Nolato Alpha.
- 2003** The business areas are renamed to better reflect the business strategy: Nolato Telecom, Nolato Industrial and Nolato Medical. Nolato Jász is closed and its operations are transferred to Nolato Protec.

## Share data and shareholders

The largest shareholders (December 30, 2003)

Shareholder	Total shares	Class A shares	Class B shares	% of capital	% of votes
Jorlén family	3,195,491	1,169,700	2,025,791	12.2	26.8
Boström family	3,195,370	1,169,700	2,025,670	12.2	26.8
Paulsson family	1,124,040	420,000	704,040	4.2	9.6
Skandia/Carlson mutual funds	2,348,170	0	2,348,170	8.9	4.6
Skandia	1,958,010	0	1,958,010	7.4	3.8
Nordea mutual funds	1,330,390	0	1,330,390	5.1	2.6
Svolder	1,197,500	0	1,197,500	4.6	2.3
Robur mutual funds	936,920	0	936,920	3.6	1.8
Handelsbanken mutual funds	623,069	0	623,069	2.4	1.2
Carnegie mutual funds	549,600	0	549,600	2.1	1.1
Others	9,848,848	0	9,848,848	37.3	19.4
Total	26,307,408	2,759,400	23,548,008	100.0	100.0

Breakdown of shareholders

Shareholders	% of capital	% of votes
Swedish owners	95.1	97.5
of which institutions etc.	36.0	18.4
of which others	59.1	79.1
Owners outside Sweden	4.9	2.5

Class of shares

Type of share	Number of shares	Number of votes	% of capital	% of votes
Class A	2,759,400	27,594,000	10.5	54.0
Class B	23,548,008	23,548,008	89.5	46.0
Total	26,307,408	51,142,008	100.0	100.0

Changes in share capital, 1984 – 2003

Year	Increase in share capital (SEK)	Par value per share (SEK)	Total number of shares	Total share capital (SEK)
1984 New share issue <sup>1</sup>	450,000	25	175,360	4,384,000
1984 4:1 stock dividend	17,536,000	25	876,800	21,920,000
1985 1:2 stock dividend	10,960,000	25	1,315,200	32,880,000
1986 New share issue <sup>2</sup>	5,000,000	25	1,515,200	37,880,000
1986 New share issue <sup>3</sup>	3,529,400	25	1,656,376	41,409,400
1994 5:1 split <sup>4</sup>	0	5	8,281,880	41,409,400
1994 New share issue <sup>5</sup>	3,750,000	5	9,031,880	45,159,400
1994 Conversion <sup>6</sup>	700,615	5	9,172,003	45,860,015
1995 Conversion <sup>6</sup>	1,117,500	5	9,395,503	46,977,515
1998 1:1 stock dividend	46,977,515	5	18,791,006	93,955,030
2002 2:5 new share issue <sup>7</sup>	37,582,010	5	26,307,408	131,537,040

<sup>1</sup> New share issue targeted to SEB for public sale in connection with initial stock exchange listing

<sup>2</sup> Targeted new share issue in connection with acquisition of the company Nolato Lövepac

<sup>3</sup> Targeted new share issue in connection with acquisition of the company Nolato Gejde

<sup>4</sup> Change in the par value of one share from SEK 25 to SEK 5

<sup>5</sup> Targeted new share issue in connection with acquisition of the company Nolato Plastteknik

<sup>6</sup> Conversion and issuance of new shares when converting convertible loan

<sup>7</sup> New share issue, with two new shares for each five old shares at a subscription price of SEK 35 apiece

Nolato AB was registered on the Stockholm Stock Exchange in 1984. Today, the Class B share is quoted on the O-list.

As of January 1, 2004 the share is included in the Stockholmsbörsen's *Attract 40* list, which highlights especially interesting shares.

### Share capital

The share capital of Nolato AB totals SEK 132 M, consisting of 26,307,408 shares with a par value of SEK 5 each.

Of these, 2,759,400 are Class A shares and 23,548,008 are Class B shares. Class A shares entitle the holder to 10 votes each and Class B shares one vote each. All shares have equal rights to the assets and earnings of the company.

### Share price performance

Nolato's Class B shares rose by 65 percent during the year. At the end of 2003, they were quoted at SEK 49.40 (30.00). The highest and lowest market prices during the year were SEK 56.50 and 24.00, respectively. Total market capitalization of Nolato AB on December 31, 2003 was SEK 1,300 M.

During 2003, trading in Nolato shares on Stockholmsbörsen amounted to 10.3 million shares (8.5). The turnover rate, i.e. the degree of liquidity, was 39 percent (32).

### Ownership structure

On December 31, 2003, Nolato AB had 8,738 shareholders (8,232).

The ten largest owners accounted for 63 percent (62) of the share capital and 81 percent of the votes (81).



## Board of Directors and Auditors

Information about the Board of Directors and Auditors is found on page 56.

Information on the work of the Board of Directors, the nomination committee, etc. is found on page 8.

## Remuneration to senior executives

A discussion of the Group's principles for remuneration of senior executives, variable remuneration, pensions etc. and actual remuneration and other benefits during 2003 and 2002 appears in Note 3 on page 46.

## Dividend policy

The Board's goal is that the dividend shall keep pace with the Company's growth. For the financial year 2003, a dividend of SEK 0.80 (0.50) per share is proposed.

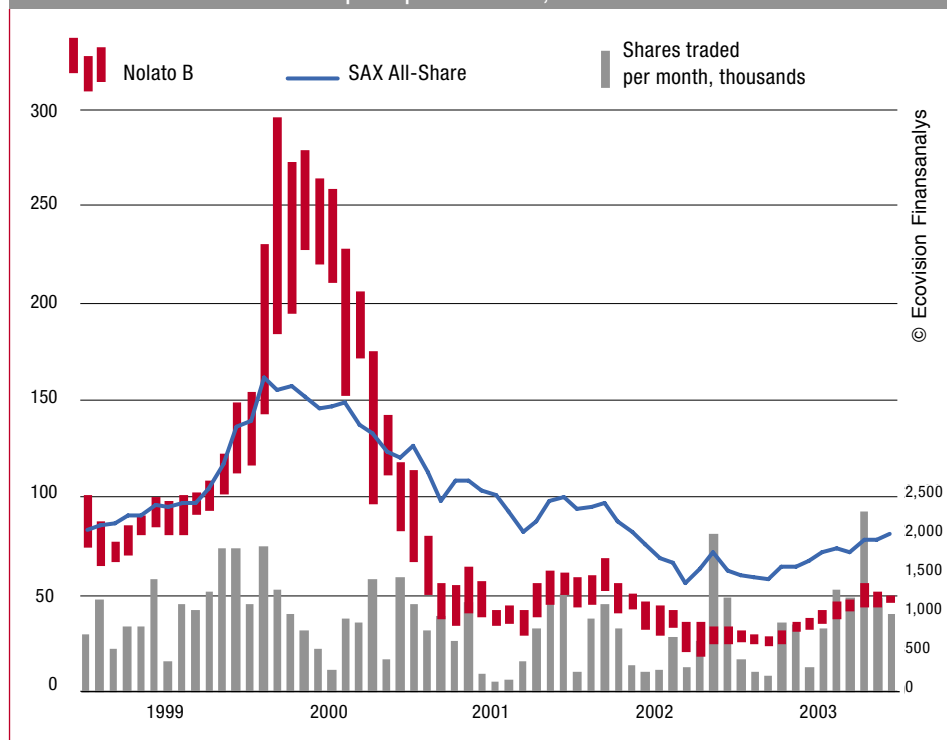
## Shareholder value

The Nolato management works continuously to develop and improve financial information about Nolato, in order to provide both current and future shareholders with good prerequisites for determining the value of the Company as fairly as possible.

During 2003, Nolato's shares were followed and analyzed by the following analysts:

Swedbank	Jan Ihrfelt +46 8 5859 1848
Kaupthing Bank	Mikael Laséen +46 8 791 48 27
Alfred Berg	Mattias Cullin +46 8 5723 5971
Nordea Securities	Greger Johansson +46 8 534 92267
Handelsbanken	Magnus Dalhammar +46 8 7015 114
Carnegie	Charlotte Widmark +46 8 676 8787
ABG Sundal Collier	Marion Björkstén +44 20 7905 5611

## Share price performance, 1999 – 2003



## Per share data

	2003	2002	2001	2000	1999
Earnings per share after tax, excl. nonrecurring items, SEK ** 1	2.20	0.70	- 4.15	6.70	6.80
Earnings per share after tax incl. nonrecurring items, SEK ** 1	-1.35	2.45	- 20.05	2.45	7.65
Shareholders' equity per share, SEK ** 2	22	24	16	34	34
Cash flow per share, SEK **	8.65	- 1.50	13.65	- 18.90	- 0.30
Market price on December 31, SEK **	49	30	55	111	145
Price/earnings ratio, times *** 3	22	43	neg	17	22
Dividend (for 2003: proposed), SEK	0.80	0.50	0	0	2.20
Yield (2003 proposal), % 4	1.6	1.7	0	0	1.3
Dividend as a percentage of earnings per share (2003: proposed)	neg	20	0	0	25
Average number of shares, thousands **	26,307	24,466	21,397	21,397	21,397
Price/equity ratio	2.2	1.2	3.4	3.3	4.3
Market capitalization, SEK M	1,300	789	1,174	2,368	3,101

\* Calculated excluding nonrecurring items.

\*\* Adjustments have been made for any new share issues.

### Definitions

1 Income after tax divided by the average number of shares.

2 Reported shareholders' equity divided by the number of shares.

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

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

## Nolato's personnel



Oleg Pavlov, Nolato Tallinn

Nolato has a strong belief in the inherent capabilities of people. This means that our ambition is to continuously help our employees to grow, based on their own ambitions and on the Company's objectives. We also emphasize openness and unpretentiousness at all levels of our operations.

This is why we set high standards for our employees: They should be knowledgeable and highly motivated. Meanwhile, the company should provide its employees with good working conditions, both physical and psychological.

### Decentralized organization

Human resource work at Nolato is decentralized and is managed by the individual companies in the Group.

The basis for all human resource work, in Sweden as well as in Estonia, China and Hungary, is a fundamental set of values that should permeate all of Nolato. According to this corporate philosophy, which is presented in its entirety on page 10 – 11, all individuals at Nolato are equally important if we are to achieve our objectives.

That is why Nolato endeavors to keep its organizational structure as flat as possible in its operations. In many of our companies we have been able to remove intermediaries and have instead provided our employees with greater opportunities to direct their own work. Through teams based on management by objective and a decentralized way of working, we motivate our employees, thereby gaining greater commitment and better results.

In some cases it has been possible to tie this way of working into that of our customer

company, which means that day-to-day management and planning can occur through direct contact between the people who work in production.

### Human resource development

To facilitate working in a flat organization, Nolato focuses on collective team development work and on improving overall expertise, while supporting the professional development of the individual.

At the corporate level, training is carried out under the umbrella of the Nolato Business School, with the aim of creating expertise and success through understanding, commitment and training. The Business School runs customized development and training programs in order to give managers, specialists and other key individuals a good opportunity for growth based on their own and Nolato's capabilities and goals.

Within this framework, we have also provided training for young managers, in order to give employees the opportunity to advance their careers in the Nolato Group.

### Half of employees outside Sweden

In 2003 the average number of employees in the Nolato Group was 2,353 (1.992), an increase of 18 percent compared to the previous year. Most of the increase was attributable to expansion in China, where Nolato Beijing added about 300 employees during the year. At the end of 2003 the Group had 2,479 employees, consisting of 1,563 at Nolato Telecom, 826 at Nolato Industrial and 87 at Nolato Medical. About half of the Group's employees worked outside Sweden.





Susanne Herrlin, Nolato Polymer

### Low rate of absence due to illness

For many years, Nolato has attached great importance to creating good physical working environments. In recent years, there has also been an increasing focus on the psychosocial working environment.

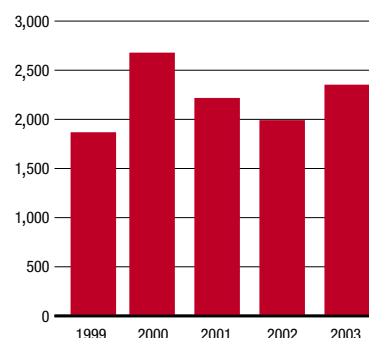
Nolato also has a relatively low rate of absence due to illness. In 2003 the rate averaged 5.3 percent for all Group companies, of which 2.0 percent consisted of long-term absences due to illness. However, there are large variations between Group companies, with a low of 1 percent rate of absence due to illness at Nolato Beijing, China, and a high of 13 percent at Nolato Protec, Hungary. The average for the Group's Swedish companies is 5.7 percent.

### Outplacement help

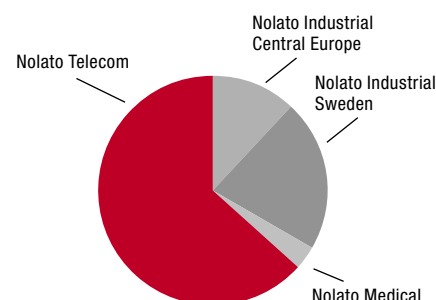
Unfortunately, at some of the Group's companies it has been necessary to issue notices of termination to employees. The biggest personnel reductions during the year took place at Nolato Alpha in Kristianstad, Sweden, which lowered its headcount by more than 70 people. In addition, 146 people received notices of termination in October.

Nolato's ambition is to actively provide as much help as possible to the people who have been terminated. The Company has initiated programs to ease the transition for the individual. These outplacement programs have included mental support, training in job seeking techniques and active efforts to arrange contacts with potential new employers.

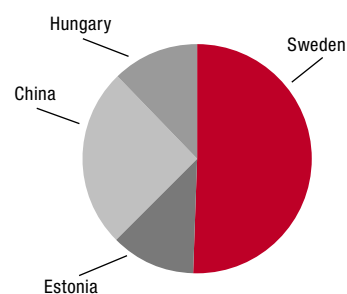
### Average number of employees



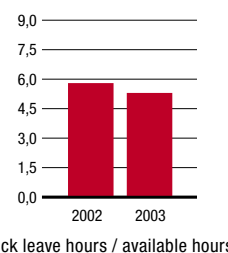
### Employees by business area



### Employees by country



### Absence due to illness



## Environmental certifications

**Nolato Alpha**

ISO 14001 (2000)

**Nolato Beijing**

ISO 14001 (2002)

**Nolato Gota**

ISO 14001 (1998)

**Nolato Lövepac**

ISO 14001 (1996)

**Nolato Medevo**

ISO 14001 (Torekov 1999)

ISO 14001 (Lomma 2004)

**Nolato Plastteknik**

ISO 14001 (1999)

**Nolato Polymer**

ISO 14001 (2000)

**Nolato Protec**

ISO 14001 (to be certified during 2004)

**Nolato Silikonteknik**

ISO 14001 (to be certified during 2004)

**Nolato STG**

ISO 14001 (2000)

**Nolato Sunne**

ISO 14001 (1999)

**Nolato Tallinn**

ISO 14001 (2002)

## Environment

Nolato's operations consist mainly of the manufacture of components made from polymer materials such as plastic, rubber and TPE. They are comparatively clean and cause only limited emissions into the air and water.

The Group's environmental efforts are decentralized. All Group companies have environment management systems that are certified according to ISO 14001 or are expected to be certified during 2004.

Because Nolato is a subcontractor, its operations are mainly determined by the needs of customers. In close collaboration with its customers, Nolato takes the environment into account in connection with product development, materials selection, design and production. One example of this is the transition to recyclable materials, such as TPE, as replacements for non-recyclable rubber materials when this is possible, taking product requirements into account.

Some of the companies in the Group carry out operations that require permits under the provisions of the Swedish Environmental Code. This work consists mainly of the manufacture of components made from polymer materials and is comparatively clean. These companies have environment managers or environment coordinators, charged with ensuring that the environmental goals of the company and the public sector are achieved and that the applicable laws are observed.

The main environmental impact consists of consumption of polymer raw materials for injection moulding and value-adding processes, use of metals during the manufacturing and maintenance of tools, waste products from production, haulage and consumption of water and energy.

When conducting its operations, Nolato takes protective measures and precautions to prevent damage or disruption to human health or the environment. This includes a commitment to continuous improvements and preventive measures in the areas of contamination and resource consumption. Emissions from production facilities are limited, thereby minimizing disturbances and discharges into the surroundings.

In keeping with the requirements of the ISO 14001 international environmental management standard, all employees whose work may cause significant environmental impact receive training regularly. The purpose of this training is to create both expertise in identifying and minimizing environmental impact and an awareness of how production affects the environment.

Nolato companies also make systematic efforts to improve the working environment, with the aim of preventing damage or disruption to employee health.

## Quality

Nolato's quality assurance work focuses on two main objectives: To meet both the explicit and implicit requirements of customers regarding the components and product systems that are manufactured on their behalf, and to create processes and technical solutions that minimize scrapping and defects.

Quality assurance work at Nolato is decentralized and each manufacturing company has its own quality management organization. Measurable quality objectives are posted for each sub-unit and are monitored on a regular basis so that problems can quickly be corrected.

Continuing education and constant im-

provements provide employees with good opportunities to meet quality requirements.

All companies in the Group have well-established quality management systems that are certified either according to ISO 9001 or 9002, or according to QS 9000.

Some companies also have supplementary certifications, such as ISO/TS 16949, an international quality management system that focuses especially on the automotive industry.

Nolato's medical technology production is also certified according to the special requirements that apply to clean rooms and are MDD and FDA registered.



Rickard Bengtsson and Henrik Rosengren, Nolato Medevo

### Quality certifications

**Nolato Alpha**

ISO 9001:2000 (originally in 1999)

**Nolato Beijing**

ISO 9001:2000 (originally in 2002)

**Nolato Gota**

QS 9000 (originally in 2000)

**Nolato Lövepac**

QS 9000:1998 (originally in 1995)

**Nolato Medevo**

ISO 9001:2000 (originally in 1997)

ISO 13485 (originally in 1998)

MDD 93/42/EEC (originally in 1998)

**Nolato Plastteknik**

ISO 9001 (originally in 1993)

QS 9000 (originally in 2001)

**Nolato Polymer**

ISO/TS 16949:2002 (orig. in 2003)

ISO 9001:2000 (originally in 1994)

**Nolato Protec**

ISO 9001:2000 (originally in 1999)

ISO/TS 16949 (originally in 2004)

**Nolato Silikonteknik**

ISO 9001:2000 (originally in 1997)

**Nolato STG**

ISO 9001 (originally in 1994)

**Nolato Sunne**

ISO 9001:2000 (originally in 1996)

QS 9000 (originally in 1998)

ISO/TS 16949:2002 (orig. in 2002)

**Nolato Tallinn**

ISO 9001:2000 (originally in 2001)

## Nolato Telecom

### Nolato Telecom in brief

Nolato Telecom is a leading developer and manufacturer of polymer components and system products for mobile telephones and telecom infrastructure.

Its market is characterized by tight lead times from concept to finished product and the short economic lifespan of each individual product.

Sales in 2003: SEK 1,686 M  
Operating income in 2003: SEK 109 M  
Operating margin in 2003: 6.5 %  
Number of employees: 1,563

Polymer companies:  
Nolato Alpha, Kristianstad, Sweden  
400 employees  
Nolato Beijing, Beijing, China  
625 employees  
Nolato Tallinn, Tallinn, Estonia  
295 employees

Specialized companies:  
Nolato Lövepac, Skånes Fagerhult, Sweden  
65 employees  
Nolato Silikonteknik, Hallsberg, Sweden  
168 employees



Head of business area  
Tommy Johansson

During 2003, Nolato Telecom accounted for 62 percent (51) of Group sales. Operating income rose to SEK 109 M (-5). The business area grew strongly during 2003, with sharply increased sales and a significant improvement in earnings.

### Organization

Nolato Telecom consists of five companies: Three polymer companies that develop, manufacture and assemble systems components for mobile telephones and other parts of the telecom industry, plus two specialized companies. Of the specialized companies, Nolato Lövepac develops and manufactures self-adhesive tapes for the mobile telephone and electronics industry, while Nolato Silikonteknik develops and manufactures EMC/EMI shielding systems for the protection of electronics in mobile telephones and elsewhere.

The business area's organization is based on extensive collaboration among these companies. The main marketing efforts targeted to telecom systems customers occurs at the business area level, while the two specialized companies handle their own marketing efforts aimed at other customer categories. At the business area level, there is also a joint long-term R&D unit and coordination of purchasing operations.

### The market

The global mobile telephone market turned upward again during 2003, having stagnated for a few years. According to available statistics, more than 465 million mobile telephones were sold during 2003, an increase of 15 to 20 percent on the previous year. The general

assessment is that the market will experience double-digit growth during 2004.

The market is characterized by a few global manufacturers, where Nokia is the clearly dominant player with a market share of more than 35 percent. A big step behind, Motorola is number two. Its market share in 2003 was around 14 percent. Samsung has about 10 percent, Siemens more than 8 percent, LG about 5 percent and Sony Ericsson likewise about 5 percent.

A growing trend is that mobile telephone companies, concurrently with their own operations, are outsourcing both development and manufacturing of their mobile handsets to contract manufacturers, which develop telephones based on the purchaser's specification and wishes. Platform thinking is also widespread. Here, different mobile telephones – even from different companies – can have the same technical architecture but completely different designs and functional solutions.

Lead times for developing a new mobile telephone have always been short, but because the trend is toward a sharp increase in the number of new models being introduced in the market, development lead times are being squeezed even more. In just a few years, the number of different models in the world market has grown substantially, in part because telecom operators increasingly insist on marketing their own mobile telephones. Therefore, using the same basic technical platform, a number of different models are being produced, each with its own design, color and labeling. This is why there is a steadily growing need for production flexibility, efficient logistics and customized prod-



ucts. The mobile telephone market will also become more segmented in the future. The big growth markets are China, Brazil, Russia and India. In these countries, the demand is primarily for simple low-end products at low prices. At the same time, mature users are demanding ever higher standards for their telephones, with high resolution color monitors, cameras, specially adapted designs etc.

Ever shorter product life cycles place great demands on the manufacturer's flexibility, among other things leading to increased manual product assembly instead of high-tech automation. The ability of manual assembly plants to ramp up production quickly and adapt production flexibly to the way an individual product is being received in the market is precisely the basic reason for the increasing movement of mobile handset production to countries with lower labor costs. With manual assembly, investment costs are also lower.

Meanwhile, there are still products that the mobile telephone companies want to have manufactured in Europe for various reasons.

Nolato is thus well positioned in the market, with highly efficient production in Sweden as well as in such low-cost countries as China and Estonia.

Customers include the mobile telephone companies Siemens, Sony Ericsson, Motorola and Nokia, as well as contract manufacturers Flextronics, Elcoteq and Solectron. Other customers in this field are Microcell, Filtronic LK, Salcomp and Ericsson.

Right from the early stages of product development, customers choose which suppliers they want to help them develop the products and subsequently manufacture them. To accomplish all this, Nolato maintains broad expertise, including product development, prototype manufacture, project management, mould manufacture, industrialization, injection moulding, painting, decoration and assembly of complete systems.

The main competitors of Nolato in this



Wang Bin, Nolato Beijing

field are the large, global polymer companies Nypro, Perlos and Balda, but also contract manufacturers with their own polymer component manufacturing, such as Flextronics and Foxconn. There are also a number of small and mid-sized local manufacturers, in Europe as well as in Asia.

### Developing globally unique technology

In order to stay on the cutting edge in terms of technological level, and to offer its customers technologies that enhance their competitiveness, Nolato Telecom has an R&D unit

that works exclusively with the development of future technical solutions.

In just a few years, this unit has developed a new, globally unique concept for producing injection moulds. This concept greatly benefits customers through shorter lead times for mould manufacture and greater flexibility when starting up production. It includes an entirely new way of managing tooling projects, as well as new, patented technical solutions. The concept, marketed under the name F1, went into commercial use during 2003 and has been successfully introduced in the new mobile telephone projects of several customers.

Another development project is a new, patented technique for digital decoration of mobile telephone fronts. This technique makes it possible to offer customers hard coating, adapted decorations and labelling, all with lower investments and maximum flexibility.

### Operations, 2003

During 2003, the business area experienced strong growth and a sharp improvement in earnings. The customer base broadened and volume growth was good. More than SEK 400 M of the increased sales can be attributed to customer products with a substantially higher value of purchased components.

A number of mobile telephone projects went into the industrial phase during the year. For example, manufacturing of new models for Siemens and Sony Ericsson began.

We also obtained a number of new mobile telephone projects during the year. They will enter production during 2004.

Operations at Nolato Beijing, China, continued to expand during the year. Through technology transfers from plants in Europe, Nolato can now offer its customers in China the same range of technical solutions as in Europe. Besides injection moulding and assembly, this also includes EMC/EMI shield-

ing systems solutions, self-adhesive tapes, in-mould decorating (IMD), painting and the new F1 tooling concept.

The number of Nolato employees in Beijing doubled from 322 at the beginning of the year to 625 in December. Nolato Beijing is thus Nolato's largest unit in terms of headcount.

At the end of 2003 Nolato decided to invest SEK 20 M for an additional capacity expansion in Beijing. This will mean a further increase in the number of employees. The expansion is being demanded by customers, who are moving more and more of their own production to Beijing and want Nolato to be there with the resources to meet their needs.

Unfortunately, the transfer of production from Europe to Asia meant that production capacity at Nolato Alpha in Kristiansstad, Sweden had to be reduced, among other things by laying off 146 people in October. After the cutbacks, Nolato Alpha will have just under 300 employees.

During the year, Nolato Silikonteknik enjoyed good success with its Trishield proprietary dispensing technology, which provides customers with a number of advantages related to shielding properties and costs, among other things.

New shielding cans, which protect the electronic components in mobile telephones from electromagnetic radiation, were developed and delivered during 2003 to most of the major mobile phone manufacturers, including Nokia, Siemens and Sony Ericsson. Production of shielding systems solutions also started at Nolato Beijing during the year, thanks to transfers of technology.

In addition to the mobile telephone sector, Nolato Telecom develops and delivers components and systems solutions for the infrastructure of the new third generation (3G) mobile networks, for example. The volume of deliveries in this field increased somewhat during the latter part of the year.





## Looking ahead

According to the estimates of research institutes, the global market for mobile phones is expected to increase further during 2004. For instance, at this writing, the Gartner Group is projecting global sales during 2004 amounting to 520 million mobile phones.

To those suppliers “lucky” enough to receive projects involving the manufacture of the market’s most successful mobile telephone models, this sales increase will mean a major opportunity for growth. Thus the opportunities for a supplier to achieve strong growth today are related both to customers and models.

Nolato’s operations in China are expected to continue their growth in terms of sales and capacity. The plant in Beijing is well-positioned, because more and more customers are choosing to establish a presence in the region, thus creating a growing demand. We are planning to bring additional development resources to Nolato Beijing during 2004 so that we can support our customers’ own product development work on location.

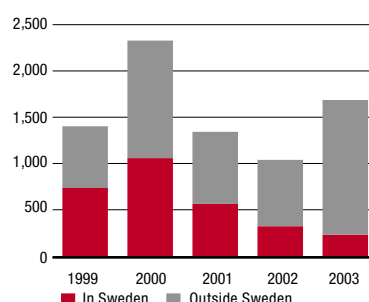
In Europe as well, the trend is toward production in low-cost countries. Here Nolato is well prepared, with the ability to expand production in Estonia and to establish telecom production at Nolato Protec in Hungary.

Meanwhile, the Swedish production unit in Kristianstad, Sweden, Nolato Alpha, will play an important role as supplier to the European mobile telephone customers and as a manufacturer of 3G components for network customers.

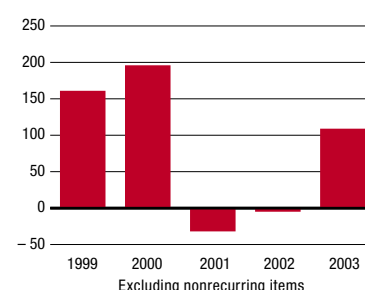
During 2003, customer products with a substantially higher value of purchased components contributed significantly to the sharp growth in sales. The manufacture of these mobile telephone models is of a temporary nature. Therefore, we expect that sales of Nolato Telecom, given its presently known project and product portfolio, will be lower in 2004 than in 2003.

## Nolato Telecom, 1999 – 2003

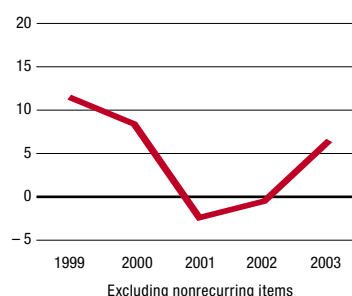
### Net sales



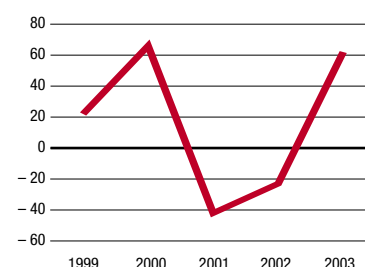
### Operating income



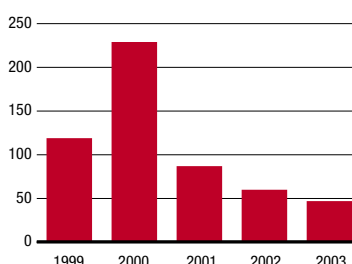
### Operating margin



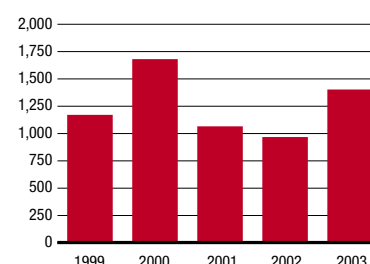
### Growth



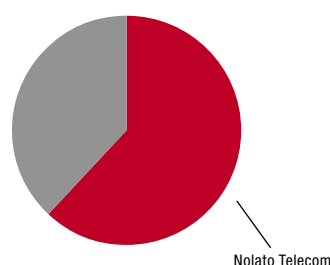
### Investments



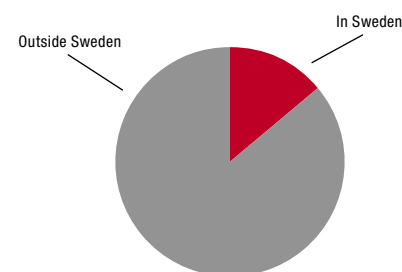
### Average number of employees



### Share of Group net sales



### Sales in/outside Sweden



## Nolato Industrial

### Nolato Industrial in brief

The operations of Nolato Industrial consist of development and manufacturing of components and subsystems made of plastic, rubber and TPE for leading customers in selected industrial segments. The market is characterized by greater fragmentation both in terms of customers and competitors than Nolato's other business areas.

Sales in 2003: SEK 912 M  
Operating income in 2003: SEK 59 M (excl. nonrecurring items)  
Operating margin in 2003: 6.5 %  
Number of employees: 826

Nolato Gota, Götene, Sweden  
120 employees  
Nolato Plastteknik, Göteborg, Sweden  
122 employees  
Nolato Polymer, Torekov/Ängelholm, Sweden  
103 employees  
Nolato Protec, Mosonmagyaróvár, Hungary  
295 employees  
Nolato STG, Lönsboda, Sweden  
47 employees  
Nolato Sunne, Sunne, Sweden  
135 employees



Head of Nolato Industrial Sweden business area  
Georg Brunstam



Head of Nolato Industrial Central Europe business area  
Magnus Nilsson

During 2003, Nolato Industrial accounted for 34 percent (44) of Group sales. Operating income rose to SEK 59 M (53). Under difficult market conditions, Nolato Industrial's businesses in Sweden continued to develop satisfactorily during 2003, with increased sales and stable profitability. Due to lower volume and increased price pressure, Hungarian operations showed negative earnings during 2003 and poorer earnings than in 2002.

The two business areas Industrial Sweden and Nolato Industrial Central Europe are reported as one common profit center, Nolato Industrial. The business areas work with a similar customer structure, which justifies the combination into one profit center. However, the different business conditions in Sweden and Central Europe require optimized operating management and a strong focus on marketing.

### Organization

Nolato Industrial consists of five companies in Sweden and one company in Hungary.

Each company has its own organization for management, marketing, development and production. Purchasing and IT issues are coordinated among the companies.

The organization is characterized by decentralization, with each company responsible for its own marketing to customers, development and production. Coordination of customer projects involving more than one Nolato Industrial company is normally managed by one of the companies involved. A number of the companies collaborate using the marketing name Nolato Automotive when dealing with customers in the vehicle sector. Large

common customers that deal with a majority of the companies, in Sweden as well as in Hungary, are coordinated through a Global Account Manager at the business area level.

### The market in Sweden

Nolato is a market leader in Sweden and a strong player in most market segments.

The Swedish market consists of a large number of companies. They range from small, local companies that wish to produce individual products in small volumes to large, global companies that need numerous high-volume products.

Nolato's main strategy in this market is to maintain long-term collaboration with large, export-oriented customers that have continuous product development and significant production volume. The ambition is to participate right from the early stages in the customers' product development, in order to contribute expertise regarding materials selection and product design, thereby giving customers competitive advantages through more economical production and better quality.

Major customer areas include automotive (interior fittings and engine parts, loudspeakers), household products (vacuum cleaners, refrigerators), gardening/forestry (lawn mowers, power saws), consumer electronics (multimedia projectors, DVD players) and other selected industrial segments.

Through close collaboration among its own companies, Nolato can offer customers broad comprehensive solutions, from concept to finished product. Production covers the whole range from small parts to large, sequentially delivered products made of both

soft and hard polymer materials and is characterized by cost effectiveness and a high degree of automation. This means that Nolato can deliver all polymer parts for a customer product and also be in charge of post-processing and assembly. Through expanded collaboration with Nolato Protec in Hungary and Nolato Tallinn in Estonia, customers are also offered production and flexible assembly in an environment with lower direct labor rates than in Sweden.

Customers include Electrolux, Ericsson, Flextronics, Haldex, Husqvarna, Ifö, Lear, Lindab, MCT Brattberg, Opel, Plastal, Saab Automobile, Sapa, Scania, Swedish Match, TI Automotive, Volvo Car, Volvo Truck and Whirlpool. Competitors of the Swedish companies are a large number of small and mid-sized companies, often in geographic proximity to the customer. It is thus not possible to provide a uniform description of the competitive situation.

### The market in Central Europe

The Central European market is diversified, with a concentration of low-cost production in the eastern parts. Several large companies in fields such as household appliances, vehicles and consumer electronics have chosen to establish operations in Hungary to benefit from lower production costs.

Nolato's specialty is development and injection moulding of components and sub-systems made of plastic, with greater manual assembly content and requiring painting, printing and other post-processing. The business is characterized by advanced expertise and well-developed technical resources. The main customer areas are household appliances (vacuum cleaner shells), consumer electronics (DVD players, multimedia projectors, satellite receivers, cordless telephones), telecommunications (DECT telephones etc.) and vehicles (loudspeakers, engine parts).

The plant in Mosonmagyaróvár is strate-



Johnny Svensson, Nolato Gota

gically located in western Hungary, about 10 km (6 mi) from the Austrian border, along the main highway between Vienna, Austria, and Budapest, Hungary.

Customers include Electrolux, Philips, Bang & Olufsen, FCI, Solectron, Sagem, Elring Klinger and Woco.

Nolato's competitors in Hungary are numerous local plastics companies as well as

a number of global manufacturers that have established production in the region. Notable competitors are General Plastic, Flextronics and Moldin.

### Swedish operations in 2003

The Swedish companies in Nolato Industrial developed favorably during 2003, with both higher sales and earnings.

During the year, the companies intensified their collaboration in the vehicle sector – under the marketing name Nolato Automotive. The vehicle sector reported good growth, with deliveries of various components for the Volvo XC90 and Saab 9-3 as well as development of components and initial deliveries for the new Volvo S40 and V50. Nolato Automotive includes Nolato Sunne, Nolato Polymer, Nolato Plastteknik, Nolato Gota, Nolato Protec and the automotive section at Nolato Lövepac.

The Swedish portion of deliveries to customers in the household appliance sector developed satisfactorily as well. This includes production of refrigerator fittings, vacuum cleaners and sizzler pans for microwave ovens.

Nolato Gota, which manufactures products for customers such as Electrolux, Husqvarna and Volvo, and Nolato Plastteknik, which manufactures products for customers such as Swedish Match, Sanitec, Lear and Plastal, both experienced good growth during 2003. Expansion of capacity in both companies began during the year and will create additional potential for good growth.

Nolato Sunne, with customers such as Volvo Car, Husqvarna, Volvo Truck and TI Automotive, also decided to increase its capacity for automated processing.

Nolato STG, with customers such as Flextronics, Ifö, Electrolux, IKEA and Ericsson, successfully improved its earnings through intensive customer development work and streamlining of operations.

By merging with Nolato Thermoform, Nolato Polymer – which has such customers as Whirlpool, Husqvarna, Lindab and MCT Brattberg – has created a highly efficient unit with manufacturing of both soft and hard polymer products.

### Hungarian operations in 2003

Hungarian operations continued to expe-



Homa Jamshidi, Nolato Plastteknik



rience problems, with stiff competition and depressed market prices. Extensive efforts were made during 2003 to turn around the negative trend and restore profitability.

Capacity utilization at the two Nolato units in Hungary was relatively low. The Group thus decided in August to close Nolato Jász, which primarily manufactured vacuum cleaner components for Electrolux, and move its production to Nolato Protec.

An intensive marketing campaign, primarily in the areas of consumer electronics, household appliances and automotive products resulted in both new customers and new projects for existing customers. New customers include Elring Klinger, FCI, Sagem and SCA Mölnlycke.

A decision was made during the year to expand and modernize the existing painting unit. The new unit, which is more efficient and environmentally friendly, makes it possible to apply two layers of paint on each plastic part. This is required in some of the projects that are moving into the industrial production phase during 2004.

### Looking ahead

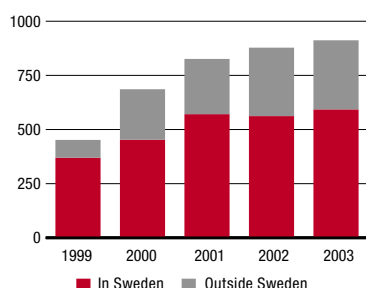
Nolato Industrial is well positioned in the market, is highly automated and has advanced expertise. We foresee good opportunities for continued growth, both organic and through acquisitions.

The concept of offering the customer a complete package, from development work to delivery of finished product, puts Nolato in a very strong market position.

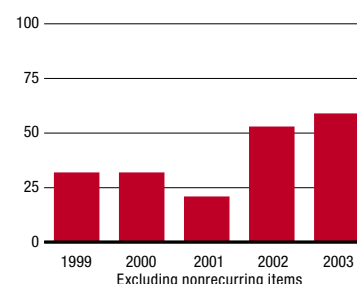
The biggest element of risk to the growth of the Swedish units is the possibility that customers cannot stay competitive by producing in Sweden, but have to move to countries with lower labor costs. However, Nolato Industrial's expertise, efficient organization and modern production facilities create a good basis for positive growth and increased sales during 2004.

## Nolato Industrial, 1999 – 2003

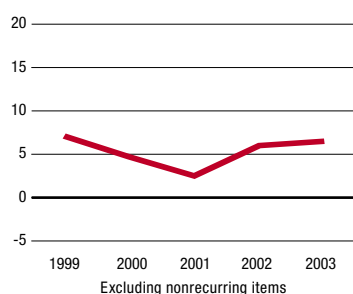
### Net sales



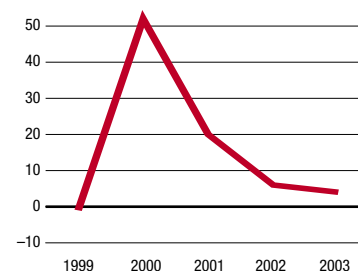
### Operating income



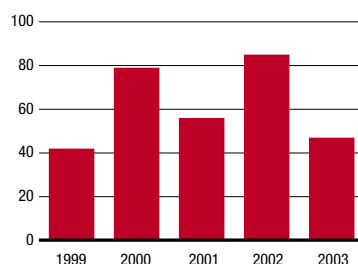
### Operating margin



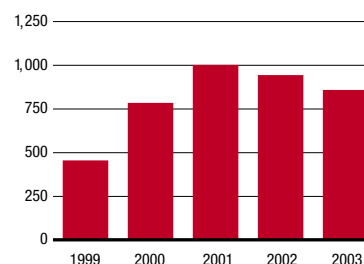
### Growth



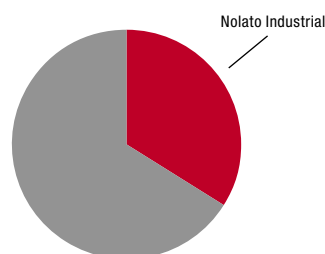
### Investments



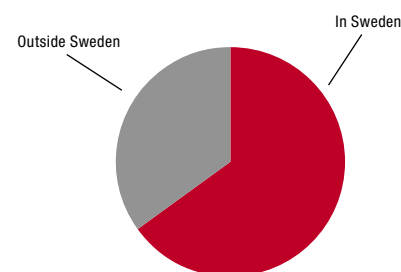
### Average number of employees



### Share of Group net sales



### Sales in/outside Sweden



## Nolato Medical

### Nolato Medical in brief

Nolato Medical develops and manufactures components and subsystems from polymer materials for customers in the fields of medical technology and pharmaceuticals.

The business area is characterized by long project and product life cycles, combined with insensitivity to economic cycles.

Sales in 2003: SEK 102 M  
Operating income in 2003: SEK 16 M  
Operating margin in 2003: 15.7 %  
Number of employees: 87

Nolato Medevo, Torekov/Lomma, Sweden  
87 employees



Head of business area  
Peter Krikström

Nolato Medical accounted for 4 percent (5) of Group sales during 2003. Operating income was SEK 16 M (19).

During 2003, the business area's sales rose by six percent to SEK 102 M (96). Growth slowed during the year because of certain new customer products that were delayed and reported lower volume than expected, and to some extent because of the weaker dollar.

### Organization

Nolato Medical consists of one company, Nolato Medevo, with operations in Torekov and Lomma, Sweden.

### The market

Today Nolato Medical has two product areas: Injection moulding of plastic and silicone products, which account for about 75 percent of sales, and products made by a dipping process using liquid rubber materials.

The market for injection moulding consists of companies that develop, produce and sell pharmaceuticals and medical devices in the Nordic region. Nolato Medical primarily focuses on companies that are leaders in their niches, have great future potential and need advanced polymer products with high manufacturing volume. Geographically, these companies are concentrated in the "Medicon Valley" area of southern Sweden and eastern Denmark. About 60 percent of the Scandinavian pharmaceutical and medical technology industry is located in the area.

The market is characterized by long-term projects with slow processes. An increasingly clear trend is that project lead times are becoming shorter in this field as well. Great-

er cost-consciousness in health care has created cost containment pressure on the manufacturers of pharmaceuticals and medical devices. This means greater price pressure at all levels, while demands for faster product development and more efficient production are increasing. Interest in design and execution is growing, while customers remain strongly focused on technical functionality. These are trends that suit Nolato Medical well. The business unit can take advantage of the experience and know-how available elsewhere in the Nolato Group.

Production for the pharmaceutical and medical technology industries is subject to special requirements, which differ from other customer areas. Some of the products are used inside the human body, which requires very high standards of cleanliness during production. Most of the business area's production thus takes place in "clean rooms" with a specially controlled environment.

Production is also subject to traceability requirements, which means that complete documentation must be kept about each step in the process and the raw materials used during production.

Customers include Ambu, AstraZeneca, Biomet Merck, Coloplast, Intersurgical, NovoNordisk, Pharmacia Diagnostics, Radi Medical Systems and St. Jude. Areas of focus include insulin- and asthma-related products and special surgery.

Competitors in this field include a number of small, local companies that are production oriented as well as global companies with development resources, such as Perlos and Wilden. Some of the customer compa-



nies also have their own production of polymer components.

The market for dipped products includes catheter balloons, which are used for heart surgery. Nolato is an important player in the global market and its products are exported to the U.S. and Asia, among other regions. In this field, Nolato is an advanced component supplier. Some materials development is performed jointly with material suppliers. One result of this is that from 2004 Nolato is delivering casein-free catheter balloons, which strengthens the company's competitiveness.

Customers in this area are leading companies in the field of products related to heart surgery, including Arrow International, Braun Medical and Wilson Cook. Competitors are mainly the in-house production units of catheter manufacturers.

### Operations in 2003

In many ways, 2003 was characterized by consolidation and organizational development after the merger in 2002 of Nolato Medevo in Torekov and Nolato Gejde in Lomma. This work has laid a foundation for a more efficient, competitive medical device business. Marketing to customers was intensive during the year and generated additional outsourcing projects, among other things.

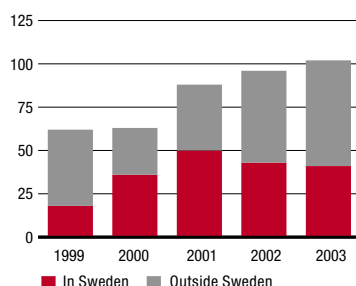
### Looking ahead

There is a trend among the customers of focusing on their core business so they can achieve better resource utilization and lower costs. This is generating good opportunities for Nolato Medical to grow, for example by taking over in house-production from customers. We also foresee long-term growth in the diabetes field. The business area is also ready to participate actively in the ongoing restructuring of the market.

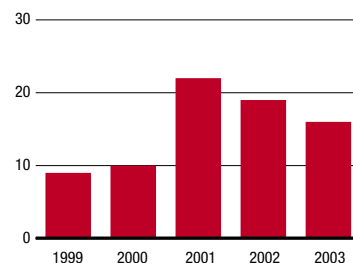
We project that the business area's sales will increase during 2004.

## Nolato Medical, 1999 – 2003

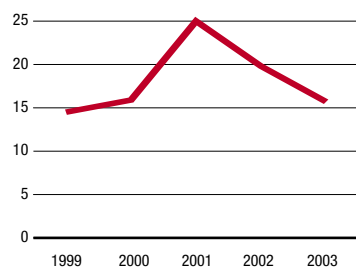
### Net sales



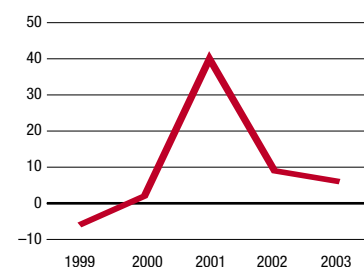
### Operating income



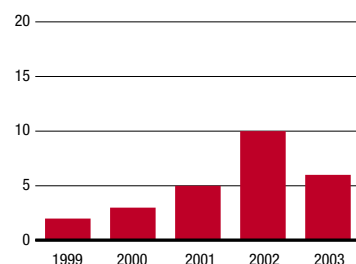
### Operating margin



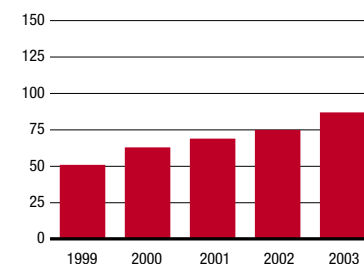
### Growth



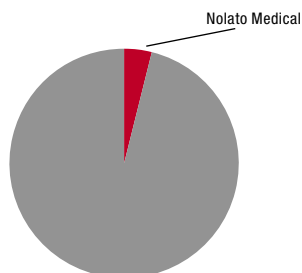
### Investments



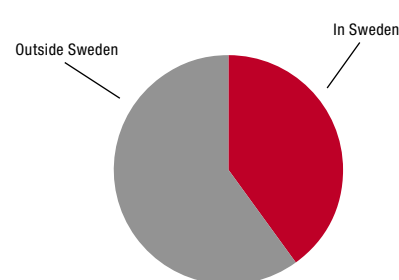
### Average number of employees



### Share of Group net sales



### Sales in/outside Sweden



## Report of the Directors

Nolato AB (publ) 556080-4592

### Operations and structure

Organizationally, the Nolato Group is divided into four customer oriented business areas:

*Nolato Telecom* is a leading developer and manufacturer of components and systems made from polymer materials for mobile telephones and telecom infrastructure.

*Nolato Industrial Sweden* works with the development and manufacture of components and subsystems made from polymer materials for customers in household appliances, automotive components and other selected industrial sectors, primarily in Sweden.

*Nolato Industrial Central Europe* works

with the development and manufacture of products made from polymer materials for customers in Central Europe in fields such as household appliances, automotive components and consumer electronics.

*Nolato Medical* develops and manufactures polymer components and subsystems for customers in the fields of pharmaceuticals and medical devices.

In its external financial information, the Group reports its results in three profit centers: Nolato Telecom, Nolato Industrial and Nolato Medical. Nolato Industrial Sweden and Nolato Industrial Central Europe are reported as one profit center, since these business areas work in similar markets. This prof-

it center is named Industrial. The legal organizational structure includes the Parent Company, Nolato AB (publ) – Swedish corporate identity number 556080-4592, with its registered office in Torekov, Sweden – and its wholly owned subsidiaries in Sweden, Estonia, Hungary and China. The operations of the Parent Company, Nolato AB, include corporate management, consolidated financial reporting, financial management, strategic purchases and IT coordination.

### Important events during 2003

In conjunction with the Annual Meeting on May 5, 2003, the Board of Directors appoint-

### Income statements (SEK M)

	2003	2002	2001	2000	1999
Net sales	2,671	2,011	2,359	3,302	2,145
Cost of goods sold *	- 2,347	- 1,744	- 2,243	- 2,822	- 1,689
Gross income	324	267	116	480	456
Selling expenses	- 46	- 56	- 89	- 105	- 58
Administrative expenses **	- 172	- 156	- 188	- 216	- 181
Other operating expenses ***	- 49	- 13	- 349	- 22	- 5
Operating income	57	42	- 510	137	212
Financial items ****	- 51	- 6	- 54	- 36	14
Income after financial items	6	36	- 564	101	226
Tax on earnings for the year	- 41	24	135	- 49	- 62
Net income	- 35	60	- 429	52	164
Scheduled depreciation/amortization included	156	162	209	215	152

\* In 2003, includes nonrecurring expenses of SEK 52 M due to restructuring of operations in Hungary  
 In 2001, includes nonrecurring expenses of SEK 164 M for writedown of fixed assets and restructuring of operations in the U.S.  
 In 2000, includes net nonrecurring items of SEK -120 M for restructuring of operations and capital gain on fixed assets sold  
 In 1999, includes net nonrecurring items of SEK +2 M for restructuring of operations and capital gain on fixed assets divested

\*\* In 2003, includes nonrecurring expenses of SEK 3 M due to restructuring of operations in Hungary  
 In 2000, includes nonrecurring revenues of SEK +20 M for repayment of surplus pension premiums from SPP

\*\*\* In 2003, includes nonrecurring expenses of SEK 38 M due to writedown of goodwill in Nolato Protec, Hungary  
 In 2001, includes nonrecurring expenses of SEK 323 M due to writedown of goodwill in Nolato Shieldmate, U.S.

\*\*\*\* In 2002, includes capital gain of SEK +31 M from the divestment of Nolato Elastoteknik  
 In 2001, includes capital gain of SEK +3 M  
 In 1999, includes capital gain of SEK +4 M from divestments of operations

ed Georg Brunstam the new President and CEO. Most recently he was President of Trelleborg Engineered Systems, one of four business areas of the Trelleborg Group.

Nolato Telecom's operations in China, Nolato Beijing, continued to develop satisfactorily and expanded sharply. Transfer of technology to China and development of expertise continued successively during the year. Previously approved investments totaling SEK 20 M are underway as planned.

Due to lower volume and increased price pressure, Hungarian operations showed negative earnings during 2003 and poorer earnings than in 2002. To create an efficient and profitable organization, the subsidiary Nolato Jász, which was primarily active in the Household customer segment, was closed during the fourth quarter and its operations were moved to Nolato Protec's factory. The motive for this action was low capacity uti-

lization in both businesses. The consolidation will enable Nolato to utilize capacity and resources more efficiently and to lower costs. Nonrecurring expenses of SEK 55 M for restructuring of Hungarian operations were charged to earnings. Due to negative earnings in Hungary, the entire book value of goodwill related to Hungarian operations was written down. The writedown totaled SEK 38 M.

During the fourth quarter, a personnel reduction was decided upon and was negotiated with employee unions at Nolato Telecom's operations in Kristianstad, Sweden. These layoffs affects 146 people at the company Nolato Alpha.

#### Events after the end of 2003

No events of essential importance have occurred after the balance sheet date.

### Comments on the income statements, balance sheets, cash flow statements and Group financial highlights

#### Income statements, 1999 – 2003

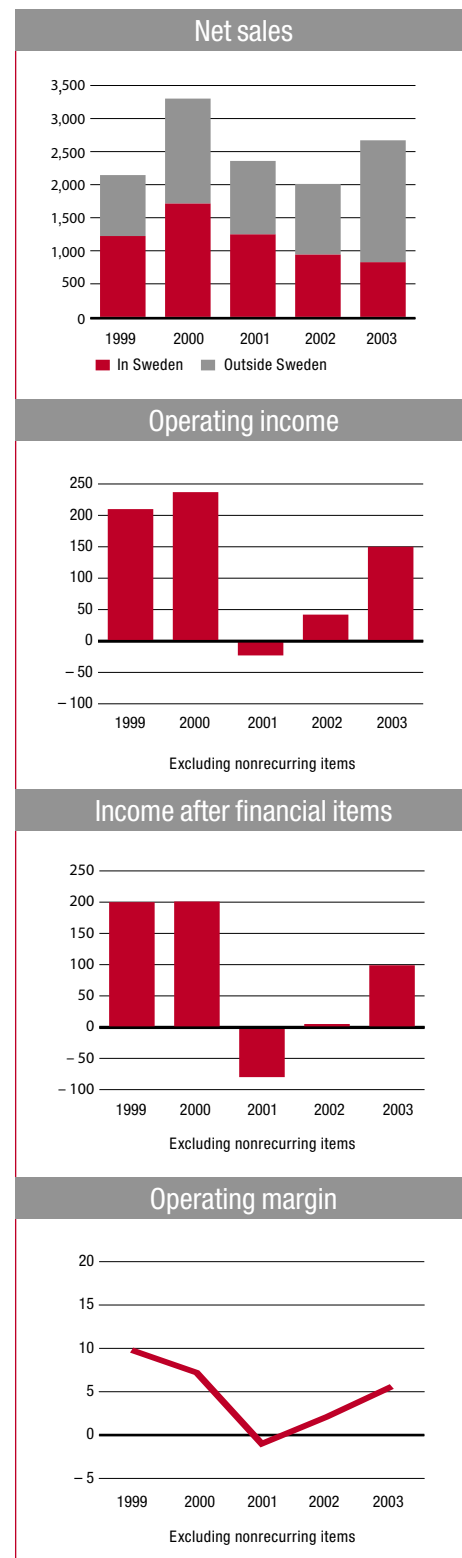
Sales at the beginning of the five-year period were dominated by the sharp increase that took place in the telecom industry in the late 1990s and early 2000s. Because of the acquisition of Ericsson's plastics plant in Kristianstad, Sweden, late in 1996, telecommunications has been a major customer segment for Nolato. This segment grew significantly during 1999 and 2000 and sales rose sharply. During 2000, Nolato acquired operations at Nolato Telecom and Nolato Industrial, which increased the Group's sales by more than SEK 400 M. Organic growth was 33 percent between 1999 and 2000.

During 2001 and 2002, Nolato was hit hard by the slowdown in the telecom industry. Nolato was affected more than the indus-

try as a whole, because important customers both suffered setbacks and moved production to Asia at an accelerating pace. The effect was declining sales during these years and the closure or merger of several operations, primarily in the U.S.

During the five-year period as a whole, sales grew at an average of 7 percent per year. Organic growth accounted for 5 percent and acquired growth for 2 percent.

Naturally, the trend of earnings during the period was dominated by the volume trends at Nolato Telecom described above. The operating margin, excluding nonrecurring items, was 9.8 percent and return on capital employed was 22.6 percent during 1999. During 2001 and 2002, profitability was affected primarily by the decline at Nolato Telecom. Margins and returns fell sharply



during these years. Significant restructuring programs were carried out, primarily during 2002, to reduce expenses to a level more compatible with the lower volume. Lower expenses made possible improved margins at the end of the period. The average operating margin was 4.9 percent during the five-year period.

### Income statement, 2003

#### Net sales:

During 2003, Nolato Group sales rose by 33 percent to SEK 2,671 M (2,011). The increase occurred in all three profit centers:

Nolato Telecom increased its sales by 62 percent to SEK 1,686 M (1,039), thus accounting for 62 percent (51) of total Group sales. It was primarily customer products with a substantially higher value of purchased components that contributed to the sharp increase in sales, but volume also rose strongly.

Nolato Industrial increased its sales by 4 percent to SEK 912 M (878), thus account-

ing for 34 percent (44) of total Group sales. Operations in Sweden increased their sales while sales in Hungary declined.

Nolato Medical increased its sales by 6 percent to SEK 102 M (96), thus accounting for 4 percent (5) of total Group sales.

Of Group sales totaling SEK 2,671 M, sales outside Sweden were SEK 1,810 M (1,066), an increase of SEK 744 M. Sales outside Sweden thus accounted for 68 percent (53) of the total.

#### Operating income

Consolidated operating income rose to SEK 57 M (42) including nonrecurring items and SEK 150 M (42) excluding nonrecurring items, respectively. The operating margin, excluding nonrecurring items, improved to 5.6 percent, compared to 2.1 percent the previous year. Return on capital employed rose to 11.0 percent compared to 4.5 percent the previous year. Nolato Telecom and Nolato Industrial accounted for the improvement in earnings by reporting an increase in operat-

ing income, excluding nonrecurring items, of SEK 114 M and SEK 6 M, respectively, compared to the previous year.

Nolato Telecom earnings improved due to increased volume and capacity utilization and because the restructuring measures that were carried out reduced the cost level.

Nolato Industrial's earnings improved as its businesses in Sweden developed satisfactorily during 2003, with increased sales and stable profitability. Due to lower volume and increased price pressure, Hungarian operations showed negative earnings during 2003 and poorer earnings than in 2002.

High electricity prices in Sweden, especially during early 2003, reduced earnings by about SEK 13 M compared to 2002. Operating income was also adversely affected by SEK -6 M (-2) due to foreign exchange losses.

Nonrecurring expenses of SEK -55 M for restructuring of Hungarian operations and a goodwill writedown in Hungary in the amount of SEK -38 M were charged to earnings in 2003.

### Balance sheets (SEK M)

	2003	2002	2001	2000	1999
Intangible fixed assets	54	102	121	424	22
Tangible fixed assets	690	801	855	1,022	705
Financial fixed assets	4	29	6	27	9
<b>Total fixed assets</b>	<b>748</b>	<b>932</b>	<b>982</b>	<b>1,473</b>	<b>736</b>
Inventories	181	257	160	323	250
Current receivables	588	505	384	690	566
Short-term investments	90	25	—	—	—
Cash and bank balances	228	176	136	77	14
<b>Total current assets</b>	<b>1,087</b>	<b>963</b>	<b>680</b>	<b>1,090</b>	<b>830</b>
<b>Total assets</b>	<b>1,835</b>	<b>1,895</b>	<b>1,662</b>	<b>2,563</b>	<b>1,566</b>
Shareholders' equity	569	624	342	730	734
Provisions	121	94	151	293	139
Long-term liabilities, interest-bearing	434	534	603	788	237
Long-term liabilities, non-interest-bearing	—	—	—	1	1
Current liabilities, interest-bearing	140	118	133	124	13
Current liabilities, non-interest-bearing	571	525	433	627	442
<b>Total shareholders' equity and liabilities</b>	<b>1,835</b>	<b>1,895</b>	<b>1,662</b>	<b>2,563</b>	<b>1,566</b>

### Income after financial items

Income after financial items totaled SEK 6 M (36) including nonrecurring items and SEK 99 M (5) excluding nonrecurring items, respectively. In addition to the nonrecurring items reported above, which are included in operating income, the previous year saw a capital gain of SEK 31 M from the divestment of the subsidiary Nolato Elastoteknik, which was reported in the financial items. Net financial items were SEK -51 M (-6). If the capital gain of SEK 31 M in 2002 were excluded, the financial items that year would have been SEK -37 M. The deterioration in net financial items compared to 2002 consisted of the impact on earnings of currency rate changes totaling SEK -16 M (0). Most of this was related to translation differences in Hungarian operations, caused by a weakening of the Hungarian forint. Excluding the effect of these translation differences, net financial items improved by SEK 2 M.

### Taxes

Tax expenses in 2003 totaled SEK 41 M, compared to a revenue item of SEK 24 M the previous year. The effective tax rate in percent was higher than the Group's normal tax rate, primarily because tax effects from losses and restructuring expenses at the Group's Hungarian subsidiaries were not capitalized as a tax claim, and as an effect of the goodwill writedown in Hungary, which was not deductible for tax purposes.

### Balance sheets, 1999 - 2003

During the five-year period, total assets increased from SEK 1,566 M to SEK 1,835 M. During Nolato Telecom's strong period of expansion, total assets increased further and amounted to SEK 2,563 M by the end of 2000.

On average during the five-year period, more than 40 percent of assets were inven-

tories and current receivables. These items are closely related to the trend of sales. This applies to non-interest-bearing current liabilities as well.

Fixed assets rose sharply in connection with the expansion during 2000, partly in the form of increased tangible fixed assets (mainly production equipment) and partly in the form of increased intangible fixed assets (through goodwill that arose from acquisitions occurring during 2000 in Sweden, the U.S. and Hungary). In connection with the closure of U.S. operations during 2001, production equipment was sold to a great extent, but writedowns occurred as well, thereby reducing tangible fixed assets. Because net investments have been relatively low in recent years and because of writedowns of fixed assets in Hungary during 2003, tangible fixed assets have continued to decrease.

Goodwill from acquisitions in the U.S. and Hungary was written down to zero. This occurred during 2001 in the case of the U.S. acquisition and during 2003 for the Hungarian acquisitions, reducing intangible assets sharply. Remaining intangible assets consist primarily of remaining goodwill from the acquisition of Nolato Gota during 2000, which is being amortized over ten years.

Shareholders' equity declined sharply during 2001, as an effect of the large nonrecurring items that were expensed that year because of the closure of U.S. operations. A new share issue was carried out during 2002, which added a net amount of SEK 246 M to shareholders' equity. In spite of improved operating profitability during 2002 and above all 2003 shareholders' equity did not increase, due to nonrecurring expenses approved in Hungary in 2003.

The equity/assets ratio was affected by the above events and declined from 47 percent in 1999 to a low point of 21 percent in 2001. The new share issue and the return to positive net earnings in 2002 increased the equi-

ty/assets ratio to 33 percent in 2002. It then declined slightly to 31 percent in 2003. The Group's objective is that the equity/assets ratio should not fall below 35 percent.

Most interest-bearing liabilities consist of funding from credit institutions. They rose very sharply in 2000, when all acquisitions and organic growth were funded by borrowed capital. Since 2000, interest-bearing liabilities have declined sharply, by SEK 338 M. The downturn in volume since 2000 also led to a reduced need for working capital. Together with relatively low capital spending during the following period, this led to favorable cash flow, enabling Nolato to make principal payments on its borrowings.

### Balance sheets, 2003

Total assets were SEK 1,835 M (1,895). Fixed assets declined as a result of a writedown of tangible fixed assets in Hungary and a writedown of goodwill related to Hungary. Meanwhile, capital spending was relatively low - less than annual depreciation and amortization.

Assets in the form of inventories and current receivables were generally kept at an unchanged overall level, in spite of the sales increase compared to 2002. The year-end balance sheet was not affected to a great extent, because the closing balance was primarily affected by sales during the fourth quarter. In addition, the backlog of ongoing customer projects declined significantly compared to the previous year.

As a result of sharply positive cash flows, cash holdings increased by a total of SEK 117 M to SEK 318 M (201).

Shareholders' equity declined, in spite of positive operating earnings before nonrecurring items. The reason is that nonrecurring items in the form of the restructuring in Hungary and writedown of goodwill were charged to shareholders' equity. In addition,



the effective tax rate was high in relation to income before taxes. Interest-bearing liabilities declined as a result of loan principal repayments during the year.

### Cash flow statements, 1999 – 2003

Cash flow before changes in working capital After the downturn in profitability that occurred in 2001, cash flow from operations improved gradually as profitability improved.

#### Changes in working capital

Working capital, measured as current assets (excluding cash items) less current non-interest-bearing liabilities, averaged 10 percent of sales during the five-year period.

Significant factors that affect this working capital are, of course, the credit periods that Nolato offers its customers and the credit periods that Nolato receives from its suppliers.

The general trend toward longer credit periods during 1999 – 2003 applied to Nolato as well, but was offset by Nolato receiving longer credit periods from suppliers.

An analysis of working capital at the end of each year, as a percentage of annual sales, shows the powerful effect of the pace of sales late in the year. High sales during the last quarter, compared to other quarters during the same year, normally cause high levels of

accounts receivable and vice versa in case of relatively low sales during the last quarter.

#### Investments

During 2000, the Group acquired Nolato Shieldmate in the U.S., operations in Hungary and Nolato Gota in Sweden. Together with capital spending for growth in telecommunications, the investment level that year was thus very high. During subsequent years (2001 – 2003) the investment level was relatively low, and in all these years it was below the annual level of depreciation and amortization. The reason for the relatively low investment levels was that it proved possible to transfer equipment from operations that had closed – mainly in the U.S. – to other, expanding companies in the Group, mainly in China. The main expansion in the Group during 2001 – 2003 occurred in China, where expansion is normally less investment-intensive because production is less automated compared to corresponding expansion in Europe. During 2001 – 2003, no new acquisitions were made by the Group.

#### Funding

The strong expansion and acquisitions that occurred during 2000 required funding that could not be supplied internally from regular operations. This funding occurred in its entirety using borrowed capital. The Group then paid off this external funding during the

years 2001 – 2003. It carried out a new share issue during 2002, which gave the Group an additional net amount of SEK 246 M in liquidity from the shareholders.

#### Dividend

The dividend for 1999 amounted to SEK 2.20 per share, which was 25 percent of earnings per share. No dividend was paid to the shareholders for the period 2000 – 2001, as a result of weak profitability during these years. The dividend resumed with SEK 0.50 per share for 2002, which represented 20 percent of earnings per share. The Board of Directors is proposing a dividend of SEK 0.80 per share for 2003.

### Cash flow statements, 2003

#### Cash flow from operations

Cash flow before investments amounted to SEK 323 M (20). Improved profitability combined with a smaller need for working capital led to sharply improved cash flow.

#### Investments

Cash flow after investments was SEK 228 M (–98 excluding the effect of company divestments, –37 including this effect). Total gross investments in fixed assets were SEK 99 M, (150 including financial leases of SEK 31 M). Net investments amounted to SEK 95 M. In 2002, net investments were SEK 149 M

### Cash flow statements (SEK M)

	2003	2002	2001	2000	1999
<b>Cash flow before changes in working capital</b>	<b>260</b>	166	61	371	297
Changes in working capital	63	–146	297	–40	–158
<b>Cash flow from operations</b>	<b>323</b>	20	358	331	139
Investment activities	–95	–57	–66	–735	–145
<b>Cash flow after investments</b>	<b>228</b>	–37	292	–404	–6
Financing activities	–111	102	–233	466	3
Other changes	—	—	—	1	—
Increase in liquid funds	117	65	59	63	–3
Liquid funds on January 1	201	136	77	14	17
<b>Liquid funds on December 31</b>	<b>318</b>	201	136	77	14

including financial leases, while divestments of companies added SEK 61 M. Net investment activities were SEK -57 M in 2002 when financial leases are excluded from the cash flow statement.

Investments consisted of the following:

SEK M	2003	2002
Capitalized expenditures	4	12
Buildings and land	—	39
Machinery and equipment	81	80
Construction in progress	14	19
<b>Total investments</b>	<b>99</b>	<b>150</b>

### Funding

Interest-bearing assets totaled SEK 318 M (201) and interest-bearing liabilities SEK 625 M (701). Net liabilities thus shrank by SEK 193 M to SEK 307 M (500). Shareholders' equity was SEK 569 M (624). The equity/assets ratio was 31 percent (33).

Credits from financial institutions, banks and pension funds:

SEK M	2003	2002
Loans with floating interest rates	307	385
Loans with fixed interest rates	267	267
Provisions for pensions	51	49
<b>Total interest-bearing liabilities</b>	<b>625</b>	<b>701</b>
Unutilized lines of credit	176	45
<b>Total credit available</b>	<b>801</b>	<b>746</b>

### Personnel

The average number of employees was 2,353 compared to 1,992 during 2002. Most of the increase was attributable to Nolato's expansion in China.

### Product development costs

Group expenditures for development work were SEK 247 M (312), of which SEK 4 M (12) was capitalized. This included development of tools, materials, designs and technology.

Costs consisted almost entirely of development expenses in conjunction with project and product development undertaken in partnership with Group customers.

### Environmental information

Some of the Group's companies carry out operations that require permits under the provisions of the Swedish Environmental Code. These operations consist mainly of the manufacture of components made of polymer materials. They are comparatively clean and cause only limited emissions into the air and water. Group environmental efforts have been delegated to the respective subsidiaries. Most Group companies have environment management systems that are certified according to the ISO 14001 standard, and Nolato's goal is that all its companies should obtain such certification during 2004.

### Future prospects

At Nolato Telecom, customer products with a substantially higher value of purchased components contributed greatly to strong sales growth during 2003. However, the manufacture of these mobile telephone models is of a temporary nature. The effect of this increase in sales of purchased components was estimated at more than SEK 400 M during 2003.

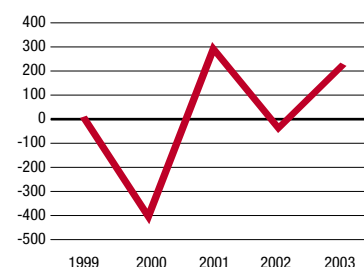
For this reason, Nolato is repeating that the sales of Nolato Telecom, with its known project and product portfolio, will be lower during 2004 than in 2003. Sales of other profit centers are expected to increase during 2004.

### Transition to IFRS in 2005

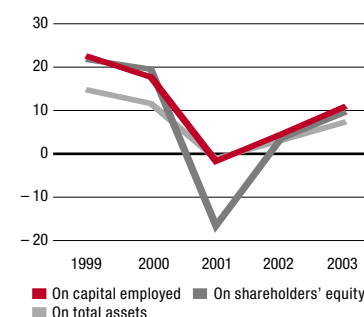
#### Steps being taken due to the transition to IFRS

During 2002 and 2003 a project was conducted by the Group's accounting department and in certain cases the accounting departments of subsidiaries, to study

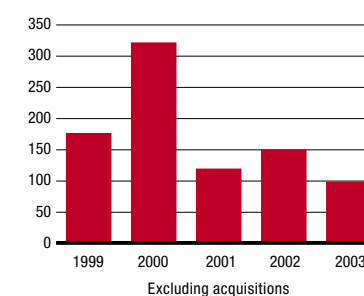
### Cash flow after investments



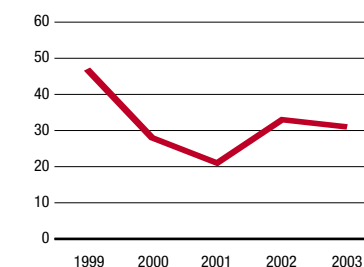
### Return



### Investments



### Equity/assets ratio



the effects of the transition to International Financial Reporting Standards (IFRS). The project was divided into subprojects, dealing with different aspects of financial reporting. In most cases, external accounting expertise was retained to participate in the projects. The purpose of the subprojects was to determine what changes in the Group's accounting principles will be needed and what effects they would lead to. The projects were also asked to assess what changes in procedures, accounting and reporting systems, etc. would result from new accounting principles. Most of these subprojects have been concluded, but some are still underway.

**Significant differences between Nolato's existing accounting principles and the IFRS principles to be applied from 2005 onward**

Not all IFRS principles are known as this Annual Report is being published. Nor is Nolato entirely finished working on its project for adapting to IFRS; see the text above. Statements about the effects of forthcoming IFRS principles on Nolato are therefore based on the assessments the Company has been able to make by the publication date of this Annual Report. In recent years, Swedish

accounting principles have been influenced by international financial reporting standards and have fully or partially adopted the International Accounting Standards (IAS) on an ongoing basis. As a publicly listed company, Nolato has been obliged to adopt these continuing changes in accounting recommendations etc., in compliance with its listing agreement with Stockholmsbörsen.

Related to its earnings and financial position on December 31, 2003, Nolato's current assessment is that the new IFRS principles will affect it in the following areas.

IAS39 ("Financial Instruments: Recognition and Measurement") in its current form will affect the Company. As discussed under the heading "Risk management" on page 43 of this Annual Report, to a significant extent, Nolato uses various types of derivative instruments to manage risks in the form of currency and interest exposure. Nolato's current assessment is that it will continue to manage these risks via derivative instruments, but the Company is also of the opinion that it will qualify for hedge accounting for most such instruments. On the balance sheet date, the market value of the Group's derivative instruments was SEK 3.24 M. Based on the current wording

of IAS 39, this means that the balance sheet would be affected because the net amount of these instruments should be reported as a liability item of SEK 4 M, since their market value was less than the reported value. However, because of the assessment that hedge accounting is allowed for significant instruments, no significant changes would occur in the income statement. Because the market value deviated by SEK -4 M, shareholders' equity would have to be adjusted by SEK -4 M on the balance sheet date.

IAS19 ("Employee Benefits") will affect the Company. An estimate was made of pension obligations on December 31 in compliance with IAS. The effect would be no change compared to the accounting principle now used. Regarding the pensions provided by the Swedish retirement insurance company Alec-ta, which are available to Nolato employees to a significant extent, no estimates are presently available from Alec-ta and thus the impact of IAS cannot be quantified at present.

In Nolato's judgment, other currently known IFRS principles in their existing wording will not result in any significant changes to the Group's earnings or financial position as reported in the 2003 financial statements.

## Definitions

**Equity/assets ratio**

Shareholders' equity as a percentage of total assets in the balance sheet.

**Percentage of risk-bearing capital**

Shareholders' equity, plus deferred tax liabilities, as a percentage of total assets in the balance sheet.

**Liquidity**

Total current assets divided by total current liabilities.

**Debt/equity ratio**

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

**Return on total assets**

Income after financial items plus financial expenses as a percentage of average total assets in the balance sheet.

**Return on capital employed**

Income after financial items plus financial expenses as a percentage of average capital employed. Capital employed consists of total assets less non-interest-bearing liabilities and provisions.

**Return on operating capital**

Operating income as a percentage of average operating capital. Operating capital consists of total assets less non-interest-bearing liabilities and provisions, less interest-bearing assets.

**Return on shareholders' equity**

Net income as a percentage of average shareholders' equity.

**Operating margin**

Operating income as a percentage of sales.

**Profit margin**

Income after financial items as a percentage of sales.

**Interest coverage ratio**

Income after financial items plus financial expenses divided by financial expenses.

## Group financial highlights

		2003	2002	2001	2000	1999
<b>Sales and earnings</b>						
Sales	SEK M	2,671	2,011	2,359	3,302	2,145
Sales growth	%	33	-15	-29	54	14
Percentage outside Sweden	%	68	53	47	48	43
Operating income, including nonrecurring items	SEK M	57	42	-510	137	236
Operating income, excluding nonrecurring items	SEK M	150	42	-23	237	210
Financial items	SEK M	-51	-6	-54	-36	-10
Income after financial items, including nonrecurring items	SEK M	6	36	-564	101	226
Income after financial items, excluding nonrecurring items	SEK M	99	5	-80	201	200
Net income for the year	SEK M	-35	60	-429	52	164
Nonrecurring items *	SEK M	-93	43	-484	-100	26
<b>Financial position</b>						
Total assets	SEK M	1,835	1,895	1,662	2,563	1,566
Shareholders' equity	SEK M	569	624	342	730	734
Interest-bearing assets	SEK M	318	201	136	77	14
Interest-bearing liabilities and provisions	SEK M	625	701	778	950	282
Net liabilities	SEK M	307	500	642	873	268
Equity/assets ratio	%	31	33	21	28	47
Percentage of risk-bearing capital	%	32	33	21	33	53
Liquidity	%	153	150	120	145	182
Debt/equity ratio	Times	1.1	1.1	2.3	1.3	0.4
<b>Cash flow</b>						
Cash flow from operations	SEK M	323	20	358	331	139
Investment activities	SEK M	-95	-57	-66	-735	-145
Cash flow before financing activities	SEK M	228	-37	292	-404	-6
<b>Profitability **</b>						
Return on total assets before tax	%	7.4	3.1	-1.1	11.6	14.8
Return on capital employed before tax	%	11.0	4.5	-1.7	17.7	22.6
Return on operating capital before tax	%	15.0	4.0	-1.8	18.2	22.9
Return on shareholders' equity after tax	%	9.7	3.5	-16.6	19.5	21.8
Operating margin	%	5.6	2.1	-1.0	7.2	9.8
Profit margin	%	3.7	0.2	-3.4	6.1	9.3
Interest coverage ratio	Times	4	1	0	6	20
<b>Personnel</b>						
Number of employees		2,353	1,992	2,218	2,679	1,869
Sales per employee	SEK K	1,135	1,010	1,064	1,233	1,148
Income after financial items per employee **	SEK K	42	3	-36	75	107

\* During 2003, nonrecurring items consisted of restructuring expenses for operations in Hungary in the amount of SEK 55 M and a writedown of goodwill for Nolato Protec, Hungary in the amount of SEK 38 M.

During 2002, nonrecurring items referred to a capital gain of SEK 31 M due to the sale of Nolato Elastoteknik and tax effects of SEK 12 M due to the closure of operations in the U.S.

During 2001, nonrecurring items consisted of restructuring expenses involving the then-Telecom business area in the amount of SEK 487 M as well as a capital gain of SEK 3 M.

During 2000, nonrecurring items consisted of restructuring expenses for operations in the amount of SEK -131 M, capital gains on fixed assets divested in the amount of SEK +11 M, and a repayment of surplus pension premiums from SPP totaling SEK +20 M.

During 1999, nonrecurring items consisted of a capital gain of SEK 24 M from divestments of operations, restructuring expenses of SEK 8 M and a capital gain of SEK 10 M on divestments of fixed assets

\*\* Calculated excluding nonrecurring items.

## Income statements

(SEK M)		Group		Parent Company	
Note		2003	2002	2003	2002
1	Net sales	2,671	2,011	36	46
2	Cost of goods sold	-2,347	-1,744	—	—
	<b>Gross income</b>	<b>324</b>	<b>267</b>	<b>36</b>	<b>46</b>
	Selling expenses	-46	-56	-12	-18
4	Administrative expenses	-172	-156	-57	-46
5	Other operating expenses	-49	-13	—	—
		<b>-267</b>	<b>-225</b>	<b>-69</b>	<b>-64</b>
3, 7	<b>Operating income</b>	<b>57</b>	<b>42</b>	<b>-33</b>	<b>-18</b>
	Income from financial investments				
8	Income from shares in Group companies	—	31	-90	38
	Writedown of receivables from Group companies	—	—	—	-11
9	Other interest income and similar income items	5	13	18	18
7, 10	Interest expenses and similar expense items	-56	-50	-36	-52
		<b>-51</b>	<b>-6</b>	<b>-108</b>	<b>-7</b>
	<b>Income after financial items</b>	<b>6</b>	<b>36</b>	<b>-141</b>	<b>-25</b>
11	Tax on earnings for the year	-41	24	14	35
	<b>Net income for the year</b>	<b>-35</b>	<b>60</b>	<b>-127</b>	<b>10</b>
6	Scheduled depreciation/amortization included	156	162	—	1
13	Earnings per share after full tax, including nonrecurring items (SEK)	-1.35	2.45		
13	Earnings per share after full tax, excluding nonrecurring items (SEK)	2.20	0.70		
19	Number of shares on December 31 (thousands)	26,307	26,307		
13	Average number of shares (thousands)	26,307	24,466		



## Quarterly data

(SEK M)

### Consolidated income statement

	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales *	638	659	681	693	457	503	462	589
Operating expenses * **	-605	-619	-698	-692	-441	-503	-464	-561
<b>Operating income</b>	<b>33</b>	<b>40</b>	<b>-17</b>	<b>1</b>	<b>16</b>	<b>0</b>	<b>-2</b>	<b>28</b>
Financial items ***	-15	-16	-9	-11	17	-9	-9	-5
<b>Income after financial items</b>	<b>18</b>	<b>24</b>	<b>-26</b>	<b>-10</b>	<b>33</b>	<b>-9</b>	<b>-11</b>	<b>23</b>
Tax	-8	-9	-11	-13	8	12	-1	5
<b>Net income for the period</b>	<b>10</b>	<b>15</b>	<b>-37</b>	<b>-23</b>	<b>41</b>	<b>3</b>	<b>-12</b>	<b>28</b>

### Net sales by profit center

	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nolato Telecom	375	402	459	450	221	260	225	333
Nolato Industrial	244	238	200	230	216	213	216	233
Nolato Medical	24	27	22	29	25	27	21	23
Intra-Group adjustments, Parent Company	-5	-8	0	-16	-5	3	0	0
<b>Group total</b>	<b>638</b>	<b>659</b>	<b>681</b>	<b>693</b>	<b>457</b>	<b>503</b>	<b>462</b>	<b>589</b>

### Operating income by profit center

	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nolato Telecom	22	29	27	31	1	-7	-19	20
Nolato Industrial **	13	17	-38	-26	15	9	18	11
Nolato Medical	4	6	3	3	4	6	4	5
Intra-Group adjustments, Parent Company	-6	-12	-9	-7	-4	-8	-5	-8
<b>Group total</b>	<b>33</b>	<b>40</b>	<b>-17</b>	<b>1</b>	<b>16</b>	<b>0</b>	<b>-2</b>	<b>28</b>

\* Historical comparative figures for 2002 have been adjusted based on Swedish Financial Accounting Standards Council recommendation RR11.

\*\* In Q 3, 2003, includes nonrecurring expenses of SEK 55 M for restructuring of operations in Hungary and in Q 3, 2003 nonrecurring expenses of SEK 38 M for writedown of goodwill in Nolato Protec, Hungary.

\*\*\* In Q1, 2002 includes a capital gain of SEK 31 M from the divestment of Nolato Elastoteknik.

## Balance sheets

(SEK M)			Group		Parent Company
Note		2003	2002	2003	2002
Assets					
Fixed assets					
14	Intangible fixed assets				
	Capitalized expenditures	14	13	—	—
	Goodwill	40	89	—	—
		54	102	—	—
15,16	Tangible fixed assets				
	Buildings and land	280	338	—	—
	Machinery and other technical facilities	371	416	—	—
	Equipment, tools, fixtures and fittings	24	27	1	2
	Construction in progress and advances on tangible fixed assets	15	20	—	—
		690	801	1	2
	Financial fixed assets				
17,18	Holdings in Group companies	—	—	308	377
	Receivables from Group companies	—	—	390	433
11	Deferred tax claims	4	29	64	99
		4	29	762	909
	Total fixed assets	748	932	763	911
Current assets					
	Inventories etc.				
	Raw materials and supplies	103	102	—	—
	Products being manufactured	25	27	—	—
	Finished goods and goods for resale	51	53	—	—
	Work in progress on subcontract	—	73	—	—
	Advances to suppliers	2	2	—	—
		181	257	—	—
	Current receivables				
	Accounts receivable	505	444	—	—
	Receivables from Group companies	—	—	59	39
	Other receivables	58	43	1	14
	Prepayments and accrued income	25	18	2	2
		588	505	62	55
	Short-term investments	90	25	90	25
	Cash and bank balances	228	176	137	165
	Total current assets	1,087	963	289	245
	Total assets	1,835	1,895	1,052	1,156

(SEK M)		Group		Parent Company	
Note		2003	2002	2003	2002
<b>Shareholders' equity and liabilities</b>					
19	<b>Shareholders' equity</b>				
	Restricted equity				
	Share capital (26,307,408 shares with a par value of SEK 5 each)	132	132	132	132
	Share premium reserve	208	208	208	208
	Revaluation reserve	66	68	—	—
	Restricted reserves/statutory reserve	9	18	19	19
		415	426	359	359
	Unrestricted equity				
	Unrestricted reserves/retained earnings	189	138	284	160
	Net income for the year	-35	60	-127	10
		154	198	157	170
	<b>Total shareholders' equity</b>	<b>569</b>	<b>624</b>	<b>516</b>	<b>529</b>
	<b>Provisions</b>				
21	Provisions for pensions	51	49	—	—
11	Deferred tax liability	14	—	—	—
20	Other provisions	56	45	—	—
		121	94	—	—
	<b>Long-term liabilities</b>				
22	Convertible loan	—	52	—	60
21	Liabilities to credit institutions	434	482	350	376
	Liabilities to Group companies	—	—	44	64
		434	534	394	500
	<b>Current liabilities</b>				
21	Liabilities to credit institutions	122	118	80	80
21	Bank overdraft liability	18	—	—	—
	Advances from customers	8	5	—	—
	Accounts payable	356	350	1	1
	Liabilities to Group companies	—	—	23	29
	Tax liabilities	2	1	—	—
	Other current liabilities	39	33	1	1
23	Accrued expenses and prepayments	166	136	37	16
		711	643	142	127
	<b>Total shareholders' equity and liabilities</b>	<b>1,835</b>	<b>1,895</b>	<b>1,052</b>	<b>1,156</b>
24	<b>Collateral pledged</b>	<b>212</b>	<b>195</b>	<b>—</b>	<b>—</b>
25	<b>Contingent liabilities</b>	<b>6</b>	<b>2</b>	<b>160</b>	<b>149</b>

## Changes in consolidated shareholders' equity

(SEK M)	Share capital	Share premium reserve	Revaluation reserve	Restricted reserves	Unrestricted equity	Total share equity
<b>Shareholders' equity on December 31, 2001</b>	<b>94</b>	<b>—</b>	<b>70</b>	<b>99</b>	<b>79</b>	<b>342</b>
Effect of change in accounting principle	—	—	—	—	-16	-16
<b>Adjusted balance on January 1, 2002</b>	<b>94</b>	<b>—</b>	<b>70</b>	<b>99</b>	<b>63</b>	<b>326</b>
Share issue expenditures	—	-17	—	—	—	-17
Translation differences	—	—	—	—	-2	-2
Total changes in shareholders' equity not reported in the income statement	—	-17	—	—	-2	-19
Transfers between unrestricted and restricted equity	—	—	-2	-81	83	—
New share issue	38	225	—	—	—	263
Other changes	—	—	—	—	-6	-6
Net income for the year	—	—	—	—	60	60
<b>Shareholders' equity on December 31, 2002</b>	<b>132</b>	<b>208</b>	<b>68</b>	<b>18</b>	<b>198</b>	<b>624</b>
Translation differences	—	—	—	—	-11	-11
Total changes in shareholders' equity not reported in the income statement	—	—	—	—	-11	-11
Transfers between unrestricted and restricted equity	—	—	-2	-9	11	—
Dividend to shareholders	—	—	—	—	-13	-13
Other changes	—	—	—	—	4	4
Net income for the year	—	—	—	—	-35	-35
<b>Shareholders' equity on December 31, 2003</b>	<b>132</b>	<b>208</b>	<b>66</b>	<b>9</b>	<b>154</b>	<b>569</b>
<b>Accumulated translation differences</b>						
Amount on January 1	-16					
Adjustment for closed operations	11					
Changes in accumulated translation differences during the period	-11					
Amount on December 31	-16					

## Changes in Parent Company shareholders' equity

(SEK M)	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total share-holders' equity
<b>Shareholders' equity on December 31, 2001</b>	<b>94</b>	<b>—</b>	<b>19</b>	<b>64</b>	<b>177</b>
Effect of change in accounting principle	—	—	—	-9	-9
<b>Adjusted balance on January 1, 2002</b>	<b>94</b>	<b>—</b>	<b>19</b>	<b>55</b>	<b>168</b>
Share issue expenditures	—	-17	—	—	-17
Total changes in shareholders' equity not reported in the income statement	—	-17	—	—	-17
New share issue	38	225	—	—	263
Group contributions after tax	—	—	—	105	105
Net income for the year	—	—	—	10	10
<b>Shareholders' equity on December 31, 2002</b>	<b>132</b>	<b>208</b>	<b>19</b>	<b>170</b>	<b>529</b>
Dividend to shareholders	—	—	—	-13	-13
Group contributions after tax	—	—	—	127	127
Net income for the year	—	—	—	-127	-127
<b>Shareholders' equity on December 31, 2003</b>	<b>132</b>	<b>208</b>	<b>19</b>	<b>157</b>	<b>516</b>

## Cash flow statements

(SEK M)	Group		Parent Company	
Note	2003	2002	2003	2002
<b>Operations</b>				
Operating income	95	42	-33	-18
Adjustments for items not included in cash flow				
Depreciation/amortization	156	162	—	1
Writedowns and provisions	59	12	—	—
Translation differences etc.	-14	—	-8	-9
	<b>296</b>	<b>216</b>	<b>-41</b>	<b>-26</b>
Dividends from subsidiaries	—	—	90	6
Interest received	5	9	18	18
Interest paid	-41	-54	-31	-55
Income tax paid	—	-5	—	—
<b>Cash flow from operations before changes in working capital</b>	<b>260</b>	<b>166</b>	<b>36</b>	<b>-57</b>
<b>Changes in working capital</b>				
Changes in inventories	77	-107	—	—
Changes in accounts receivable	-62	-142	—	—
Changes in accounts payable	32	106	—	—
Other changes in working capital	16	-3	-12	3
<b>Other changes in working capital</b>	<b>323</b>	<b>20</b>	<b>24</b>	<b>-54</b>
<b>Investment activities</b>				
Acquisitions of intangible fixed assets	-4	-12	—	—
Acquisitions of tangible fixed assets *	-95	-107	—	—
Acquisitions of financial fixed assets	—	—	-89	-31
Government grants received	4	—	—	—
Divestments of tangible fixed assets	—	1	2	—
26 Divestments of financial fixed assets **	—	61	—	61
<b>Cash flow from investment activities</b>	<b>-95</b>	<b>-57</b>	<b>-87</b>	<b>30</b>
<b>Cash flow before financing activities</b>	<b>228</b>	<b>-37</b>	<b>-63</b>	<b>-24</b>
<b>Financing activities</b>				
Borrowings	27	34	—	—
Payments of loan principal	-92	-149	-86	-133
Changes in other long-term liabilities and provisions	-33	-41	—	—
Change in receivables from Group companies	—	—	53	-140
Changes in financial fixed assets	—	12	—	—
New share issue	—	246	—	246
Dividends paid	-13	—	-13	—
Net Group contributions	—	—	146	182
<b>Cash flow from financing activities</b>	<b>-111</b>	<b>102</b>	<b>100</b>	<b>155</b>
<b>Increase in liquid funds</b>	<b>117</b>	<b>65</b>	<b>37</b>	<b>131</b>
<b>Liquid funds on January 1</b>	<b>201</b>	<b>136</b>	<b>190</b>	<b>59</b>
Exchange rate differences in liquid funds	—	—	—	—
<b>Liquid funds on December 31</b>	<b>318</b>	<b>201</b>	<b>227</b>	<b>190</b>

\* In addition to acquiring tangible fixed assets of SEK 119 M in 2002, Nolato signed a financial lease with a value of SEK 31 M. This amount is not included in the cash flow statement.

\*\* Of payments received in 2002 for divestments of financial fixed assets, totaling SEK 61 M, SEK 8 M was related to Nolato Sunnex Equipment and SEK 53 M to Nolato Elastoteknik.



# Accounting and valuation principles

Accounting and valuation principles used by the Group comply with the Swedish Annual Accounts Act as well as with recommendations and statements issued by the Swedish Financial Accounting Standards Council. All sums are presented in SEK M (millions of Swedish kronor) unless otherwise specified.

During 2003, Nolato has adapted its financial statements to the Swedish Financial Accounting Standards Council recommendations RR 11 and RR 25. The effects of these changes in accounting principles are described below. Other recommendations that have gone into effect during the year have not involved any change in the accounting principles used and thus have not affected the Group's earnings and financial position.

## Consolidated accounts

The consolidated financial statements include the Parent Company Nolato AB (publ) and those subsidiaries in which the Parent Company directly or indirectly holds more than 50 percent of the votes or otherwise has a dominant influence. Acquired and divested companies are included in the Group's income statement during the period they are held.

The consolidated financial statements have been drawn up in compliance with the recommendation of the Swedish Financial Accounting Standards Council (RR1:00) regarding consolidated financial statements and by applying the purchase method of accounting. This means that assets and liabilities of acquired companies are valued at market values. The difference between the acquisition value of shares and the market value of assets and liabilities is reported as goodwill in the consolidated accounts. Goodwill is amortized on the basis of an individual examination, but over a maximum of 20 years.

The financial statements of subsidiaries outside Sweden are translated into Swedish kronor employing the current method of accounting. This means that all items in the balance sheet are translated using the rate prevailing on the closing date, while the average rate for the year is applied for all items in the income statement. Translation differences are posted directly to the Group's unrestricted equity.

## Revenue recognition

Sales proceeds for products and services are reported when there is an agreement with the customer, delivery has occurred or services have been performed and all significant risks have been transferred to the customer. Project revenues for customer projects are reported according to the percentage of completion method. Sales proceeds are reported net of allowances for value-added tax, discounts and returns.

## Depreciation and amortization

Depreciation of tangible assets and amortization of intangible assets have been calculated on the basis of original acquisition value and applied on a straight-line basis throughout the utilization period of the assets.

The following depreciation/amortization periods have been used:

Capitalized expenditures	5 years
Goodwill	10 – 20 years
Buildings	25 years
Land improvements	20 – 27 years
Injection moulding machines	8 – 10 years
Automated assembly equipment	3 years
Other machinery	5 – 10 years
Information technology	3 years
Other tools, fixtures and fittings	5 – 10 years

## Reporting of income taxes

Income taxes reported include taxes payable or receivable during the year in question, adjustments to prior years' current tax and changes in deferred tax.

All tax liabilities and claims are valued at nominal amounts based on tax rules and tax rates that have been decided or announced and that are very likely to be confirmed. Tax effects related to items that are reported in the income statement are also reported in the income statement. Tax effects of items reported against shareholders' equity are reported against shareholders' equity.

Deferred tax is calculated using the balance sheet method for all temporary differences between reported values and values of assets and liabilities for tax purposes. The temporary differences are caused primarily by tax-deductible losses and untaxed reserves. Deferred tax claims attributable to unused loss carry forwards or other future tax deduc-

tions are reported to the extent that they likely to be used to offset taxable surpluses within the foreseeable future.

## Intangible and tangible fixed assets

Fixed assets are reported at historical acquisition value less accumulated depreciation and any writedowns. Depreciation is calculated based on estimated economic life. Goodwill related to acquired subsidiaries is reported as a fixed asset and is amortized over its estimated utilization period. All goodwill acquired to date, with the exception of the Protec acquisition, is estimated to have a utilization period of 10 years. At the time of the Nolato Protec acquisition, goodwill in that company was estimated at the time to have a utilization period of 20 years, based primarily on its strategic and market related values. As described in Note 5, this goodwill was written down to 0 in 2003.

## Inventories

Inventories are valued at acquisition value or fair value, whichever is lower. The Company applies the FIFO (first in, first out) principle. Required allowances for obsolescence have been made. Allowances are made for intra-Group profits that result from deliveries between companies in the Group. Work in progress and finished goods include both direct expenses and reasonable markups for indirect manufacturing costs.

## Work in progress

Percentage of completion is applied for all projects where the outcome can be estimated satisfactorily. This means that revenues and expenses are reported in the income statement in proportion to the project's degree of completion. The degree of completion is determined based on project costs incurred in proportion to the total project cost. A possible loss is immediately reported as an expense.

During 2003, reporting of customer project operations was adjusted in accordance with Standards Council recommendation RR 11 ("Revenue"). Project revenues are thus reported as revenue during the period when the work is performed, instead of as previously during the period when the project was concluded. This change means that comparative figures for revenues as well as expenses during 2002 increased by SEK 75 M. The adjustment had no impact on the comparative figures for 2002 earnings.

## Short-term investments

Short-term investments consist of interest-bearing investments that are exposed to only an insignificant risk of fluctuation in value, are traded in the open market at known rates, and mature less than three months after the acquisition date. Short-term investments are valued at the acquisition value plus accrued interest.

## Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies have been valued and reported at rates prevailing on the closing date. When hedging through forward contracts, the underlying receivable or liability is valued according to the forward contract. Forward contracts that hedge flows where a receivable or liability has not yet occurred do not affect the financial statements. Earnings and losses on operating receivables and liabilities are reported as revenue or charged to operating income, respectively. Exchange rate differences that have arisen as a result of reappraisals of loans and receivables in foreign currencies and other financial allocations are reported as financial income or expenses.

## Leasing

In the consolidated financial statements, leasing is classified either as financial or operating leases. Financial leases exist when the financial risks and benefits connected to ownership are transferred in all significant respects to the lessee. If this is not the case, they are called operating leases. Significant assets held according to financial leases are reported as fixed assets in the Group's balance sheet. The obligation to pay future leasing fees is reported as a liability. These assets are subject to scheduled depreciation, while the lease payments are reported as interest and payments of loan principal. In the case of operating leases, leasing fees are reported as expenses over the life of the lease.

## Product development costs

Product development costs are normally charged as operating expenses as they occur and are included in cost of goods sold in the income statement. This includes development of tools, materials, designs and technology. Costs consist almost entirely of development

expenses in conjunction with project and product development undertaken in partnership with Group customers. Development projects that are considered to be of significant value to the Group in future years have been capitalized on the balance sheet as an intangible asset.

#### **Pensions**

The Group's companies have various pension systems based on local conditions and practices in the countries where they operate. The pension systems are normally funded through payments to insurance companies or through provisions that are determined through actuarial calculations. Funding of pension systems may vary between the countries where the Group operates. The financial reporting of these different systems adheres to the same Group principle.

#### **Cash flow statement**

The cash flow statement is prepared using the indirect method. Reported cash flow covers only transactions that lead to incoming or outgoing payments. In addition to cash and bank balances, the classification "liquid funds" is used for short-term financial investments that are exposed only to an insignificant risk of fluctuation in value, are traded in the open market at known rates, and mature less than three months after the acquisition date.

#### **Borrowing costs**

Borrowing costs are reported according to the general rule in Standards Council recommendation RR 21 ("Borrowing costs"), where they are charged to the period to which they are attributable.

#### **Provisions**

Provisions have been made for all obligations attributable to the financial year or a previous financial year which, on the balance sheet date, were likely to materialize but where there was uncertainty about the amount or the date when the obligation shall be met.

#### **Government grants**

Government grants are reported in the balance sheet and income statement only when the terms and conditions associated with these grants are reasonably certain to be met and the grants will be received. Government grants related to assets reduce the acquisition value of the assets and affect reported earnings during the utilization period through lower depreciation or amortization. Government grants related to earnings reduce the expenses to which the grants are related. Government grants related to assets are reported in the cash flow statement under "Investment activities," while government grants related to earnings are included in operating income.

#### **Reporting by business segment**

Revenues, expenses and earnings for the various profit centers have been affected by intra-Group deliveries. Intra-Group prices between profit centers are based on market terms. Intra-Group deliveries are eliminated when preparing the consolidated financial statements.

During 2003, the application of the Standards Council's recommendation RR 25 on reporting by business segment led to a change in accounting principle. Central expenses for Nolato's headquarters and general administrative expenses are no longer being charged to the profit centers, but instead are being charged to the Parent Company. Comparative figures for the profit centers have been restated. This means that the operating income of Telecom improved by SEK 5 M, that of Industrial improved by SEK 4 M and that of the Parent Company declined by SEK 9 M.

#### **Writedowns**

Reported values for the Group's assets are checked on each balance sheet date to see if there are any indications that writedowns are needed. When writedowns are indicated, the recovery value is determined for the cash generating unit that the asset belongs to. A writedown takes place if the reported value exceeds the recovery value.

## Risk management

### Business risks

#### **Dependency on customers**

The Telecom business area has a greater dependency on a few customers. At present, the two largest customers account for about 60 percent of the business area's sales. However, Nolato enjoys very good collaboration with these two customers and was appointed strategic supplier of component systems in the field of polymer products.

In other business areas, the customer base is much broader and no individual customer or customer category is so dominant that the loss of any customer would affect the Group's profitability significantly.

#### **Bad debt losses**

The Group's revenues are mostly derived from large international industrial groups. These are often public in various ways and thus in most cases it is possible to monitor their economic performance. Nolato does this continuously.

This kind of company seldom declares bankruptcy or the like, so the likelihood of significant bad debt losses is minor. If one of these large customers were to experience financial problems, however, it could lead to losses of significant amounts.

When new customer relationships are developed, the customer's credit is evaluated. The Group has not suffered any significant bad debt losses in recent years.

#### **Dependency on suppliers**

A number of suppliers in Europe and throughout the world are available to deliver plastic and rubber raw materials as well as machinery. Alternative suppliers can be used. As for deliveries of components included in the component systems that the Nolato Group delivers, in most cases suppliers are chosen in partnership with Nolato's customer. In most cases there is good potential to cultivate new supplier relationships, after allowing a certain phase-in period.

#### **Material prices**

Nolato's products normally contain plastic or rubber raw materials worth between 5 and 50 percent of the selling price.

In most cases, these raw materials are made from various forms of oil-based or similar products. This means that raw materials prices are dependent both on oil prices and the dollar exchange rate, but also on other factors such as production capacity and other production costs.

In many customer contracts, the Group has the right to renegotiate prices when material prices change in excess of certain levels, reducing its sensitivity to changes in material prices, but with a certain lag because it takes some time to accomplish this.

#### **Electricity prices**

The production of polymers carried out by the Group is relatively electricity intensive, and

thus the Group is dependent on the price of electricity. The variable portion of electricity costs totaled about SEK 25 M during 2003, excluding taxes. The Group is working on a new policy for electricity purchases. It will mean that 40 – 80 percent of electricity needs for the next four quarters will be purchased in advance by forward contract. For 2004, purchases have been made for 60 percent of the electricity needs at an average price 15 percent lower per kWh than the average price during 2003.

#### Risks attributable to patent and legal disputes

The Group has few mechanical or design patents, and few trademarks. Nolato believes it does not infringe on the patents of others. None of the Group's operations is involved in any significant legal dispute.

#### Other risks

Regarding traditional insurance risks such as fire, theft, business interruption and liability, Nolato believes that the Group has relevant and satisfactory protection through the insurance policies it has purchased.

In the Group's business areas, there are risks that products delivered by Nolato might have to be recalled due to defects in materials or functionality. Risks are minimized because the Group's operations work according to various quality certification systems. There is also some limited insurance coverage for recall activities.

None of the Group's operations is involved in any significant tax proceeding.

### Financial risks

Financial risks are managed according to the financial policy document that is adopted by the Board of Directors. Financial activities in the form of risk management, liquidity management and borrowing are handled at the corporate level by the Parent Company. Examples of financial risks are foreign exchange, interest, financing, liquidity, and counterparty risks.

#### Foreign exchange risks

Nolato's Swedish operations mostly have a net exposure in the form of sales in EUR in excess of purchases in EUR. These and other significant net exposures during 2003 are described in the table. Chinese operations mainly have a net currency exposure of transaction flows in the form of purchases in foreign currencies such as SEK, EUR and JPY, which are included in the amounts in the table below. In addition, China has forecasted sales in USD of SEK 82 M. This amount has not been hedged and is not included in the table below. The Group has not hedged this flow because the Chinese currency is pegged to the USD within an interval. Nolato's Estonian operations mostly have a net currency exposure of transaction flows in the form of sales in EUR and USD and purchases in SEK, which are included in the amounts in the table. Hungarian operations have only limited transaction flows in foreign currencies.

#### Transaction exposures from significant currency flows in the Group on December 31, 2003

SEK M	12 mo estimated net flows	Total hedging	Percentage	Average exchange rate	Market value
EUR	516	364	70%	9,12	365
USD	-16	-11	69%	7,82	-12
DKK	12	8	67%	1,23	8
JPY	-37	-33	88%	0,0699	-33
<b>Total</b>	<b>475</b>	<b>328</b>			<b>328</b>

According to the Group's financial policy, 70 percent of future forecast net flows are hedged for a period of 12 months, normally via forward contracts. Forward hedging contracts outstanding on December 31 but not exercised, with average exchange rates for the respective currency, are shown in the table above. The market value of these contracts is also shown in this table.

The exchange rate effects of forward contracts attributable to earnings during 2003 can be divided into exchange rate differences for contracts expiring during 2003 and exchange rate differences for unexpired contracts. For unexpired contracts with offsetting balance sheet items, the difference between the forward contract and the exchange rate prevailing on the closing date was recognized in the income statement. Exchange rate differences between forward contracts outstanding that have no offsetting balance sheet items did not affect earnings for the year. The forward contract premium is accrued over the life of the forward contract. The impact on 2003 earnings of forward contracts reported as income was a positive SEK 1 M, compared to unhedged average exchange rates during 2003.

#### Sensitivity analysis of significant currency flows in the Group on Dec 31, 2003

SEK M	Unhedged estimated net flows, 12 mo	Exchange rate change	Effects on earnings
EUR	152	+/- 1.0%	2
USD	5	+/- 1.0%	0
DKK	4	+/- 1.0%	0
JPY	4	+/- 1.0%	0

According to the Group's financial policy, translation effects of net assets in foreign subsidiaries are not hedged. The book value of net assets in foreign subsidiaries at the end of 2003 is shown in the table below, for the respective currencies which are exposed to currency risks in the Group's shareholders' equity. The translation difference related to these net assets was SEK -11 M (-2) and thus Group shareholders' equity was adversely affected by these amounts. On December 31, the accumulated translation difference was SEK -16 M.

#### Book value of net assets in foreign subsidiaries at the end of 2003

Company	Net values (SEK M)
Nolato Beijing, China	55
Nolato Protec, Hungary	7
Nolato Tallinn, Estonia	54
<b>Total</b>	<b>116</b>

At the end of the year, there was additional foreign borrowing in Hungarian operations of SEK 38 (0) M in SEK and of SEK 32 (96) M in EUR. In Chinese operations, there was foreign borrowing of SEK 13 (0) M in USD. These foreign borrowings are exposed to currency risks in the consolidated income statement.

#### Interest rate risks

At year-end, the Group's interest-bearing liabilities were SEK 625 M. The average interest rate was 5.9 percent. The average interest rate refixing period was 6 months.

#### Liquidity and financing risk

Long-term financing was SEK 485 M (583) on December 31, and short-term financing was SEK 140 M (118).

The liquidity reserve consisted of bank account balances, short-term investments and various forms of unutilized credit lines. At year-end, the liquidity reserve was SEK 494 M (246), equivalent to 18 percent (12) of net sales.

In some years, the aggregate need for capital may exceed internal cash flow due to acquisitions and/or strong expansion. It is expected that funding for this can be satisfied via the traditional banking system. During the autumn, almost half of the Group's funding was renegotiated via the traditional banking system, resulting in a new two-year contract. Several interested parties were prepared to provide funding for the Group. No real property was pledged as collateral for financing, except in foreign subsidiaries. Only customary financial covenants are used in the credit agreements.

## Note 1 Information about divisions and geographic areas, Nolato Group

### Information about profit centers

The Group's operations are reported externally in three profit centers. Profit centers are the primary classifying principle. A description of the three profit centers is found on pages 18–27.

The assets included in each profit center consists of all operating used by the divi-

sion, primarily fixed assets, inventories and accounts receivable. Liabilities assigned to divisions include all operating liabilities, mainly accounts payable and accrued expenses. Liquid funds, borrowings, provisions to pensions and deferred taxes have not been allocated to profit centers.

	Nolato Telecom		Nolato Industrial		Nolato Medical		Elimination		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
<b>Revenues</b>										
External sales	1,658	1 038	911	877	102	96	—	—	2,671	2,011
Intra-Group sales	28	1	1	1	—	—	-29	-2	—	—
Total revenues	1,686	1 039	912	878	102	96	-29	-2	2,671	2,011
<b>Earnings</b>										
Items that do not reflect operations *	—	—	-93	—	—	—	—	—	-93	—
Earnings by division	109	-5	-34	53	16	19	—	—	91	67
Expenses not allocated									-34	-25
Operating income									57	42
Financial expenses									-56	-50
Financial income **									5	44
Tax expenses for the year									-41	24
Net income for the year									-35	60
<b>Other information</b>										
Assets	760	794	702	851	63	60	-12	-40	1,513	1,665
Assets not allocated									322	230
Total assets									1,835	1,895
Liabilities	388	349	195	187	25	17	-12	-18	596	535
Liabilities not allocated									670	736
Total liabilities									1,266	1,271
Investments	47	60	47	85	6	10	-1	-5	99	150
Depreciation/amortization	73	76	76	79	7	6	—	—	156	162
Significant expenses, other than depreciation/amortization with no offsetting payments, writedowns and provisions	18	4	40	—						

\* In 2003, includes nonrecurring expenses of SEK 55 M for restructuring of operations in Hungary and SEK 38 M for writedown of goodwill in Nolato Protec, Hungary.

\*\* In 2002, includes capital gain of SEK 31 M from the divestment of Nolato Elastoteknik.

### Information about geographic markets

In the Nordic region, which is the Group's domestic market, the Group manufactures and sells from all three profit centers. Elsewhere in Europe, the Group has manufacturing operations in Hungary for the Nolato Industrial profit center and in Estonia for the Nolato Tele-

com profit center. In Asia, the Group has manufacturing operations in China for the Nolato Telecom profit center.

	Nordic region		Other Europe		North America		Asia		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
External net sales	982	1,121	1,214	439	52	48	423	403	2,671	2,011
Assets	1,312	1,494	314	288	—	17	209	96	1,835	1,895
Average number of employees	1,311	1,237	612	584	—	6	430	165	2,353	1,992
Investments	74	41	11	69	—	—	14	40	99	150

## Note 2 Research and development, Group

	2003	2002
Expensed customer project development expenditures	243	300
Capitalized development expenditures	4	12
<b>Total</b>	<b>247</b>	<b>312</b>

## Note 3 Personnel

## Average number of employees

	2003		2002	
	No. of empl.	Of whom, men	No. of empl.	Of whom, men
<b>Parent Company</b>				
Nolato AB, Torekov	7	100%	10	100%
<b>Subsidiaries</b>				
Nolato Polymer AB, Torekov	103	73%	106	76%
Nolato STG AB, Lönsboda	46	74%	68	66%
Nolato Plastteknik AB, Gothenburg	117	51%	108	52%
Nolato Sunne AB, Sunne	122	83%	126	82%
Nolato Gota AB, Götene	109	78%	100	77%
Nolato Protec, Hungary	291	37%	318	36%
Nolato Jász, Hungary	67	55%	113	40%
Nolato Alpha AB, Kristianstad	553	85%	487	82%
Nolato Silikonteknik AB, Hallsberg	112	64%	103	63%
Nolato Tallinn AS, Estonia	254	22%	153	30%
Nolato Lövepac AB, Skånes Fagerhult	55	76%	54	70%
Nolato Beijing, China	430	28%	165	45%
Nolato Shieldmate Inc., U.S.	—	—	6	33%
Nolato Medevo AB, Torekov	87	64%	75	64%
<b>Group total</b>	<b>2,353</b>	<b>56%</b>	<b>1,992</b>	<b>61%</b>

## Salaries, other remuneration and employer payroll fees

	2003		2002	
	Salaries and other remun.	Empl. payroll fees (of which, nonstat. pension expenses)	Salaries and other remun.	Empl. payroll fees (of which, nonstat. pension expenses)
Parent Company	15	8	18	9
		(5)*		(4)*
Subsidiaries	449	193	431	179
		(44)**		(41)**
<b>Group total</b>	<b>464</b>	<b>201</b>	<b>449</b>	<b>188</b>
		(49)		(45)

\* Of the Parent Company's non-statutory pension expenses, SEK 770 K (607) pertained to the category President and SEK 0 K (0) pertained to the Board of Directors.

\*\* Of the Group's non-statutory pension expenses SEK 4,333 K (4,119) pertained to the category Presidents and Boards of Directors.

	2003		2002	
	Board and President	Other employees	Board and President	Other employees
Parent Company	6	9	4	14
Subsidiaries in Sweden	9	381	11	362
Subsidiaries outside Sweden				
Estonia	1	17	1	10
China	2	11	1	7
Hungary	2	26	1	26
U.S.	—	—	3	9
Total subsidiaries	14	435	17	414
<b>Group total</b>	<b>20</b>	<b>444</b>	<b>21</b>	<b>428</b>

## Remuneration to senior executives

## Principles

A director's fee is paid to the Chairman and members of the Board as decided by the Annual Meeting. No director's fee is paid to employees of the Group or to employee representatives. Remuneration to the President and other senior executives is made up of a basic salary, variable remuneration, other benefits and pension. "Other senior executives" refers to the individuals who, together with the President and CEO, constitute the Group's Executive Committee. During 2003, Group Management consisted of 8 people plus the President. For the current composition, see page 57.

## Preparation of business and the decision-making process

The Board of Directors has appointed a compensation 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, which have been presented to and approved by the board. The committee has approved the remuneration of the Group Management.

## Remuneration and other benefits during 2003

SEK K	Basic sal./ Directors fee.	Variable remun.*	Other benef.**	Pension premiums	Other remun.***	Total
Chairman of the Board, new	150	—	—	—	—	150
Chairman of the Board, retiring	—	—	—	—	155	155
Other Board members	450	—	—	—	—	450
President, new	1,883 <sup>1</sup>	835	73 <sup>1</sup>	472 <sup>1</sup>	—	3,263
President, retiring	1,160	—	53	214	513	1,940
Other senior executives (8)	8,696	2,246	631	2,314	920	14,807
<b>Total</b>	<b>12,339</b>	<b>3,081</b>	<b>757</b>	<b>3,000</b>	<b>1,588</b>	<b>20,765</b>

<sup>1</sup> Refers to remuneration and other benefits during 8 months.

## Remuneration and other benefits during 2002

SEK K	Basic sal./ Directors fee.	Variable remun.*	Other benef.**	Pension premiums	Other remun.***	Total
Chairman of the Board	150	—	—	—	464	614
Other Board members	450	—	—	—	—	450
President	2,664	613	125	515	147	4,064
Other senior executives (11)	12,043	1,667	722	2,440	25	16,897
<b>Total</b>	<b>15,307</b>	<b>2,280</b>	<b>847</b>	<b>2,955</b>	<b>636</b>	<b>22,025</b>

\* Variable remuneration pertains to remuneration charged as expenses for the financial year, and payable during the following year.

\*\* "Other benefits" refers to a company car.

\*\*\* "Other remuneration" refers to consulting fees paid to the Chairman of the Board and to payment of vacation benefits earned previously by the President and other senior executives.



### Variable remuneration

Two thirds of the variable remuneration paid to the President and other senior executives is based on actual income after financial items and return on capital employed and one third is based on individual targets. The maximum outcome is 30 percent of basic salary. This also requires that the respective profit center is reporting positive earnings, excluding nonrecurring items. In 2003, the outcome for the new President was 30 percent of basic salary for 12 months (23) and for other senior executives an average of 26 percent of basic salary (14). For 2004, the corresponding variable remuneration will be based in its entirety on key financial ratios.

In addition, the President has a contract based on Nolato's share price performance. The starting price is SEK 40 per share, which will be compared to the average price during Q 1, 2006. The increase in value per share will be multiplied by a factor of 150,000 to determine the remuneration. The remuneration has been maximized at an amount corresponding to 50 percent of the gross salary in the form of regular monthly salary that the President has received during the period. As of December 31, 2003, SEK 1,365 K had been reserved for this remuneration.

### Financial instruments

	Program from previous years
	Employee stock options 2000
President	—
Other senior executives	29,000
<b>Total</b>	<b>29,000</b>

### Pensions

The retirement age for the President and other senior executives is 65. The President's pension premium amounts to 25 percent of pension-qualifying salary and is a defined contribution pension plan. Variable remuneration does not qualify as pensionable income. For 2003, the pension premium was 25 percent of basic salary (19).

Three other senior executives have defined contribution pension plans. The pension premiums for other senior executives shall be the equivalent of the premium for the ITP occupational pension plan for salaried employees in industry. Thus they have defined benefit pension plans. For 2003, the average pension premium was 27 percent of basic salary (20). Variable remuneration does not qualify as pensionable income.

### Severance pay

The Company and the President have agreed on a notice period of six months if the President resigns of his own volition. In case of termination by the Company, a notice period of 24 months applies. Other senior executives shall provide a notice period of six months. In case 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.

### Gender distribution of senior executives

	Group		Parent Company	
	Men	Women	Men	Women
President	13	—	1	—
Board members	59	7	10	1
Other senior executives in subsidiaries/Parent Company	72	8	8	—
<b>Total</b>	<b>144</b>	<b>15</b>	<b>19</b>	<b>1</b>

### Employee stock option program

In 2000, Nolato's Board of Directors decided to allocate employee stock options to some 30 senior executives in the Nolato Group. Originally, the program encompassed 200,000 employee stock options. It runs for 5 years, until October 2005. The option program granted the right to acquire the same number of shares in Nolato AB. The exercise price was originally SEK 212, based on the average price of a Nolato share during the period September 15–19, 2000. The options were granted without requiring compensation.

Since the time of allocation, 127,500 options have been forfeited and as of December 31, 2003 the number of options outstanding was 72,500 (122,500), of which all were eligible to be exercised at the end of 2003. No options in this program have been exercised. The estimated fair value of these options was calculated on the balance sheet date using a Black-Scholes option pricing model. The estimated fair value of these options totaled SEK 7 K. The exercise price after adjustment for effects of the share issue was SEK 193 and confers the right to acquire 1.1 shares, after adjusting for issue effects. The market value of the underlying share was SEK 49.40 and the expected volatility of the underlying share was calculated based on 40 percent. The expected dividend was estimated at SEK 0.80 for 2004 and SEK 1.12 for 2005, and the risk-free interest rate for the expected term at 3.38 percent.

According to the accounting recommendations now in force, Nolato reports no expense for the estimated market value in the income statement.

The options are employee stock options and when options are utilized, shares shall be delivered. The Company does not intend to issue new shares in case of such delivery. Thus no dilution occurs. Instead, delivery shall be made of shares already in circulation in the market. Following the distribution of options and also during 2003, Nolato elected to enter into a contract with a bank regarding the option program. The reason for entering into this contract was that Nolato made an assessment that the share price was going to exceed the exercise price during the period when options could be exercised. The contract means that the bank will deliver the number of shares in Nolato that the number of options distributed would require when fully exercised, at a price per share amounting to the exercise price. This means that at the time of exercise, and in case of future price increases above the exercise price, Nolato will only pay the exercise price for delivery of shares. No additional expenses will be added. Meanwhile, Nolato will compensate the bank in those cases where the share price has dropped below the level of the exercise price. This has been the case during virtually the entire term of the program. The negative difference between current share price and the share price according to the contract with the bank has not been reported in the income statement. This difference has been reserved as a provision in the balance sheet and simultaneously reduced unrestricted equity, taking deferred taxes in consideration. During 2003, shareholders' equity increased by SEK 4 M, because the share price rose during the year and the provision could thus be reduced. On an accumulated basis, shareholders' equity has been reduced by SEK 31 M as a result of this accounting. Payments to the bank under this contract have continuously been reported among the financial items. After the balance sheet date, Nolato elected to terminate the contract with the bank, based on its assessment that the options will not be exercised during their term. The loss that previously was continuously reserved, SEK 31 M, has thus been realized.

## Note 4 Information on remuneration to auditors

## The Company's auditing firms have been remunerated:

For auditing and other examinations in accordance with the Swedish Companies Act etc.

SEK K	Group		Parent Company	
	2003	2002	2003	2002
Ernst & Young	1,811	1,992	350	350
<b>Total</b>	<b>1,811</b>	<b>1,992</b>	<b>350</b>	<b>350</b>

For independent consulting, assistance, etc.

SEK K	Group		Parent Company	
	2003	2002	2003	2002
Ernst & Young	1,764	1,226	1,367	1,038
<b>Total</b>	<b>1,764</b>	<b>1,226</b>	<b>1,367</b>	<b>1,038</b>

## Note 5 Other operating expenses, Group

	2003	2002
Goodwill writedown	38	—
Goodwill amortization	11	13
<b>Total</b>	<b>49</b>	<b>13</b>

Over the past few years, Hungarian operations have reported negative earnings, which led to a restructuring of operations in 2003. Due to heavy competition and depressed prices, positive cash flows are not expected within the foreseeable future. Therefore, a decision was made to write down the goodwill of Nolato Protec to 0.

## Note 6 Depreciation/amortization

Depreciation/amortization was included in operating expenses as follows:

	Group		Parent Company	
	2003	2002	2003	2002
Capitalized expenditures	2	1	—	—
Goodwill	11	13	—	—
Buildings and land	16	17	—	—
Machinery and other technical facilities	111	115	—	—
Equipment, tools, fixtures and fittings	16	16	—	1
<b>Total</b>	<b>156</b>	<b>162</b>	<b>—</b>	<b>1</b>

Depreciation was distributed according to utilization as follows:

	Group		Parent Company	
	2003	2002	2003	2002
Cost of goods sold	138	141	—	—
Selling expenses	2	2	—	—
Administrative expenses	5	6	—	1
Other operating expenses	11	13	—	—
<b>Total</b>	<b>156</b>	<b>162</b>	<b>—</b>	<b>1</b>

## Note 7 Exchange rate differences

	Group		Parent Company	
	2003	2002	2003	2002
Exchange rate diff., operating income, net	- 6	- 2	—	—
Exchange rate diff., financial items, net	- 16	—	- 8	- 3
<b>Summa</b>	<b>- 22</b>	<b>- 2</b>	<b>- 8</b>	<b>- 3</b>

## Note 8 Income from shares in Group companies

	Group		Parent Company	
	2003	2002	2003	2002
Dividend from subsidiaries	—	—	90	6
Loss coverage reserve related to subsid.	—	—	- 22	—
Writedowns of shares in subsidiaries	—	—	- 158	- 20
Capital gain/loss	—	31	—	52
<b>Total</b>	<b>—</b>	<b>31</b>	<b>- 90</b>	<b>38</b>

The Parent Company's shares in subsidiaries have been written down to amounts that comply with the Group's principle of not reporting shares in subsidiaries at amounts that exceed the respective subsidiary's net asset value, including any surplus values in the consolidated financial statements.

## Note 9 Other interest income and similar income items

	Group		Parent Company	
	2003	2002	2003	2002
Interest income, Group companies	—	—	14	11
Interest income, other	4	8	4	7
Other financial income	1	5	—	—
<b>Total</b>	<b>5</b>	<b>13</b>	<b>18</b>	<b>18</b>

## Note 10 Interest expenses and similar expense items

	Group		Parent Company	
	2003	2002	2003	2002
Interest expenses, Group companies	—	—	—	- 1
Interest expenses, other	- 39	- 50	- 28	- 48
Other financial expenses	- 1	—	—	—
Exchange rate differences	- 16	—	- 8	- 3
<b>Total</b>	<b>- 56</b>	<b>- 50</b>	<b>- 36</b>	<b>- 52</b>

## Note 11 Tax on earnings for the year

	Group		Parent Company	
	2003	2002	2003	2002
Current tax	- 2	- 9	49	19
Deferred tax	- 39	33	- 35	16
<b>Total</b>	<b>- 41</b>	<b>24</b>	<b>14</b>	<b>35</b>

	Group		Parent Company	
	2003	2002	2003	2002
Deferred tax expenses/revenue for the year	2003	2002	2003	2002
Tax revenue related to temp. differences	—	20	—	3
Tax expenses related to temp. differences	- 39	—	- 35	—
Tax claims on unutilized loss carry-forward	—	13	—	13
<b>Total</b>	<b>- 39</b>	<b>33</b>	<b>- 35</b>	<b>16</b>

Difference between Group tax and tax based on applicable tax rate

	Group		Parent Company	
	2003	2002	2003	2002
Reported income before tax	6	36	- 141	- 25
Tax according to applicable tax rate	- 2	- 10	39	7
Tax effects of non-deductible expenses	- 1	—	—	—
Non-deduct. writedowns of shares in subsid.	—	—	- 50	- 6
Adjustments for taxes in prior years	—	13	—	13
Dividends from subsidiaries	—	—	25	1
Non-deductible goodwill writedowns	- 13	- 4	—	—
Loss carry-forward not previously utilized	—	10	—	—
Tax-exempt cap. gain on divestm. of subs.	—	9	—	14
Loss carry-forwards not utilized	- 24	- 4	—	—
Effect of foreign tax rates	- 3	—	—	—
Tax-exempt earn. in Group comp. outside Sweden	4	7	—	—
Other	- 2	3	—	6
<b>Total</b>	<b>- 41</b>	<b>24</b>	<b>14</b>	<b>35</b>

The tax rate applicable to the Group's income is 28 percent. Taxes on Group contributions received are reported directly against shareholders' equity.

Taxes related to items reported directly against shareholders' equity

	Group		Parent Company	
	2003	2002	2003	2002
Deferred tax attributable to equity swap	1	- 1	—	—
Current tax related to Group contributions	—	—	- 49	- 41
<b>Total</b>	<b>1</b>	<b>- 1</b>	<b>- 49</b>	<b>- 41</b>

## Deferred tax liabilities

	Group		Parent Company	
	2003	2002	2003	2002
Untaxed reserves	31	40	—	—
Revaluation of real estate	26	27	—	—
Surplus values, cons. financial statements	4	5	—	—
Earnings from foreign subsidiaries	14	—	—	—
Other	2	1	—	—
<b>Total deferred tax liabilities</b>	<b>77</b>	<b>73</b>	<b>—</b>	<b>—</b>

## Deferred tax claims

	Group		Parent Company	
	2003	2002	2003	2002
Loss carry-forwards	64	101	64	99
Other	3	1	—	—
<b>Total deferred tax claims</b>	<b>67</b>	<b>102</b>	<b>64</b>	<b>99</b>
<b>Net deferred taxes</b>	<b>- 10</b>	<b>29</b>	<b>64</b>	<b>99</b>

Offsetting of deferred tax claims and deferred tax liabilities occurs where a legal right of offset applies. Thus SEK 4 M is reported as deferred tax claims and SEK 14 M as deferred tax liabilities.

The Group's unutilized loss carry-forwards amounted to SEK 130 M (54) and were related in their entirety to operations in Hungary. No tax effects related to these have been taken into account, because it is uncertain whether they can be utilized within the foreseeable future.

## Note 12 Items affecting comparability, Group

Items affecting comparability are included in the income statement in the following amounts:

	2003	2002
Restructuring of operations in Hungary *	-55	—
Writedown of goodwill, Nolato Protec, Hungary **	-38	—
Capital gain from sale of Nolato Elastoteknik	—	31
Tax effects from closure of operations in the U.S.	—	12
<b>Total</b>	<b>-93</b>	<b>43</b>

Items affecting comparability are allocated in the income statement as follows:

	2003	2002
Cost of goods sold	-52	—
Administrative expenses	-3	—
Other expenses	-38	—
Income from shares in Group companies	—	31
Tax on earnings for the year	—	12
<b>Total</b>	<b>-93</b>	<b>43</b>

\* To create an efficient and profitable organization, Nolato Jász was consolidated in Nolato Protec's factory. The motive for the consolidation was low capacity utilization in both businesses. Expenses consisted of writedown of fixed assets, discontinuation costs and expenses for personnel reductions. The expenses included a writedown of a financial lease obligation related to the property in Jásberény, amounting to SEK 31 M.

\*\* Due to heavy competition and depressed prices, positive cash flows from the Hungarian operations are not expected in the foreseeable future. Therefore, a decision was made to write down the goodwill of Nolato Protec to 0.

## Note 13 Earnings per share

	2003	2002
Net income, including nonrecurring items	-35	60

**Nonrecurring items**

Restructuring of operations in Hungary	55	—
Writedown of goodwill in Nolato Protec	38	—
Capital gain from sale of Nolato Elastoteknik	—	-31
Tax effects from closure of operations in the U.S.	—	-12
	<b>93</b>	<b>-43</b>

Net income, excluding nonrecurring items	<b>58</b>	<b>17</b>
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Average number of shares (thousands) *	<b>26,307</b>	24,466
Earnings per share after full tax (SEK)	<b>-1,35</b>	2,45
Earnings per share after tax, excl. nonrec. items (SEK)	<b>2,20</b>	0,70

\* Historical comparative figures have been adjusted for the bonus issue element of the 2002 new share issue.

The Company has no current instruments that will result in dilution of the number of shares.

## Note 14 Intangible fixed assets

	<b>Group</b>	
	2003	2002
<b>Capitalized expenditures</b>		
Acquisition value on January 1	15	20
Change in accounting principle	—	-17
Purchases *	4	12
Divestments and disposals	-1	—
Accumulated acquisition value on December 31	18	15
Amortization on January 1	2	2
Change in accounting principle	—	-1
Amortization for the year	2	1
Accumulated amortization on December 31	4	2
<b>Reported value on December 31</b>	<b>14</b>	<b>13</b>

\* Of purchases, SEK 3 M (7) were accrued internally and SEK 1 M (5) were acquired externally. All capitalized expenditures are amortized in 5 years. Capitalized expenditures consist of development expenses for technology projects.

	<b>Group</b>	
	2003	2002
<b>Goodwill</b>		
Acquisition value on January 1	526	534
Divestments and disposals	-347	-8
Accumulated acquisition value on December 31	179	526
Amortization on January 1	114	108
Divestments and disposals	-24	-7
Amortization for the year	11	13
Accumulated amortization on December 31	101	114

Writedowns on January 1	323	323
Disposals	-323	—
Amortization for the year	38	—
Accumulated writedowns on December 31	38	323

<b>Reported value on December 31</b>	<b>40</b>	<b>89</b>
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Divestments and disposals of goodwill were mainly related to U.S. operations, which were discontinued completely during 2003.

	<b>Parent company</b>	
	2003	2002
<b>Capitalized expenditures</b>		
Acquisition value on January 1	—	10
Change in accounting principle	—	-10
Accumulated acquisition value on December 31	—	0
Amortization on January 1	—	1
Change in accounting principle	—	-1
Accumulated amortization on December 31	—	0
<b>Reported value on December 31</b>	<b>—</b>	<b>0</b>

## Note 15 Tangible fixed assets

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
<b>Buildings and land</b>		
Acquisition value on January 1	360	347
Purchases	—	39
Assets in divested companies	—	–26
Government grants	–1	—
Translation differences	–9	—
Reclassifications	–3	—
Accumulated acquisition value on December 31	347	360
Depreciation on January 1	117	109
Assets in divested companies	—	–5
Depreciation for the year	13	13
Translation differences	–1	—
Reclassifications	–1	—
Accumulated depreciation on December 31	128	117
Revaluations on January 1	95	99
Depreciation for the year	–3	–4
Accumulated revaluations on December 31	92	95
Writedowns for the year	31	—
Accumulated writedowns on December 31	31	—
<b>Reported value on December 31</b>	<b>280</b>	<b>338</b>
Reported value, real estate in Sweden	200	213
Tax assessment values, buildings in Sweden	92	89
Reported value, real estate in Sweden	32	32
Tax assessment values, land in Sweden	18	18
	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
<b>Machinery and other technical facilities</b>		
Acquisition value on January 1	1,186	1,318
Purchases	67	71
Assets in divested companies	—	–32
Divestments and disposals	–131	–185
Translation differences	–15	—
Government grants	–3	—
Reclassifications	25	14
Accumulated acquisition value on December 31	1,129	1,186
Depreciation on January 1	740	778
Divestments and disposals	–99	–144
Assets in divested companies	—	–16
Depreciation for the year	111	115
Translation differences	–4	—
Reclassifications	7	7
Accumulated depreciation on December 31	755	740
Writedowns on January 1	30	68
Divestments and disposals	–30	–41
Writedowns for the year	3	3
Accumulated writedowns on December 31	3	30
<b>Reported value on December 31</b>	<b>371</b>	<b>416</b>

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
<b>Equipment, tools, fixtures and fittings</b>		
Acquisition value on January 1	117	132
Purchases	14	9
Divestments and disposals	–11	–15
Translation differences	–1	—
Reclassifications	–4	–9
Accumulated acquisition value on December 31	115	117
Depreciation on January 1	90	92
Divestments and disposals	–11	–11
Reclassifications	–4	–7
Depreciation for the year	16	16
Accumulated depreciation on December 31	91	90
<b>Reported value on December 31</b>	<b>24</b>	<b>27</b>

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
<b>Construction in progress and advances on tangible fixed assets</b>		
Acquisition value on January 1	20	6
Purchases	14	19
Translation differences	–3	—
Reclassifications	–16	–5
Accumulated acquisition value on December 31	15	20
<b>Reported value on December 31</b>	<b>15</b>	<b>20</b>

	<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>
<b>Equipment</b>		
Acquisition value on January 1	5	3
Divestments and disposals	–2	–2
Reclassifications	—	4
Accumulated depreciation on December 31	3	5
Depreciation on January 1	3	2
Depreciation for the year	—	1
Divestments and disposals	–1	–1
Reclassifications	—	1
Accumulated depreciation on December 31	2	3
<b>Reported value on December 31</b>	<b>1</b>	<b>2</b>



## Note 16 Leasing

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
<b>Financial leases</b>		
Acquisition value, buildings and machinery	<b>49</b>	49
Accumulated depreciation, buildings and machinery	<b>- 9</b>	- 8
Writedowns for the year	<b>- 31</b>	—
<b>Reported value</b>	<b>9</b>	41
Future payment obligations, December 31, Group		
	Financial leases	Operating leases
Lease payment for the year	6	10
2004	3	6
2005	2	4
2006	2	2
2007	2	2
2008	2	1

Operating leases consist mostly of rental contracts for production premises. Financial leases consist mostly of production facilities in Hungary.

The financial lease for the Nolato Jász production plant was written down by SEK 31 M during 2003.

## Note 17 Shares in Group companies, Parent Company

	<b>2003</b>	<b>2002</b>
Acquisition value on January 1	<b>438</b>	422
New share issue/additions	<b>89</b>	31
Divestments and disposals	<b>- 16</b>	- 15
Accumulated acquisition value on December 31	<b>511</b>	438
Accumulated writedowns on January 1	<b>61</b>	41
Divestments and disposals	<b>- 16</b>	—
Writedowns for the year	<b>158</b>	20
Accumulated writedowns on December 31	<b>203</b>	61
<b>Reported value on December 31</b>	<b>308</b>	377

## Note 18 Shares in Group companies, Parent Company

<b>The Parent Company's holdings</b>	% of equity	% of votes	Book value
Nolato Polymer AB, Torekov	100	100	5
Nolato STG AB, Lönsboda	100	100	4
Nolato Mobile AB, Kristianstad	100	100	5
Nolato Plastteknik AB, Gothenburg	100	100	62
Nolato Gota AB, Götene	100	100	105
Nolato Protec Kft, Hungary	100	100	7
Nolato Jász Kft, Hungary	100	100	0
Nolato Sunne AB, Sunne	100	100	35
Nolato Alpha AB, Kristianstad	100	100	12
Nolato Silikonteknik AB, Hallsberg	100	100	7
Nolato Tallinn AS, Estonia	100	100	1
Nolato Lövepac AB, Skånes Fagerhult	100	100	10
Nolato Medevo AB, Torekov	100	100	3
Nolato Autec AB, Kristianstad	100	100	3
Nolato Beijing Ltd, China	100	100	46
Nolato Torekov AB	100	100	3
Nolato Kristianstad AB	100	100	0
Nolato Austria GmbH, Austria	100	100	0
Nolato Telecom AB, Kristianstad	100	100	0
<b>Total book value</b>			<b>308</b>

<b>Subsidiaries' holdings</b>	% of equity	% of votes	Book value
Nolato Gejde AB, Lomma	100	100	—
Nolato Mobitec AB, Lomma	100	100	—

## Information on subsidiaries' corporate identity numbers and registered offices:

Nolato Polymer AB	556380-2890	Torekov, Sweden
Nolato STG AB	556098-4584	Lönsboda, Sweden
Nolato Mobile AB	556207-0036	Kristianstad, Sweden
Nolato Plastteknik AB	556198-4385	Gothenburg, Sweden
Nolato Gota AB	556054-1301	Götene, Sweden
Nolato Protec Kft	—	Hungary
Nolato Jász Kft	—	Hungary
Nolato Sunne AB	556101-2922	Sunne, Sweden
Nolato Alpha AB	556164-1050	Kristianstad, Sweden
Nolato Silikonteknik AB	556137-5873	Hallsberg, Sweden
Nolato Tallinn AS	—	Tallinn, Estonia
Nolato Lövepac AB	556120-6052	Skånes Fagerhult, Sweden
Nolato Medevo AB	556309-0678	Torekov, Sweden
Nolato Autec AB	556205-2406	Kristianstad, Sweden
Nolato Beijing Ltd	—	Beijing, China
Nolato Torekov AB	556042-2858	Torekov, Sweden
Nolato Kristianstad AB	556542-7845	Kristianstad, Sweden
Nolato Austria GmbH	—	Vienna, Austria
Nolato Telecom AB	556642-8172	Kristianstad, Sweden

## Subsidiaries

Nolato Gejde AB	556545-5549	Lomma, Sweden
Nolato Mobitec AB	556077-6766	Lomma, Sweden

## Note 19 Shareholders' equity

### Shareholders' equity

According to Swedish law, shareholders' equity shall be divided between non-distributable (restricted) and distributable (unrestricted) funds, respectively. In a Group, only the lesser of the Parent Company's or the Group's unrestricted funds may be distributed to shareholders.

The share capital, share premium reserve, revaluation reserve and restricted reserves are restricted capital. The share premium reserve consists of the amount received from a new share issue less the par value of the shares and issue expenses. The revaluation reserve consists of the amount on revaluations on real estate, less deferred tax liability. Restricted reserves consist primarily of the shareholders' equity portion of untaxed reserves.

### Share capital

The share capital of Nolato AB amounts to SEK 132 M, divided into 26,307,408 shares with a par value of SEK 5 each. Of these, 2,759,400 are Class A shares and 23,548,008 are Class B shares. Class A shares entitle the holder to 10 votes each and Class B shares one vote each. All shares have equal rights to the assets and earnings of the company.

	Number of shares	Par value SEK/share	Share capital SEK K
Share capital, December 31, 2001	18,791,006	5.00	93,955
New share issue, May 2002	7,516,402	5.00	37,582
Share capital, December 31, 2002	26,307,408	5.00	131,537
Share capital, December 31, 2003	26,307,408	5.00	131,537

## Note 20 Other provisions

	Equity swap	Provision to restructuring reserve	Total
Amount on January 1	35	10	45
Provisions for the year	—	17	17
Amount reversed	-4	—	-4
Provisions utilized	—	-2	-2
<b>Amount on December 31</b>	<b>31</b>	<b>25</b>	<b>56</b>

The year's "Provision to restructuring reserve" consists mainly of personnel costs related to personnel reductions in Kristianstad, Sweden, which were announced on October 28, 2003. Payments of these provisions will take place mostly during 2004.

The January 1 amount for the restructuring reserve refers to the remaining costs of discontinuing operations in the U.S. and costs of personnel reductions in Kristianstad during 2002. Payments of this compensation are expected to occur in 2004.

The Group's equity swap was paid off early in 2004. See the explanation under "Employee stock option program" in Note 3, page 47.

## Note 21 Liabilities to credit and pension institutions

Total confirmed lines of credit in the Group are SEK 801 M (746). As of the balance sheet date, utilized credit was SEK 625 M (701).

The Group's utilized credit is payable as follows:

	Total liabilities	Within 1 year	2-5 years	Later than 5 years
Liabilities to credit institutions	556	153	254	149
Overdraft facilities	18	18	—	—
Provision for pensions	51	1	3	47
<b>Total</b>	<b>625</b>	<b>172</b>	<b>257</b>	<b>196</b>

## Note 22 Convertible loan

The convertible loan amounted to SEK 0 M (60). Of this amount, SEK 0 M (8) was deposited with a subsidiary for the purpose of planned future transfers to senior executives. The loan ran from February 16, 1998 to February 14, 2003, when the loan was repaid in full. The loan was refinanced in its entirety with an outside lender.

## Note 23 Accrued expenses and prepayments

	Group		Parent Company	
	2003	2002	2003	2002
Salary liabilities	77	69	6	6
Employer payroll fees	46	41	3	3
Other items	43	26	28	7
<b>Total</b>	<b>166</b>	<b>136</b>	<b>37</b>	<b>16</b>

The Parent Company financial statements included a reserve to cover losses in a foreign subsidiary in the amount of SEK 22 M (0).

## Note 24 Collateral pledged for own liabilities and provisions

	Group		Parent Company	
	2003	2002	2003	2002
Chattel mortgages	118	92	—	—
Real estate mortgages	94	103	—	—
<b>Total</b>	<b>212</b>	<b>195</b>	<b>—</b>	<b>—</b>

## Note 25 Contingent liabilities

	Group		Parent Company	
	2003	2002	2003	2002
Guarantees on behalf of subsidiaries	—	—	160	149
Government grants	1	—	—	—
Other contingent liabilities	5	2	—	—
<b>Total</b>	<b>6</b>	<b>2</b>	<b>160</b>	<b>149</b>

## Note 26 Divestments of financial fixed assets

## Divestment of subsidiary

	Group	
	2003	2002
Divested assets and liabilities		
Intangible fixed assets	—	1
Tangible fixed assets	—	40
Inventories	—	10
Current receivables	—	13
Provisions	—	-7
Long-term liabilities	—	-7
Current liabilities	—	-28
<b>Total</b>	<b>—</b>	<b>22</b>
Purchase price received	—	76
Retirement of debt in the divested company	—	-23
Liquid funds in the divested company	—	—
<b>Effect on liquid funds</b>	<b>—</b>	<b>53</b>
Payment received for companies divested during 2001	—	8
<b>Effect on liquid funds</b>	<b>—</b>	<b>61</b>

## Proposed distribution of earnings

## Group

Unrestricted reserves in the Group amount to SEK 154 M (198). Provisions to restricted reserves are not required.

## Nolato AB (publ)

The earnings at the disposal of the Annual General Meeting are as follows (SEK M):

Retained earnings	284
Net income for the year	-127
<b>Total</b>	<b>157</b>

The Board of Directors and the President propose that these funds be distributed as follows (SEK M):

Dividend of SEK 0.80 per share to the shareholders	21
To be carried forward	136
<b>Total</b>	<b>157</b>

Torekov, Sweden, March 1, 2004

Carl-Gustaf Sondén  
*Chairman*

Gun Boström

Carl-Gustav Gejde

Henrik Jorlén

Krister Jorlén

Erik Paulsson

Claes Warnander

Georg Brunstam  
*President*

Magnus Bergqvist  
*Employee representative*

Björn Jacobsson  
*Employee representative*

Mats Engvie  
*Employee representative*

## Auditors' report

**To the Annual Meeting of Shareholders in Nolato AB (publ)**  
**Swedish corporate identity number 556080-4592**

We have audited the Parent Company and consolidated accounts and the administration of the Board of Directors and President of Nolato AB (publ) for the financial year 2003. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the Parent Company and consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Parent Company and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the Parent Company and consolidated accounts.

To form a basis for our opinion regarding discharge of liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President. We also examined whether any Board member or the President in some other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and consolidated accounts have been prepared in accordance with the Annual Accounts Act, thus providing a true and fair view of the Company's and the Group's earnings and financial position, in accordance with generally accepted accounting principles in Sweden.

We recommend that the Annual General Meeting adopt the Parent Company and consolidated income statements and balance sheets, distribute the profit in the Parent Company in accordance with the proposal in the Report of the Directors and discharge the members of the Board of Directors and the President from liability for the financial year.

Torekov, Sweden, March 1, 2004

Ernst & Young  
Ingvar Ganestam  
Authorized Public Accountant, Chief Auditor

## Board of Directors



Krister Jorlén, Claes Warnander, Carl-Gustav Gejde, Erik Paulsson, CG Sondén, Henrik Jorlén, Gun Boström, Georg Brunstam, Magnus Bergqvist, Björn Jacobsson, Mats Engvie

### Board of Directors

**Carl-Gustaf Sondén, Chairman**  
Born 1945  
Shareholding: 12,000  
Board member since 2003  
Other directorships:  
Chairman, Skåne Marin AB  
Board member, Lindab AB, NP Nilssons  
Trävaru AB and NyföretagarCentrum  
Skåne NordVäst

**Erik Paulsson**  
Born 1942  
President, Wihlborgs Fastigheter AB  
Shareholding incl. family and company  
holdings: 598,775  
Board member since 2003  
Other directorships:  
Chairman, SkiStar AB  
Board member, Klövern AB and  
Wihlborgs Fastigheter AB

**Claes Warnander**  
Born 1943  
President and CEO, Haldex AB  
Shareholding: 1,960  
Board member since 1999  
Other directorships:  
Velux A/S, ABA Holding AB and  
Emotron AB

**Gun Boström**  
Born 1942  
Shareholding incl. family holdings:  
1,621,520  
Board member since 1971

**Krister Jorlén**  
Born 1933  
Shareholding incl. family holdings:  
497,336  
Board member since 1969

**Henrik Jorlén**  
Born 1948  
Shareholding incl. family holdings:  
576,100  
Board member since 1974

**Carl-Gustav Gejde**  
Born 1949  
President, Calle Gejde AB  
Shareholding: 48,000  
Board member since 2000  
Other directorships:  
Calle Gejde AB, Marianne's Farm AB,  
Bejoken AB, Treform AB and Augumenta  
Invest AB

**Georg Brunstam**  
Born 1957  
President and CEO, Nolato AB  
Shareholding incl. family holdings:  
10,000  
Board member since 2003  
Other directorships:  
Nibe Industrier AB

**Magnus Bergqvist**  
Born 1955  
Employee representative, LO,  
Nolato Sunne AB  
Shareholding: 0  
Board member since 1990

**Björn Jacobsson**  
Born 1971  
Employee representative, LO,  
Nolato Gota AB  
Shareholding: 0  
Board member since 2000

**Mats Engvie**  
Born 1964  
Employee representative, PTK,  
Nolato Alpha AB  
Shareholding: 840  
Board member since 1997

### Deputy members

**Ewa Norrman**  
Born 1951  
Employee representative, PTK,  
Nolato Plastteknik AB  
Shareholding: 0  
Deputy member since 1997

**Lars Stare**  
Born 1944  
Employee representative, LO,  
Nolato Alpha AB  
Shareholding: 0  
Deputy member since 2001

**Arne Silfvergren**  
Born 1973  
Employee representative, LO,  
Nolato Lövepac AB  
Shareholding: 0  
Deputy member since 2001

### Auditors

**Ernst & Young AB**

Chief auditor  
Ingvar Ganestam  
Born 1949  
Authorized Public Accountant  
Auditor in Nolato since 2000

### Nomination committee

The Company's nomination committee  
consists of Board members CG Sondén,  
Erik Paulsson and Henrik Jorlén

### Compensation committee

The company's compensation  
committee consists of Board members  
CG Sondén and Henrik Jorlén

# Group Management

The Group's Executive Committee consists of four people:  
The President and CEO, the CFO and the heads of Nolato Telecom and Nolato Medical.

## Executive Committee

Georg Brunstam  
Born 1957  
President and CEO  
and head of Nolato Industrial  
Sweden since 2003  
Joined Nolato in 2003  
Shareholding, incl. family  
holdings: 10,000

Tommy Johansson  
Born 1947  
Head, Nolato Telecom since 2001  
Joined Nolato in 1989  
Shareholding, incl. family  
holdings: 8,400  
Options equivalent to 8,000 shares

Per-Ola Holmström  
Born 1964  
Chief Financial Officer since 1995  
Joined Nolato in 1995  
Shareholding, incl. family  
holdings: 1,442  
Options equivalent to 10,000 shares

Peter Krikström  
Born 1949  
Head, Nolato Medical since 2003  
Joined Nolato in 1997  
Shareholding, incl. family  
holdings: 1,500  
Options equivalent to 5,500 shares



Peter Krikström, Georg Brunstam, Tommy Johansson, Per-Ola Holmström

For purposes of strategic management of the Group, the Executive Committee is supplemented during several meetings every year by the head of the Nolato Industrial Central Europe business area and by the marketing managers of Nolato Telecom and Nolato Medical, respectively.



Esa Niemi  
Born 1948  
VP Marketing and Sales,  
Nolato Telecom since 2000  
Joined Nolato in 1998  
Shareholding, incl. family  
holdings: 700  
Options corresponding to  
5,500 shares



Magnus Nilsson  
Born 1966  
Head of Nolato Industrial  
Central Europe since 2002  
Joined Nolato in 1998  
Shareholding, incl. family  
holdings: 30



Christer Wahlquist  
Born 1971  
Marketing Manager, Nolato Medical  
since 2000  
Joined Nolato in 1996  
Shareholding, incl. family  
holdings: 1,500

## Annual Meeting and financial information

### Annual Meeting

Shareholders are welcome to attend Nolato's Annual Meeting at 2:00 p.m. on Wednesday, April 28, 2004 at the Grevie sports park (Idrottsparken), not far from the Group's headquarters in Torekov, Sweden.

Light refreshments and beverages will be served after the Annual Meeting.

### Registration

Shareholders who wish to participate in the proceedings at the Annual Meeting should register with the company no later than 4:00 p.m. on Wednesday, April 21, 2004.

Registration can be made using the postage paid response card enclosed with the Annual Report sent to shareholders, by letter to Nolato AB, SE-260 93 Torekov, Sweden, by e-mail to [nolatoab@nolato.se](mailto:nolatoab@nolato.se) or by fax to +46 431 44 22 91.

When registering, shareholders should state their name, address, telephone number, personal ID number or corporate identity number, number of shares and any assis-

tants. If participation is supported by proxy, registration certificate or other authorization document, this should be sent to the Company well before the Annual Meeting.

### Right to participate

Only shareholders entered in the register of shareholders printed by VPC AB on Friday, April 16, 2004 have the right to participate in the Annual Meeting following registration.

Shareholders who, through the trust department of a bank or other manager, have registered their shares in the name of a nominee, must temporarily register the shares in their own name to have the right to participate in the Annual Meeting following registration. In order for this registration to be entered in the register of shareholders no later than Friday, April 16, 2004, shareholders must request re-registration by the manager no later than a few banking days prior to this date.

### Financial information

All financial information will be posted on Nolato's web site, [www.nolato.com](http://www.nolato.com), as soon as it is published.

During 2004, financial information will be released as follows:

Interim Report, January – March 2004:

– April 28, 2004

Annual Meeting:

– April 28, 2004

Interim Report, January – June 2004:

– August 11, 2004

Interim Report, January–September 2004:

– October 26, 2004

Per-Ola Holmström, CFO, is responsible for Nolato's financial information.

You can reach him:

by telephone at +46 431 44 22 93 or

by e-mail at [per-ola.holmstrom@nolato.se](mailto:per-ola.holmstrom@nolato.se)







**Nolato AB**

SE-260 93 Torekov, Sweden  
Telephone: +46 431 44 22 90  
Fax: +46 431 44 22 91  
Internet: [www.nolato.se](http://www.nolato.se)  
E-mail: [info@nolato.com](mailto:info@nolato.com)

**Nolato Alpha**

Box 2072, SE-291 02 Kristianstad  
Sweden  
Street address: Tegelbruksvägen 15  
Telephone: +46 44 18 60 00  
Fax: +46 44 12 70 80  
E-mail: [alpha@nolato.se](mailto:alpha@nolato.se)

**Nolato Beijing**

402 Longsheng Industrial Park  
7, Rong Chang Road East  
Beijing Development Area  
Beijing 100176, P.R. China  
Telephone: +86 10 6787 2200  
Fax: +86 10 6787 2671  
E-mail: [beijing@nolato.com](mailto:beijing@nolato.com)

**Nolato Gota**

Box 29, SE-533 21 Götene, Sweden  
Street address: Alsborgsgatan 2  
Telephone: +46 511 34 21 00  
Fax: +46 511 34 21 01  
E-mail: [gota@nolato.se](mailto:gota@nolato.se)

**Nolato Lövepac**

Ringvägen 5,  
SE-280 40 Skånes Fagerhult, Sweden  
Telephone: +46 433 323 00  
Fax: +46 433-323 02  
E-mail: [lovepac@nolato.se](mailto:lovepac@nolato.se)

**Nolato Medevo**

SE-260 93 Torekov, Sweden  
Street address: Nolatovägen  
Telephone: +46 431 44 22 60  
Fax: +46 431 44 22 61  
E-mail: [medevo@nolato.se](mailto:medevo@nolato.se)  
Production Lomma:  
Box 28, SE-234 21 Lomma, Sweden  
Street address: Koppargatan 13

**Nolato Plastteknik**

Box 4123, SE-422 04 Hisings Backa  
Sweden  
Street address: Exportgatan 59  
Telephone: +46 31 58 84 00  
Fax: +46 31 52 69 82  
E-mail: [plastteknik@nolato.se](mailto:plastteknik@nolato.se)

**Nolato Polymer**

SE-260 93 Torekov, Sweden  
Street address: Nolatovägen  
Telephone: +46 431 44 22 00  
Fax: +46 431 44 22 01  
E-mail: [polymer@nolato.se](mailto:polymer@nolato.se)  
Production Ängelholm:  
Framtidsgatan 6  
SE-262 73 Ängelholm, Sweden

**Nolato Protec**

HU-9200 Mosonmagyaróvár, Hungary  
Jánossomorjai utca 3  
Telephone: +36 96 578770  
Fax: +36 96 578778  
E-mail: [protec@nolato.com](mailto:protec@nolato.com)

**Nolato Silikonteknik**

Bergsmansvägen 4, SE-694 91 Hallsberg  
Sweden  
Telephone: +46 582 889 00  
Fax: +46 582 889 99  
E-mail: [silikonteknik@nolato.se](mailto:silikonteknik@nolato.se)

**Nolato STG**

Box 44, SE-280 70 Lönsboda, Sweden  
Street address: Hammarvägen  
Telephone: +46 479 252 00  
Fax: +46 479 252 10  
E-mail: [stg@nolato.se](mailto:stg@nolato.se)

**Nolato Sunne**

Box 116, SE-686 23 Sunne, Sweden  
Street address: Sundgatan 21  
Telephone: +46 565 173 00  
Fax: +46 565 173 73  
E-mail: [sunne@nolato.se](mailto:sunne@nolato.se)

**Nolato Tallinn**

Peeterburi tee 47,  
EE-11 415 Tallinn, Estonia  
Telephone: +372 6 052 180  
Fax: +372 6 052 185  
E-mail: [tallinn@nolato.se](mailto:tallinn@nolato.se)

