



Nolato AB (publ) Annual Report 2004

Nolato Annual Report 2004

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Some common uncommon words in Nolato's Annual Report

EMS

Electronic Manufacturing Services, company that takes responsibility for activities such as final assembly and configuration of the mobile telephones.

Injection mould

An injection mould consist of two halves of a mould, whose cavity, when the halves are put together, is the same as the form of the product.

Injection moulding

Industrial process for manufacturing products and components in materials such as thermoplastic. By pressing fluid plastic into an injection mould (see above), products are created in the form desired.

Mechanical modules

A variety of different components that are assembled together to construct, for instance, the fronts of a mobile telephone, including the display window, gaskets, buttons, speaker, microphone etc.

OEM

Original Equipment Manufacturer, company that develops and markets mobile telephones. Examples include Ericsson, Nokia and Siemens.

ODE

Original Development Engineering, company that provides project design and development. Also called design house.

ODM

Original Development Manufacturer, company that provides complete mobile telephones, including development, industrialization and manufacturing, which are then marketed under a second company's brand name.

Polymer material

Plastic, TPEs (thermoplastic elastomers) and rubber are examples of polymer materials.

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.

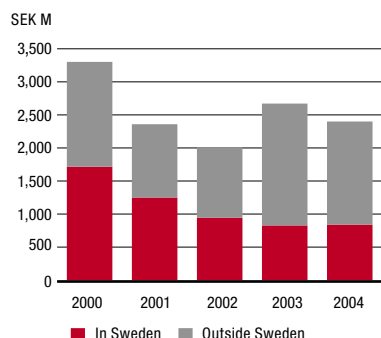
The unifying theme at Nolato, ever since we started 67 years ago, is our goal-driven investment in experience and innovation.



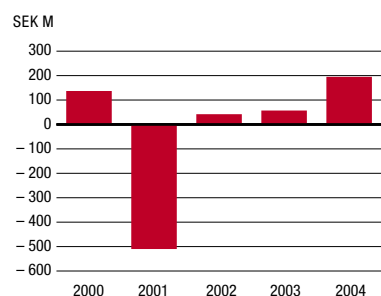
With our strong customer focus, in-depth knowledge of the industry, effective organizations and skilled, dedicated employees, we are a leading developer and manufacturer in our three areas of operation: Nolato Telecom, Nolato Industrial and Nolato Medical.

Experience and Innovation

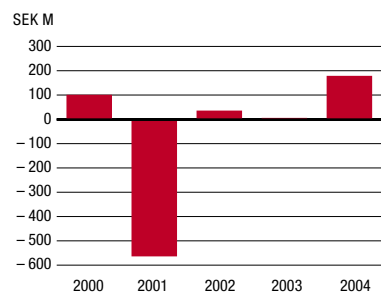
Net sales



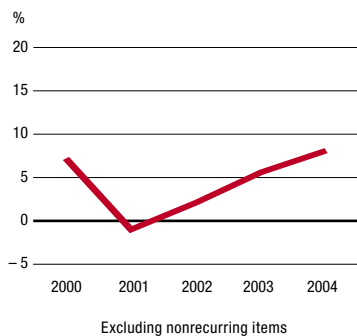
Operating income



Income after financial items



Operating margin



Rickard Bengtsson and Henrik Rosengren

Business mission

Nolato is a high-tech developer and manufacturer of polymer components and product systems for leading customers in telecommunications, automotive products, white goods, medical technology, hygiene and other select industrial segments.

Our Basic Principles

Important basic principles in our operations are expertise and being business-like, long-term customer relationships, decentralization, being well organized and safeguarding the environment.

67 years of experience

Nolato was founded 1938 in Torekov, Sweden, where the corporate office is still located. The Company was listed on the stock market

in 1984, and Nolato's Class B share is traded today on the Stockholm Stock Exchange's O-list and is included in its Attract 40 list.

Close collaboration with customers

Our operations are based on in-depth expertise on polymers.

The foundation of our work is close collaboration with customers. By participating in their projects at an early stage, Nolato can help them develop their products and offer high-quality manufacturing and further processing of customer products and complete systems.

International operations

At year-end 2004 Nolato had 3,264 employees in 14 development and production units in Sweden, China, Hungary och Estonia.

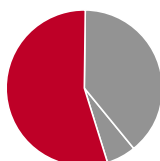
Group highlights	2004	2003	2002	2001	2000
Net sales, SEK M	2,401	2,671	2,011	2,359	3,302
Operating income, SEK M	195	57	42	- 510	137
Income after financial items, SEK M	179	6	36	- 564	101
Income after tax, SEK M	130	- 35	60	- 429	52
Cash flow after investments, SEK M	231	228	-37	292	- 404
Operating margin (excl. nonrec. items), %	8.1	5.6	2.1	- 1.0	7.2
Equity/assets ratio, %	41	31	33	21	28
Earnings per share, SEK	4.95	- 1.35	2.45	- 20.05	2.45
Average number of shares, thousands	26,307	26,307	24,466	21,397	21,397
Number of employees	2,700	2,353	1,992	2,218	2,679

Nolato Group

Three profit centers

Nolato Telecom

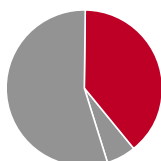
Sales (SEK M): 1,342 (1,686)
Operating income (SEK M): 133 (109)
Operating margin (%): 9.9 (6.5)



Share of Group net sales

Nolato Industrial

Sales (SEK M): 936 (912)
Operating income (SEK M): 58 (– 34)
Operating margin (%): 6.2 (6.5*)

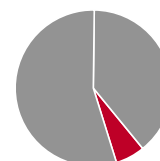


Share of Group net sales

* Excluding nonrecurring items

Nolato Medical

Sales (SEK M): 137 (102)
Operating income (SEK M): 26 (16)
Operating margin (%): 19.0 (15.7)



Share of Group net sales

Four business areas



Nolato Telecom

A world-leading, global developer and manufacturer of polymer systems products for mobile phones and telecom infrastructure.

Sales, development and production:

- Nolato Alpha, Kristianstad, Sweden
- Nolato Beijing, China
- Nolato Tallinn, Estonia
- Nolato Lövepac, Skånes Fagerhult, Sweden and Beijing, China
- Nolato Silikonteknik, Sweden

Example of customers: Siemens, Sony Ericsson, Nokia, Flextronics, Elcoteq, Solectron and Ericsson.



Nolato Industrial Sweden

Market leader in Scandinavia in the development and injection moulding of polymer products.

Sales, development and production:

- Nolato Gota, Sweden
- Nolato Plastteknik, Sweden
- Nolato Polymer, Sweden
- Nolato STG, Sweden
- Nolato Sunne, Sweden

Example of customers: Electrolux, Flextronics, Haldex, Husqvarna, Ifö, Ikea, Lear, Lindab, MCT Brattberg, Opel, Plastal, Saab Automobile, Sapa, Scania, TI Automotive, Volvo Car, Volvo Truck and Whirlpool.



Nolato Industrial Central Europe

Market leader in Central Europe in the development and injection moulding of polymer products.

Sales, development and production:

- Nolato Protec, Mosonmagyaróvár, Hungary

Example of customers: SCA, Lear, Woco, Eirng Klinger, FCI, Philips, Solectron and Sagem.



Nolato Medical

Leading development and production partner in medical technology in Scandinavia and elsewhere in Europe.

Sales, development and production:

- Nolato Medevo, Torekov and Lomma, Sweden
- Production also at Nolato Protec Mosonmagyaróvár, Hungary

Example of customers: Astra Tech, AstraZeneca, Biomet Merck, Coloplast, Hemocue, Pfizer, Pharmacia Diagnostics, Radi Medical Systems and S:t Jude Medical.

One of the best years in Nolato's history

Sharp improvement in earnings and good financial position

Dear shareholders,

2004 was one of the best years in Nolato's history. We had a sharp improvement in earnings, strengthened our financial position and broadened our customer base.

Today Nolato is a stable, well-positioned international Group, with two thirds of both its sales and employees outside Sweden.

With our dedicated employees and in-depth expertise, we have achieved a strong position as a systems supplier and development partner to leading customers throughout the world.

Three business sectors

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

Nolato Telecom is a world-leading global developer and manufacturer of polymer systems products for mobile phones. The market is global and is characterized by its small number of customers and suppliers. During the year, Nolato Telecom was restructured in order to adapt its operations and geographic location to customer wishes. The operating margin improved sharply and the customer base was broadened.

Nolato Industrial has its base in Scandinavia and Central Europe and operates in a fairly fragmented market with a large number of customers and suppliers. Nolato Industrial is the market leader in Scandinavia and Central Europe. In Sweden, earnings were stable, with good volume, but unfortunately difficulties continued in Central Europe. The cost-cutting measures that were implemented had their full impact, but because of low volume, Hungarian operations continued to show negative earnings.

Nolato Medical, which is entirely focused

on customers in medical technology and related segments, reported strong growth and a sharp increase in earnings.

What unites the three sectors is in-depth expertise in the polymers field and similar technologies both in product development and manufacturing.

Profitable growth in China

Our recently established business in China has been very successful and continued its strong, profitable growth during the year. The number of Nolato employees in China more than doubled during 2004 to roughly 1,600 employees at year-end.

During 2004, we expanded operations, including a new painting line for mobile telephones and clean rooms for high-quality manufacture of telephone display windows. And the expansion continues, with among other things a strategic investment in increased capacity for mould production. Resources for development, project management and production are being continually augmented in order to meet the customers' wish that Nolato Beijing be a complete “one-stop shop” in polymer systems products for mobile phones.

At the same time, there are considerable development and production resources in our Swedish unit in Kristianstad, which continues to be Nolato's European competence center for development and project management in the telecom sector.

The specialist companies Nolato Silikon-teknik and Nolato Lövepac showed good growth with their niche products for mobile telephone customers.

Strong competitiveness in Scandinavia

During the year, we further strengthened Nolato Industrial's market positions in Scan-

dinavia. With our high level of automation, effective organizations, strong customer focus and skilled, dedicated employees, we are clear market leaders. We have well-functioning companies, with strong management and skilled employees. Customer focus, high efficiency and a low rate of absence due to illness are obvious elements in our operations.

The greatest threat to operations in Sweden is that our own customers will not be able to cope with their competitive situation and will instead be compelled to move production to countries with lower direct labor rates. During the year, we saw examples of this, which unfortunately in some instances had an adverse effect on us.

Difficulties in Hungary

Our business operations in Hungary have unfortunately not achieved the improvement in profitability I had expected. The management of Nolato Protec has worked hard to increase efficiency and reduce costs, but at the same time volume has been too low, which has had a negative impact on revenues.

We carried out an overview of profitability by segment and customer product, which resulted in Nolato Hungary ending most of its production in the household and consumer electronics customer segments.

Operations in Hungary will continue to focus on customers in automotive components, hygiene/medical and selected industrial sectors. A number of new customers and products in these areas were taken on during the year, with production start-up in 2005 and 2006.

Strong growth in medical technology

Nolato Medical grew sharply in 2004, increasing sales by 34 percent. A large number of new projects were taken on as a

result of dedicated work in recent years to focus on selected customers as well as expand and streamline production.

Development projects also increased, both in number and volume.

During the year, Nolato Medical established resources at Nolato Protec in Hungary, to produce projects for important new customers in hygiene and medical technology. These new customers are partly a result of a strategic investment in the European market beyond Scandinavia.

Strong financial position

During 2004, Nolato strengthened its financial position considerably, which was also one of our priorities for the Group in 2004. The equity/assets ratio increased from 31 percent to 41 percent, which is the highest level since 1999.

In the last two years, we also generated strong cash flows thanks to better earnings and good control of operating capital. Net liabilities were sharply reduced and totaled SEK 163 M at the end of the year.

Share price up 17 percent

As of 2004, Nolato's share is included in the Stockholm Stock Exchange's (Stockholmsbörsen) Attract 40 list.

The price of a Nolato Class B share rose from SEK 49.50 on December 31, 2003, to SEK 58.00 on December 31, 2004, an increase of 17 percent. The rise is 6 percentage points better than the average for all shares listed on the Attract 40 list.

Nolato's Board of Directors adopted a dividend policy in early 2005 which specifies that the annual dividend shall on average be equal to roughly 35 percent of net income. The Board's proposed dividend for 2004, which is SEK 1.75 per share, is more than double the dividend for 2003.

Priorities for 2005

During 2005, we will continue to work for a further expansion of our customer base. Other priorities are improving earnings in Hungary, creating further customer focus in tele-

com operations and increasing the market share of Nolato Industrial in Sweden.

We see good opportunities for favorable development in all business areas. We are also open to acquisitions in Nolato Industrial and Nolato Medical.

For Nolato Telecom, we anticipate that sales during 2005 will be unchanged or slightly lower, while Nolato Industrial and Nolato Medical are expected to have stable volume.

Changes in the Board of Directors

Board member Krister Jorlén has informed the Board that he is declining re-election at the Annual Meeting on April 27. Mr. Jorlén began his long years of service at Nolato as early as 1953 and became CEO in 1968, when he succeeded his father, Bernhard Jorlén, one of Nolato's founders. When he resigned his position as CEO in 1998, Nolato had grown as a Group many times over. Mr. Jorlén has made enormous contributions to

Nolato and we have him to thank for the stable foundation that Nolato rests on today.

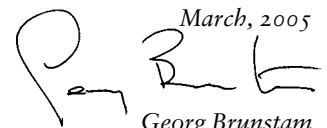
Gratitude for fine contribution

During the year, we carried out extensive restructurings at Nolato Telecom. Without the Nolato culture, with our guiding principles to lead the way, it would not have been possible to carry them out. I regret that the restructurings unfortunately meant that we were forced to let employees go.

Finally, I would like to take this opportunity to thank all Nolato employees for their dedicated and excellent work during 2004, which has made possible one of the best years to date for Nolato.

Torekov, Sweden

March, 2005



*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, the automotive industry, household goods, medical technology, hygiene and other selected industrial segments.

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



High-tech developer and manufacturer of polymer components and systems

Common foundation for the Group

Operations at Nolato are based on a common foundation:

- In-depth expertise in polymers
- Similar technologies in both production and manufacture

- The down-to-earth, ethical and business-like approach, which is formulated in the Nolato philosophy – *Our Basic Principles* (see next page).

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

Achievement of objectives

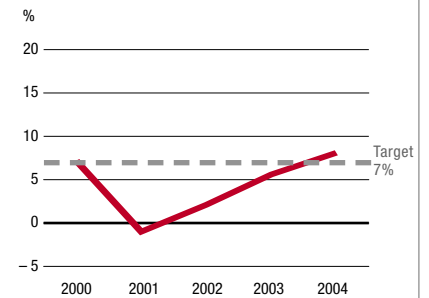
Since 2004, Nolato has disclosed its financial objectives to the stock market. These objectives are described on the preceding page. The objectives are to be seen as targets on average over a business cycle.

Achievement of these objectives over the last five years is shown in the diagram to the right. Nolato exceeded all these levels during 2004, when the operating margin was 8.1 percent (target 7 percent), return on capital employed was 18.4 percent (target 15 per-

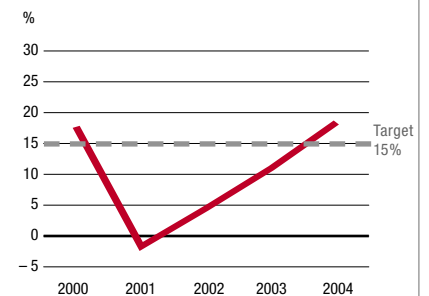
cent) and the equity/assets ratio at the end of the year was 41 percent (target 35 percent).

The improved operating margins for Nolato Telecom and Nolato Medical, and the stable margin for Nolato Industrial, were the primary reasons why the targets could be achieved in 2004. Combined with a lower capital commitment and reduced balance sheet, the return on capital employed and equity/assets ratio also improved at the same time.

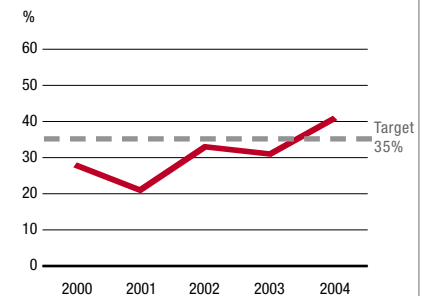
Operating margin



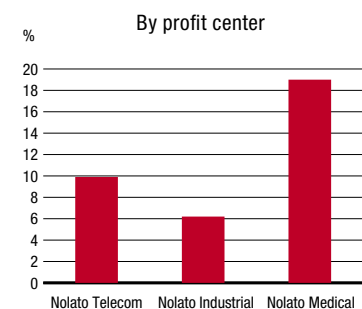
Return on capital employed



Equity/assets ratio



Operating margin, 2004



Corporate philosophy

Nolato has a very strong philosophy, which is the guiding force of the Group.

The foundation of this corporate philosophy – Our Guiding Principles – grew out of the down-to-earth, ethical and businesslike philosophy that has guided Nolato since its start 67 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.

These basic principles have been translated into English, Estonian, Russian, Hungarian and Mandarin in order to reach all employees.

During 2004, the management teams in the Nolato companies updated their knowledge about and awareness of Nolato's culture, values and strategies in order to be able to convey them to employees, customers and other interested parties.

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 custom-

ers 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.

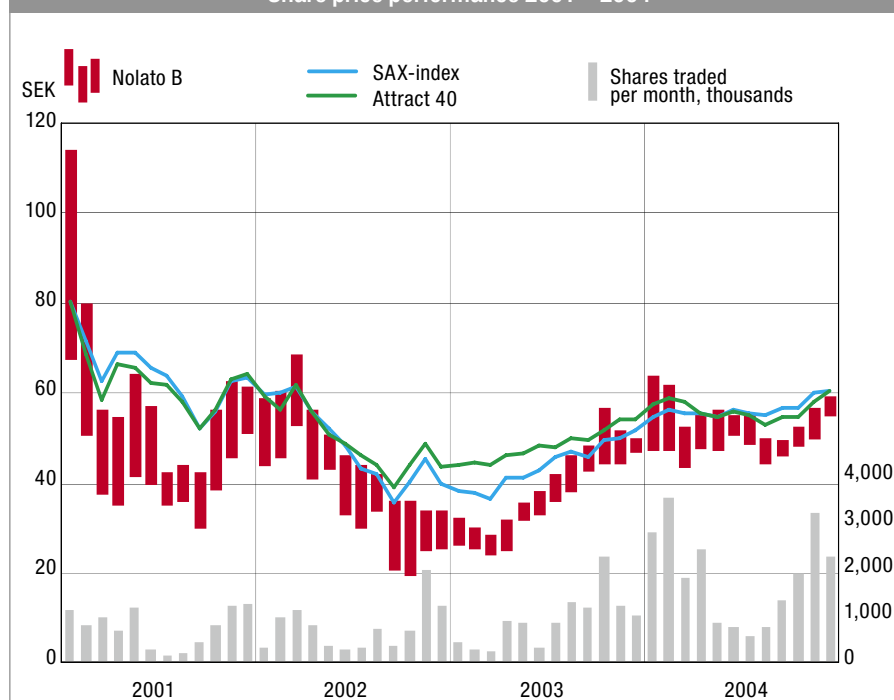
We shall work toward adapting the materials in our products and processes to an eco-cyclical way of thinking.

67 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.
- 1998** The first major unit outside Sweden is established: a plant for mobile telephone components in Fort Worth, Texas.
- 1999** Nolato establishes 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 plastic 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.
- 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 business area. 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.
- 2004** The Nolato share is included in the Stockholm Stock Exchange's list of especially attractive shares, Attract 40. Acquisition of medical technology operations for Astra Tech from Bergman & Beving. Strong expansion for Nolato Telecom in China.

Share data and shareholders

Share price performance 2001 – 2004



Changes in share capital, 1984 – 2004

Year		Increase in share capital (SEK)	Par value per share (SEK)	Total number of shares	Total share capital (SEK)
1984	New share issue ¹	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 ²	5,000,000	25	1,515,200	37,880,000
1986	New share issue ³	3,529,400	25	1,656,376	41,409,400
1994	5:1 split ⁴	0	5	8,281,880	41,409,400
1994	New share issue ⁵	3,750,000	5	9,031,880	45,159,400
1994	Conversion ⁶	700,615	5	9,172,003	45,860,015
1995	Conversion ⁶	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 ⁷	37,582,010	5	26,307,408	131,537,040

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

² Targeted new share issue in connection with acquisition of the company Nolato Lövepac

³ Targeted new share issue in connection with acquisition of the company Nolato Gejde

⁴ Change in the par value of one share from SEK 25 to SEK 5

⁵ Targeted new share issue in connection with acquisition of the company Nolato Plastteknik

⁶ Conversion and issuance of new shares when converting convertible loan

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

The Nolato share

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 Stockholm Stock Exchange's Attract 40, 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 17 percent during the year and were quoted at SEK 58.00 (49.40) at the end of 2004.

The highest and lowest market prices during the year were SEK 64.00 and 43.50, respectively. Total market capitalization of Nolato AB on December 31, 2004, was SEK 1,526 M.

During 2004, trading in Nolato shares on the Stockholm Stock Exchange totaled 21.4 million shares (10.3). The turnover rate, i.e. the degree of liquidity, was 91 percent (44).

Ownership structure

On December 31, 2004, Nolato AB had 9,265 shareholders (8,738).

The portion of shares held by Swedish institutions and funds was 27 percent of capital (36). The portion held by foreign owners was 4 percent of capital. The ten largest owners accounted for 54 percent (63) of the share capital and 76 percent of the votes (81).

Board of Directors and Auditors

Information about the Board of Directors and the Auditors is found on page 68. Information about corporate governance is found on pages 33 – 35.

Remuneration to senior executives

Information about senior executives is found on page 69. A discussion of the Group's principles for remuneration of senior executives, variable remuneration, pensions etc. as well as actual remuneration and other benefits during 2004 appears in Note 3 on page 56.

Dividend policy

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

The Board's long-term dividend policy means that the Board intends to propose a dividend that is on average equal to roughly 35 percent of net income.

For the financial year 2004, a dividend of SEK 1.75 (0.80) 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. This includes working actively in meetings with analysts, share investors and the media.

During the year, the Nolato shares were followed and analyzed by the following analysts:

- Swedbank – Jan Ihrfelt
+46 8 585 91 848
- Kaupthing Bank – Mikael Laséen
+46 8 791 4827
- Carnegie – Charlotte Widmark
+46 8 676 8787
- ABG Sundal Collier – Magnus Innala
+46 8 566 28 633
- Evli Bank – Bengt Mölleryd
+46 8 407 8038

The largest shareholders (December 31, 2004)

Shareholder	Total shares	Class A shares	Class B shares	% of capital	% of votes
Jorlén family	3,142,991	1,169,700	1,973,291	12.0	26.7
Boström family	3,000,370	1,169,700	1,830,670	11.4	26.4
Paulsson family	1,673,640	420,000	1,253,640	6.4	10.7
Skandia/Carlson mutual funds	2,513,322	0	2,513,322	9.6	4.9
Skandia	1,922,210	0	1,922,210	7.3	3.8
Carnegie mutual funds	550,000	0	550,000	2.1	1.1
Svolder	500,000	0	500,000	1.9	1.0
Robur mutual funds	455,220	0	455,220	1.7	0.9
Church of Sweden	257,470	0	257,470	1.0	0.5
Handelsbanken mutual funds	209,107	0	209,107	0.8	0.4
Others	12,083,078	0	12,083,078	45.8	23.6
Total	26,307,408	2,759,400	23,548,008	100.0	100.0

Breakdown of shareholders

Shareholders	% of capital	% of votes
Swedish owners	95.8	97.9
of which institutions etc.	27.1	14.0
of which others	68.7	83.9
Owners outside Sweden	4.2	2.1

Class of shares

	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

Breakdown of shareholdings by size (on December 31, 2004)

	Number of shareholders	Class A shares	Class B shares	% of capital	% of votes
1 – 500	5,463	—	1,058,758	4.0	2.1
501 – 1,000	1,792	—	1,445,846	5.5	2.8
1,001 – 5,000	1,625	—	3,562,659	13.6	6.9
5,001 – 10,000	170	—	1,293,263	4.9	2.5
10,001 – 15,000	59	—	742,609	2.8	1.5
15,001 – 20,000	24	—	432,202	1.6	0.9
20,001 –	132	2,759,400	15,012,671	67.6	83.3
Total	9,265	2,759,400	23,548,008	100.0	100.0

Per share data

	2004	2003	2002	2001	2000
Earnings per share after tax, excl. nonrecurring items, SEK ** 1	4.95	2.20	0.70	– 4.15	6.70
Earnings per share after tax incl. nonrecurring items, SEK ** 1	4.95	– 1.35	2.45	– 20.05	2.45
Shareholders' equity per share, SEK ** 2	25	22	24	16	34
Cash flow per share, SEK **	8.80	8.65	– 1.50	13.65	– 18.90
Market price on December 31, SEK **	58	49	30	55	111
Price/earnings ratio, times * ** 3	12	22	43	neg	17
Dividend (for 2004: proposed), SEK	1.75	0.80	0.50	0	0
Yield (2004 proposal), % 4	3.0	1.6	1.7	0	0
Dividend as a percentage of earnings per share (2004: proposed)	35	—	20	0	0
Average number of shares, thousands **	26,307	26,307	24,466	21,397	21,397
Price/equity ratio	2.3	2.2	1.2	3.4	3.3
Market capitalization, SEK M	1,526	1,300	789	1,174	2,368

* 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.



Lina Levin

A strong belief in the inherent capabilities of people

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 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. This provides, along with greater commitment, a good opportunity to clear up problems "from production floor to production floor" without unnecessary intermediaries.

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 devel-

opment 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.

Two thirds of employees outside Sweden

In 2004, the average number of employees in the Nolato Group was 2,700 (2,353), an increase of 15 percent compared to the previous year. Most of the increase was attributable to expansion in China, where Nolato Beijing more than doubled the number of employees during 2004.

At the end of 2004, the Nolato Group had 3,264 employees, consisting of 2,337 at Nolato Telecom, 822 at Nolato Industrial and 102 at Nolato Medical. About two thirds of the Group's employees worked outside Sweden.



Liu Jia

Low rate of absence due to illness

For many years, Nolato has attached great importance to creating good physical working environments, providing natural light, good housekeeping, functional equipment and good working tools. 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 2004, the rate averaged 3.6 percent (5.3) for all the Group companies, with 1.7 percent of this long-term absences due to illness. However, there are large variations between Group companies, with a low rate of 0.3 percent (1.0) of absence due to illness at Nolato Beijing, and a high of 9.8 percent (13.3) at Nolato Protec,

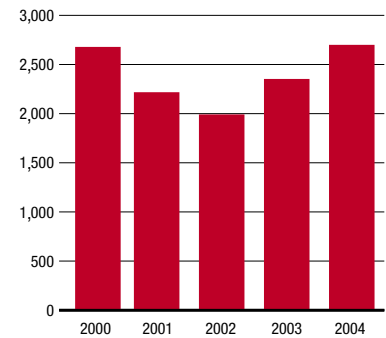
Hungary. The average for the Group's Swedish companies is 6.5 percent (5.7).

Outplacement help

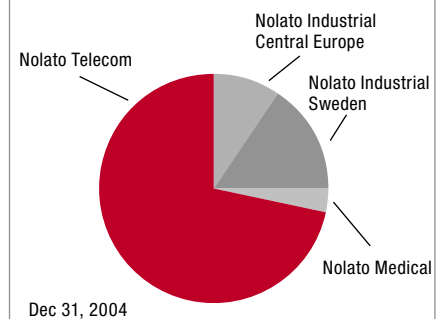
Unfortunately, at some of the Group's companies, it has been necessary to issue notices of termination to employees. The biggest personnel reductions during the year took place at Nolato Alpha in Kristianstad, Sweden, where 100 people were given notice in April 2004. Another 32 people were given notice in February 2005.

Nolato's ambition is to actively provide as much help as possible to people who have been terminated. The Company has initiated programs to ease the transition for the individual.

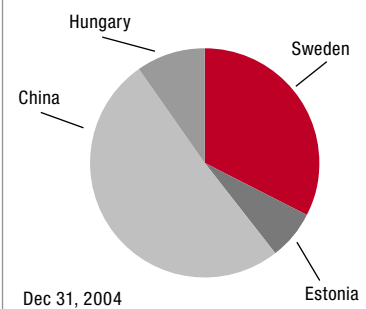
Average number of employees



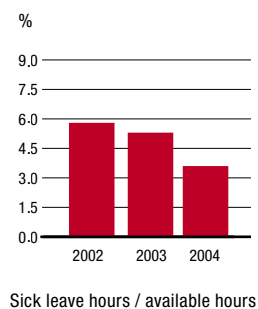
Employees by business area



Employees by country



Absence due to illness



Nolato's quality and environment work

Quality certifications

Nolato Alpha

ISO 9001:2000 (originally in 1999)
ISO 14001 (2000)

Nolato Beijing

ISO 9001:2000 (originally in 2002)
ISO 14001 (2002)

Nolato Gota

QS 9000 (originally in 2000)
ISO 14001 (1998)

Nolato Lövepac

QS 9000:1998 (originally in 1995)
ISO 16949:2002 (Q2 2005)
ISO 9001:2000 (Q2 2005)
ISO 14001 (1996)

Nolato Medevo

ISO 9001:2000 (originally in 1997)
ISO 13485:2003 (originally in 1998)
ISO 14001 (1999)

Nolato Plastteknik

ISO 9001 (originally in 1993)
QS 9000 (originally in 2001)
ISO 14001 (1999)

Nolato Polymer

ISO/TS 16949:2002 (originally in 2003)
ISO 9001:2000 (originally in 1994)
ISO 14001 (2000)

Nolato Protec

ISO 9001:2000 (originally in 1999)
ISO/TS 16949 (2004)
ISO 14001 (2004)

Nolato Silikonteknik

ISO 9001:2000 (originally in 1997)
ISO 14001 (to be certified in 2005)

Nolato STG

ISO 9001 (originally in 1994)
ISO 14001 (2000)

Nolato Sunne

ISO 9001:2000 (originally in 1996)
QS 9000 (originally in 1998)
ISO/TS 16949:2002 (originally in 2002)
ISO 14001 (1999)

Nolato Tallinn

ISO 9001:2000 (originally in 2001)
ISO 14001 (2002)

Quality work at Nolato

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.

Decentralized organization

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.

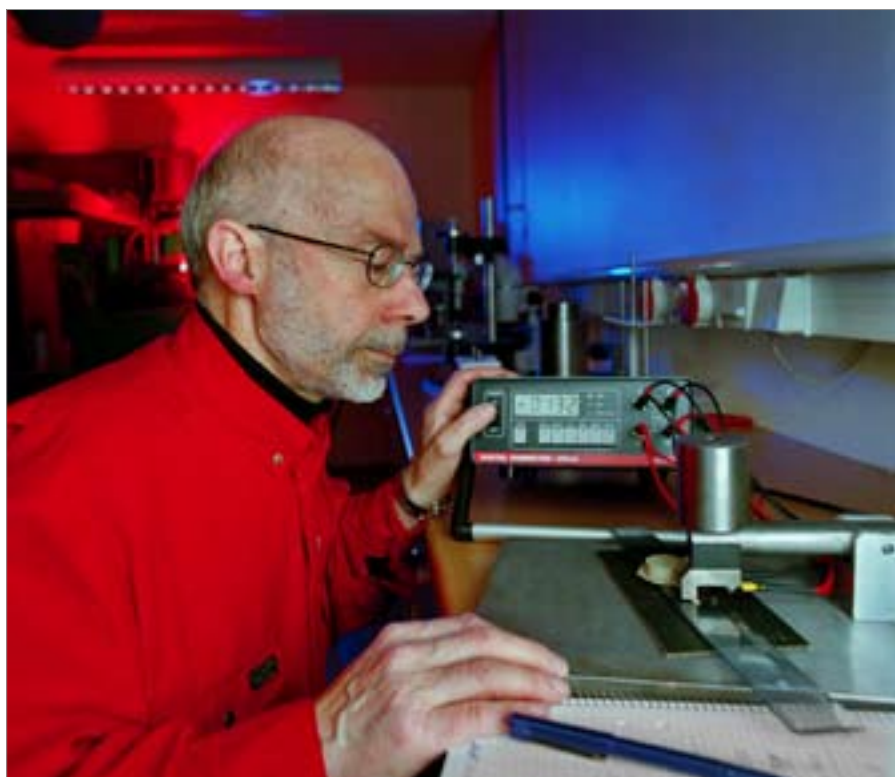
Continuing education and constant improvements provide employees with good opportunities to meet quality requirements.

Quality management system

All companies in the Group have well-established quality management systems that are certified either according to ISO 9001 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 production in clean rooms and are FDA registered.



Rune Gustavson

Environmental work at Nolato

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

Environmental work in the Group is decentralized and all companies except Nolato Silikonteknik are environmentally certified according to ISO 14001. Environmental certification of Nolato Silikonteknik is in progress and is expected to be completed in the first half of 2005.

Limited environmental impact

The main environmental impact consists of consumption of polymer raw materials for injection moulding and post-processing, production waste, transportation and water and energy consumption.

The diagrams to the right show the amount of waste, recycled material and energy consumption for Nolato as a whole and per employee.

Environmental projects

There is systematic work ongoing at Nolato to prevent damage from operations to employee health or to the environment.

Some examples during 2004:

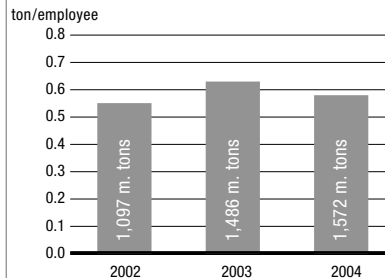
Nolato Beijing in China installed a highly efficient catalytic air purification system for VOC emissions from its painting facilities. The new air purification system is self-sufficient in heating and thus only needs small amounts of energy to operate. The degree of cleanliness is 96-98 percent.

In Hungary, Nolato Protec installed a new painting facility with separators for leftover paint, cleaning and water recirculation.

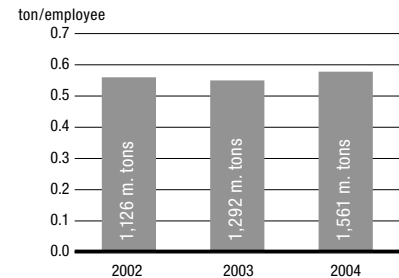
In Gothenburg, Sweden, Nolato Plastteknik is taking part in the environmental project "Using Environmental Care as a Competitive Advantage" together with other sub-suppliers to the automotive industry. The aim of the project is to design appropriate software tools to develop components for the automotive industry that are environmentally responsible.

Environmental highlights, 2002 – 2004

Burnable waste

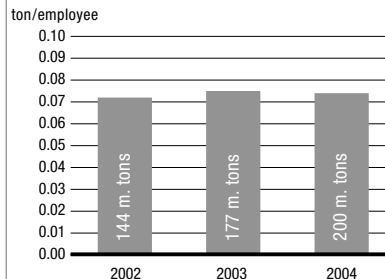


Disposal site waste



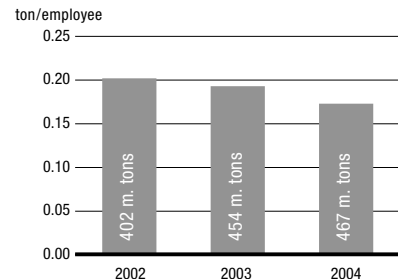
A common Group goal for 2005 is to reduce the amount of waste that is left at disposal sites.

Hazardous waste



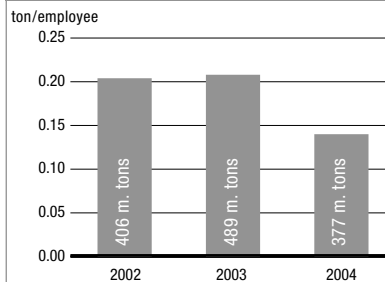
The increase in metric tons is due to the increase in painted products. Projects were continued in 2004 to further adapt the painting lines to improve environmental performance.

Recyclable

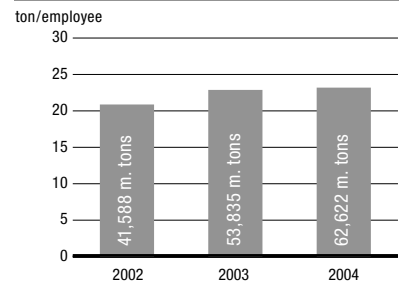


The recycling of plastic per employee decreased during the year, but the total amount of recycled plastic increased.

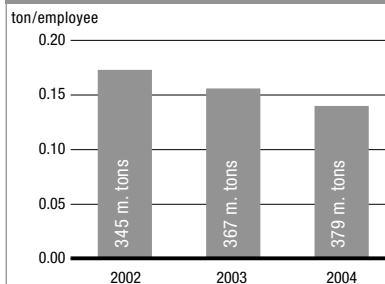
Other recycling



Water consumption

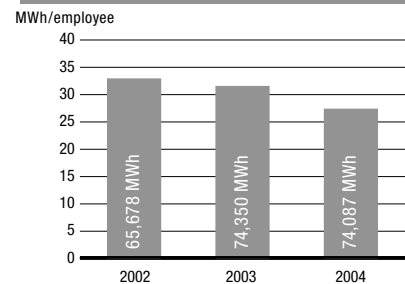


Fuel oil consumption



Waste heat from injection moulding machines is used for heating.

Electricity consumption



Nolato Telecom – Strong expansion in China

Nolato Telecom in brief

A world-leading, global developer and manufacturer of polymer systems products for mobile phones and telecom infrastructure.

Works in a market with a small number of customers and suppliers. Characterized by tight lead times from concept to finished product and the extremely short economic lifespan of each individual product.

Examples of customers: Siemens, Sony Ericsson, Nokia, Flextronics, Elcoteq, Solec-tron, Ericsson.

Sales in 2004: 1,342 SEK M

Operating income in 2004: 133 SEK M

Operating margin in 2004: 9.9 %

Number of employees on Dec. 31, 2004: 2,337

Polymer companies:

■ Nolato Alpha, Kristianstad, Sweden
Number of employees: 207
President: Claes Bjäreholt

■ Nolato Beijing, China
Number of employees: 1,641
President: Jonas Persson

■ Nolato Tallinn, Estonia
Number of employees: 231
President: Peeter Mõrd

Specialized companies:

■ Nolato Lövepac, Skånes Fagerhult, Sweden and Beijing, China
Number of employees: 99
President: Jörgen Karlsson
(before March 14, 2005 Glenn Schmidinger)

■ Nolato Silikonteknik, Hallsberg, Sweden
Number of employees: 146
President: Jan-Erik Lans



Head of business area
Tommy Johansson

Sales at Nolato Telecom totaled SEK 1,342 M (1,686), thus accounting for 55 percent (62) of total Group sales. Compared to 2003, sales were adversely affected by about SEK 320 M due to a decline in the sale of products with a high value of purchased components.

Operating income totaled SEK 133 M (109). The operating margin improved to 9.9 percent (6.5), mainly as an effect of the lower share of volume with a high value of purchased components, but also as a result of the growing expansion in China and good development in the companies specializing in shielding solutions and tapes.

Organization

Nolato Telecom consists of five companies, which work with customers in mobile telephones and in network products for telecom customers: three polymer companies that develop, manufacture and assemble systems components for mobile telephones 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 between companies. The principal work with our main global customers is carried out at the business area level, in order to create effective, coordinated project solutions.

Total service

Nolato Telecom is a world-leading player in the development and production of polymer systems products for the extremely fast-moving, competitive mobile telephone market. For example, one project involves injection moulding and post-processing of 10–15 parts, which are assembled to form complete mobile telephone modules, ready for the customer's final assembly.

What we offer is a comprehensive development and production chain, taking part in the process from the initial development stage to delivery of complete, assembled pol-



Nolato Telecom develops and manufactures products like mechanical modules for mobile telephones



Wang Ming

ymmer systems for the customer's final assembly. Nolato Telecom has a well-functioning combination of qualified development teams and efficient productive units in both Europe and Asia.

Nolato Telecom joins in the customer's development work at an early stage in order to provide knowledge about the choice of materials, production design, mechanical processes etc. With the continual expansion

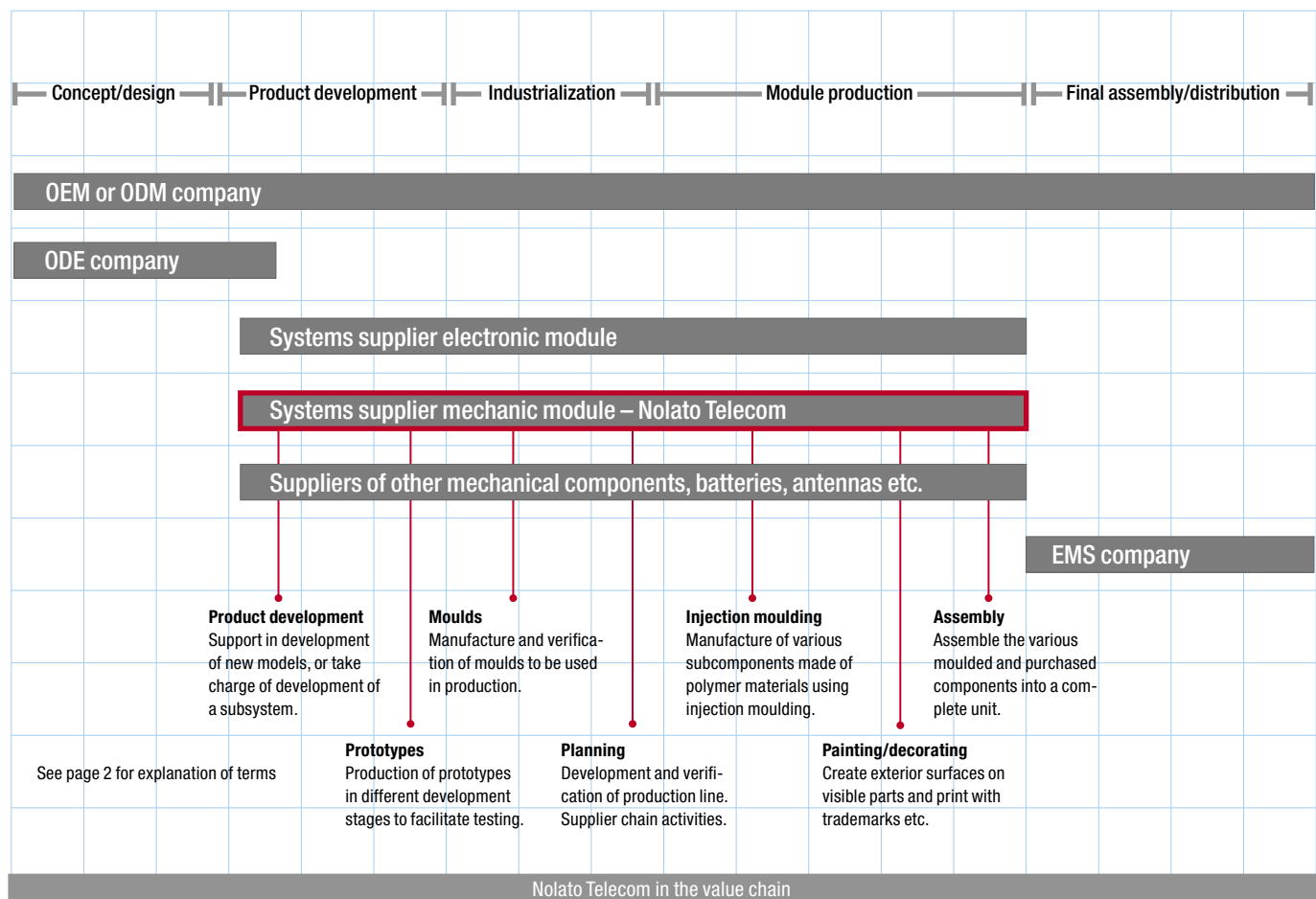
of resources and development of expertise, opportunities are created for taking over the entire development of these parts, based on the customer's basic specifications, thereby moving these positions another step forward in the value chain.

Customers choose who will help them develop products and manufacture them from an early stage in their product development. Nolato Telecom has a clear mar-

ket presence with its broad expertise in such fields as product development, prototype production, project management, mould manufacturing, industrialization, painting, decorating and assembly of complete subsystems.

Continued market growth

According to Gartner Dataquest, the global mobile telephone market broke a record in



2004, with more than 674 million mobile telephones sold, an increase of about 30 percent. According to Gartner, 730 million mobile telephones are expected to be sold in 2005, which means continued growth of about 8 percent.

At the same time, price pressure is strong, which means that the market's growth in value may even be negative.

According to Gartner, Nokia is the largest player in the mobile telephone industry, with a 30.7 percent market share for the full-year 2004. Motorola is second with 15.4 percent and Samsung third with 12.6 percent. Siemens, LG and Sony Ericsson are all at 6 – 7 percent.

Moving production to Asia

Lead times for the development and manufacture of mobile telephones are increasingly

shorter, as is the lifespan of individual models. This means ever greater demands for flexibility from manufacturers, along with the capacity to develop, which leads among other things to increased manual and semi-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 individual products are received in the market is precisely the basic reason for moving mobile handset production to countries with lower labor rates. With manual assembly, investment costs are also lower for each individual model.

At the same time, there are still products that mobile telephone companies, for different reasons, would like developed and manufactured in Europe. These may include proximity to their customers' own development

centers or the fact that their handsets mostly target the European market. Nolato is thus well positioned in the market, with both highly automated production in Sweden and semi-manual production in low-cost countries like China and Estonia.

Customers

Among Nolato Telecom's customers are the mobile telephone companies Siemens, Sony Ericsson and Nokia, as well as contract manufacturers like Flextronics, Elcoteq and Solectron. Ericsson is a major customer in network products, including products for the 3G network.

Competitors

Nolato is one of the leading, global players in this sector of the mobile telephone market. The main competitors are considered to

be the global players Perlos (Finland), Nypro (US), Balda (Germany) and Taiwan Green Point (Taiwan). Apart from these companies, there are a small number of small and mid-sized, more locally-based competitors, in Europe, Asia and Latin America.

Some contract manufacturers, like Flextronics and Foxconn, also have their own competing polymer production operations.

Developing globally unique technology

In order to stay on the cutting edge in terms of technological level, and to offer its customers technologies to thus be able to offer customers solutions that enhance their competitiveness, Nolato Telecom has an R&D unit that works exclusively with the development of future technical solutions.

The unit, for instance, has developed a globally unique, patented concept for producing injection moulds. The concept gives considerable advantages to customers through shorter lead times for mould manufacture and greater flexibility when starting 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, was used successfully during the year for a number of mobile telephone projects.

Also included in the testing stage is a new technique for digital decoration and labeling, which gives maximum flexibility to customers, allowing them to decorate and label their products late in their value chain.

Operations, 2004

During 2004, Nolato Telecom carried out a major restructuring of its production structure, in order to adapt operations and geographic location to its customers' wishes. This means that operations grew sharply in China, where many customers have their production. At the same time, Nolato was forced to make cutbacks in Sweden.

Sales declined during 2004, due partly to a decrease in the production of handset models with a high value of purchased components and partly to an ever growing portion of



Nolato Telecom offers customers both highly automated and semi-manual production

the profit unit's sales taking place in China. Because both price and cost levels are lower in China, the average unit price fell, which together with general price pressures had an adverse effect on sales, despite good volume and healthy profitability in its projects.

A number of important new mobile telephone projects were received during the year from Nolato Telecom's main customers, for production in China, Estonia and Sweden.

The past year has in many ways been distinguished by the continued rapid development of Nolato Telecom in China. The Chinese company, Nolato Beijing, continued its sharp expansion with good profitability and more than doubled the number of its employees in 2004, from 625 on January 1 to 1,641 on December 31. As a result, Nolato Beijing is Nolato's largest unit.

Investments and capacity expansion continued, with the objective of making Nolato Beijing a "one-stop shop" with both devel-

opment expertise and production capacity. During the year, investments included Nolato's own painting lines and mould manufacture. Nolato has considerable resources in Beijing today for development, project management, injection moulding, painting and assembly of complete product systems for mobile handsets.

Nolato can also offer customers manufacture of products like EMC/EMI shielding systems solutions and self-adhesive tapes for assembly and tightening.

Customer wishes for increased production in China unfortunately mean that continued cuts in production capacity were made in the Swedish unit in Kristianstad, Nolato Alpha. As a result, in April 2004, about 100 employees were given notice in Kristianstad.

However, the unit is still the development center for Europe and manufactures for mobile telephone customers and for customers in telecom infrastructure. Deliveries of

these network products developed satisfactorily during the year.

Increased mould production in China

Development is underway of expanded mould production in China, which will further enhance Nolato's competitiveness. New investments in equipment and the expansion and transfer of related expertise are underway.

The shift of production to Asia by customers and the European price situation has meant that continued mould manufacture in Europe is not economically viable. This has forced Nolato to end its own mould production at Nolato Alpha in Kristianstad. As a result, in early February 2005, 32 people in Kristianstad were given notice.

Looking forward

The global market for mobile telephones is expected to increase by about 8 percent,



Parts of manufacturing at Nolato Beijing take place in clean rooms to ensure the highest quality for products like display windows for mobile telephones

according to assessments by institutional analysts. The analyst firm Gartner expects that global sales of mobile telephones will total 730 million during 2005, compared to 674 million during 2004.

At the same time, continuing price pressure and a rising proportion of production in China mean that value growth will be less than volume growth, perhaps negative.

Nolato Telecom is working actively to broaden its customer base by focusing on collaboration with another one or more of the major manufacturers of mobile telephones. However, just collaborating with a successful manufacturer is not the only key to good volume; it is a question of being chosen as a supplier of models that record healthy sales.

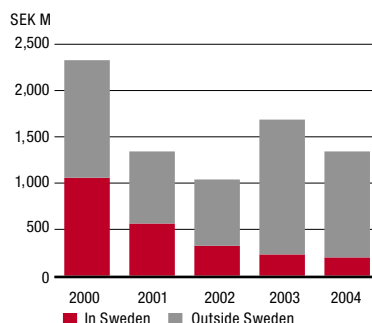
The trend of moving development and production in the mobile telephone sector to Asia is further intensifying. Nolato's operations in China are thus expected to continue their strong growth. At the same time, Nolato Telecom is well prepared to meet customer desires for production in other regions.

The shift of labor-intensive processes to countries with lower direct labor rates has had a negative impact on production at Nolato Telecom in Sweden. Consequently, intensive marketing efforts are underway to attract production in other customer areas. Nonetheless, Nolato has a considerable advantage, as the Company can offer customers effective collaboration between units in Sweden and existing units in countries with low costs, like Estonia, Hungary and China.

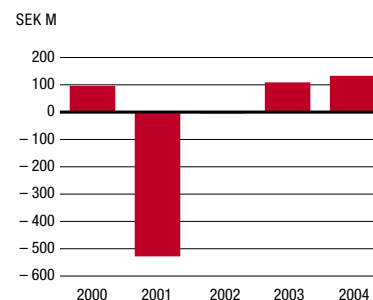
Nolato Telecom's growth during 2005 will be distinguished largely by continued volume growth in the mobile telephone market, while intense price pressure and a move of production to Asia will impact revenues in the opposite direction. Sales for 2005 are thus expected to remain unchanged or decrease slightly.

Nolato Telecom, 2000 – 2004

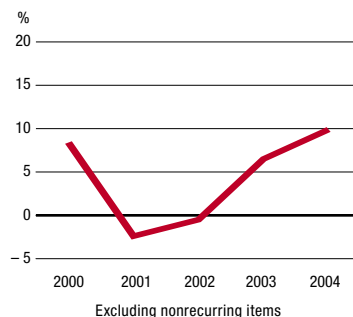
Net sales



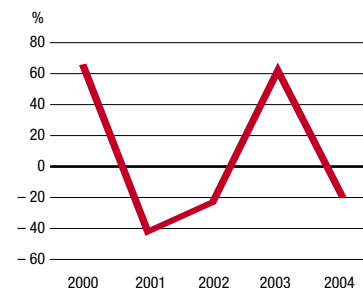
Operating income



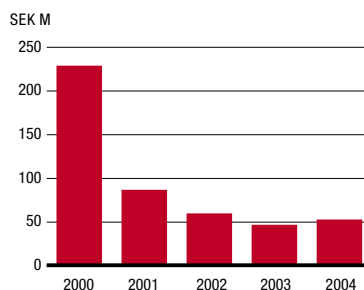
Operating margin



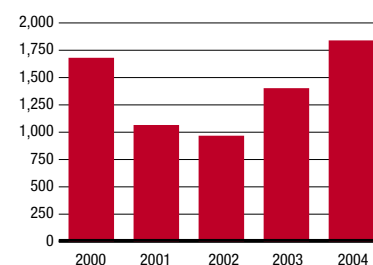
Growth



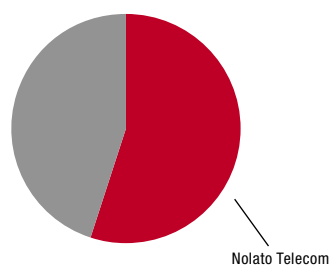
Investments



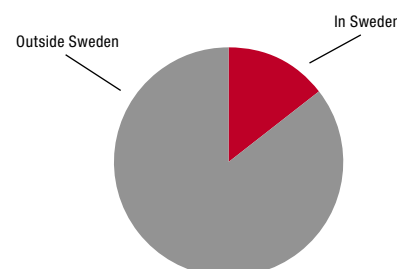
Average number of employees



Share of Group net sales



Sales in/outside Sweden



Nolato Industrial – Stable earnings

Nolato Industrial in brief

Developer and manufacturer of products and sub-systems in the automotive industry, household appliances, gardening/forestry, the furniture industry and other selected industrial sectors.

Market leader in Scandinavia and Central Europe, markets characterized by many customers and many suppliers

Examples of customers: Electrolux, Haldex, Husqvarna, Ifö, Ikea, Lear, Philips, Plastal, Saab Automobile, SCA, Scania, TI Automotive, Volvo Car, Volvo Truck, Whirlpool and Woco.

Sales in 2004: SEK 936 M

Operating income in 2004: SEK 58 M

Operating margin 2004: 6.2 %

Number of employees Dec. 31, 2004: 822

■ Nolato Gota, Götene, Sweden

Number of employees: 115

President: Anders Wallgren

■ Nolato Plastteknik, Gothenburg, Sweden

Number of employees: 121

President: Leif Thörneby

■ Nolato Polymer, Torekov & Ängelholm, Sweden

Number of employees: 102

President: Johan Arvidsson

■ Nolato Protec, Mosonmagyaróvár, Hungary

Number of employees: 308

President: Magnus Nilsson

■ Nolato STG, Lönsboda, Sweden

Number of employees: 42

President Håkan Hillqvist

■ Nolato Sunne, Sunne, Sweden

Number of employees 131

President: Ulf Hilding



Head of Nolato Industrial Sweden business area
Georg Brunstam



Head of Nolato Industrial Central Europe business area
Magnus Nilsson

Sales at Nolato Industrial rose by 3 percent in 2004 to SEK 936 M (912), thus corresponding to 39 (34) percent of total Group sales. Operations in Sweden, after a weak start to the year, had good volume in most companies. The automotive industry in particular showed strong growth. In Hungarian operations, cost cutting measures had their full impact, but because of low volume, operations showed negative earnings during 2004.

The profit center's operating income totaled SEK 58 M (-34). The operating margin was largely unchanged at 6.2 percent (6.5 excluding nonrecurring items in 2003).

The two business areas Nolato Industrial Sweden and Nolato Industrial Central Europe are reported as one 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 on-site geographically and a strong focus on the cus-

tomers' local development and production units.

Organization

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

Control of the companies is characterized by coordinated decentralization, with each company responsible for its marketing to customers, sales, 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 companies collaborate using the marketing name Nolato Automotive when dealing with customers in the automotive industry. Included in Nolato Automotive is the automotive department of Nolato Lövepac (in terms of organization, the company is included in the Nolato Telecom business area).

The head of the Nolato Industrial Sweden business area is responsible for overall coor-



The automotive industry is one of Nolato Industrial's main segments



Henrik Frost

dination of operations in the Swedish companies.

The head of the Nolato Industrial Central Europe business area is also the President of Nolato Protec in Hungary.

The market in Sweden

The Swedish market consists of a large number of companies that require the development and production of polymer components and systems products. 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 Industrial is a clear market leader. Operations are built on an active subsupplier role in close collaboration with customers.

The aim is to maintain long-term collaboration with large, export-oriented customers that have continuous product development and significant production volume. Major customer areas include automotive components (interior fittings, fuel system components and engine parts), household products (refrigerator interiors and microwave oven components), gardening/forestry (casings for lawnmowers and power saws) and other important industrial segments, such as the furniture industry (Ikea).

Nolato Industrial is often involved from the early stages in the customer's development work, in order to contribute extensive knowledge about materials selection and product design, thereby giving the customer competitive advantages through more eco-

nomical production and better quality. By focusing on long-term collaboration with selected customers, the companies at Nolato Industrial can develop and manufacture components that work optimally in customer products.

Operations face competition from producers in Scandinavia but also from low-cost countries in Asia and Eastern Europe. In order to meet the competition, production is extremely efficient, with a flat organizational structure, skilled employees and a high level of automation.

Through close collaboration among its companies, Nolato Industrial 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. This means Nolato Industrial can deliver all polymer parts for a customer product and also be in charge of post-processing and assembly.

The market in Central Europe

The Central European market is large and highly diversified, with a concentration of

low-cost production in the eastern parts. Many global companies have chosen to set up units in countries like Hungary to benefit from lower production costs.

Nolato's specialty in the Central European market is the development and injection moulding of components and subsystems made of plastic that meet the customer's high demands for quality and desires for painting, printing and other post-processing.

The plant in Hungary is very modern and is strategically located in western Hungary, near the border with Austria and Slovakia. Operations are focused on customers in the automotive industry (interior fittings and engine parts), hygiene/medical devices (containers/packaging) and industrial products.

Customers and competitors

Nolato's customers in Sweden include Electrolux, Ericsson, Flextronics, Haldex, Husqvarna, Ifö, Ikea, Lear, Lindab, MCT Brattberg, Opel, Plastal, Saab Automotive, Sapa, Scania, TI Automotive, Volvo Car, Volvo Truck and Whirlpool.

Nolato's customers in Hungary include SCA, Lear, Woco, Elring Klinger, FCI, Philips, Solecron and Sagem.

Nolato's competitors are a large number of small and mid-sized companies, often within close proximity to the customer. Major Swedish competitors include ITAB Plast, Euroform and Konstruktionsbakelit. In Hungary, competitors are General Plastic, Flextronics, Nypro, Dekorsy and Cascade Engineering.

Rising material costs

Rising oil prices and increased capacity utilization among manufacturers of plastic raw materials have led to rising prices for raw materials for plastic production. This affected operations at Nolato Industrial, where materials constitute a higher percentage than in the other profit centers.

Earnings, however, were only marginally affected by these price rises, as most were transferred to customers or are dealt with through a change in materials. Nolato Industrial has price adjustment clauses in many of

its customer agreements, which means that price changes are directly transferable to the customer or are negotiable.

Developments in Sweden during 2004

Developments in the Swedish companies were favorable in 2004. After a weak start to the year, volume improved and stabilized at a high level for most customers. Customers in the automotive industry in particular showed good growth and Nolato received a number of new projects, including ones for interior fittings and engine parts. As a result, Nolato further solidified its position as a leading supplier in product development to the automotive industry and its sub-suppliers. A growing share of production is going to exports in the automotive industry in other parts of Europe.

Nolato Plastteknik experienced positive growth during the year, as a result of, among other things, new orders from the automotive industry. Nolato has made inroads into new customers in this sector. An expansion in capacity was completed as planned.

Nolato Gota also experienced good growth, intensifying its collaboration with customers in household appliances, the automotive industry and gardening/forestry.

Nolato Sunne's major investment in exports and cost reductions from automation were successful. These efforts resulted in, among other things, new orders in fuel system projects from customers in the automotive industry.

Nolato STG was hit by the plant closure of a major customer and adjusted its workforce and cost levels during the year. The company also received extended orders from IKEA.

Nolato Polymer had a successful year, as the synergy effects from a merger with Nolato Termoform had their full impact. The merged company attracted a number of new customers during the year.

Developments in Hungary during 2004

During 2004, Nolato carried out an extensive restructuring project in its Hungarian operations, in order to change operations



Markus Larsson

and achieve the desired level of profitability. The cost savings measures carried out had their full impact, but because of low volume operations reported continued negative earnings.

An overview of profitability by segment/customer product was carried out. One consequence of this is that Nolato in Hungary is phasing out its production of existing products in the Household customer segment and a large part of products in the Consumer Electronics customer segment. Operations are now concentrated on automotive components, hygiene/medical devices and selected general industrial segments.

Intensive marketing efforts brought operations a number of important new customers, including SCA and Lear.

During 2004, investments were made in such areas as a new environmentally-friendly painting facility, which makes it possible to apply two layers of paint on each plastic part. The increase in quality is a precondition in several of the new customer projects that were taken on during the year, while it also facilitates the sale of new projects.

Together with Nolato Medical, Nolato Industrial expanded resources for the production of medical technology products in clean rooms.

Intensive marketing efforts to generate greater volume from existing customers and projects from new customers will also continue during 2005.

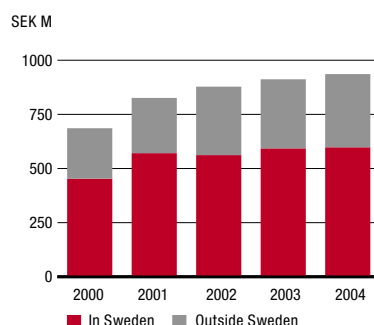
Looking forward

Nolato Industrial is well positioned in the market, given its considerable development resources and well-functioning operations with advanced expertise. We foresee good opportunities for continued growth, both organic and through acquisitions.

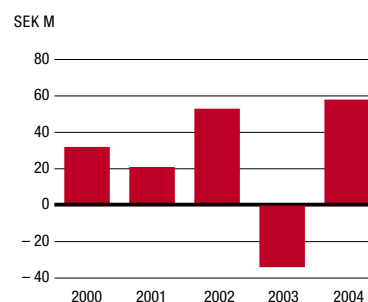
The concept of giving customers complete service, from product development to delivery of the finished product, combined with existing production both in Sweden and in low-cost countries, gives Nolato Industrial a very strong market position.

Nolato Industrial 2000 – 2004

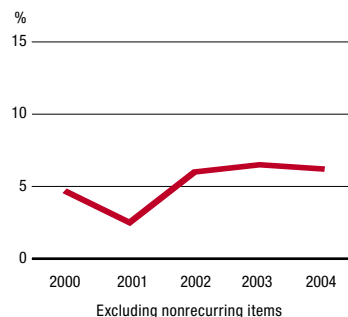
Net sales



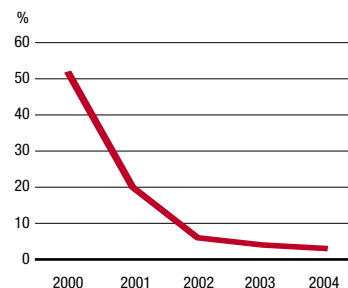
Operating income



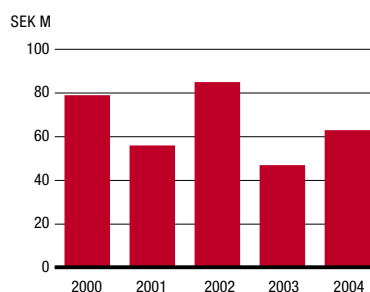
Operating margin



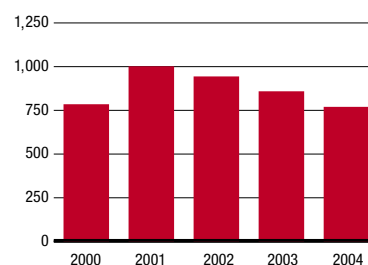
Growth



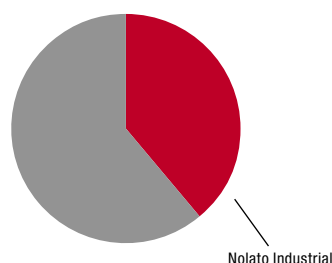
Investments



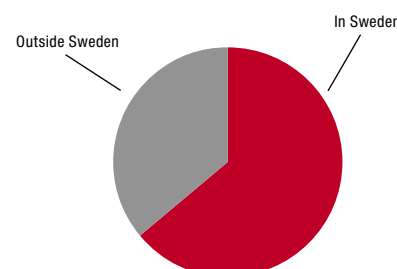
Average number of employees



Share of Group net sales



Sales in/outside Sweden



Nolato Medical – Strong growth

Nolato Medical in brief

Leading developing and production partner in polymer products and subsystems to customers in medical technology and pharmaceuticals.

The market is characterized by long project and product life cycles and high demands for quality and safety.

Examples of customers: Astra Tech, AstraZeneca, Biomet Merck, Coloplast, Hemocue, Pfizer, Pharmacia Diagnostics, Radi Medical Systems and S:t Jude Medical.

Sales in 2004: SEK 137 M

Operating income in 2004: SEK 26 M

Operating margin in 2004: 19.0 %

Number of employees on Dec. 31, 2004: 102

■ Nolato Medevo, Torekov & Lomma, Sweden

Number of employees: 102

President: Peter Krikström

■ Production also at Nolato Protec, Mosonmagyaróvár, Hungary

Sales at Nolato Medical increased by 34 percent in 2004 to SEK 137 M (102), thus accounting for 6 percent (4) of total Group sales. Volume increased during 2004 and growth in customer projects launched in 2003 was positive. Integration of the acquisition made in June 2004 and consolidated as of July 1 went as planned. Excluding the acquisition, organic growth was 26 percent compared to 2003.

Operating income totaled SEK 26 M (16). The operating margin was at a high level, 19.0 percent (15.7), thanks to a favorable product mix and good volume.

Organization

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

The head of the business area is also President of the company. During 2004, Nolato

Medevo also expanded its resources for medical technology production at Nolato Protec in Hungary.

The market

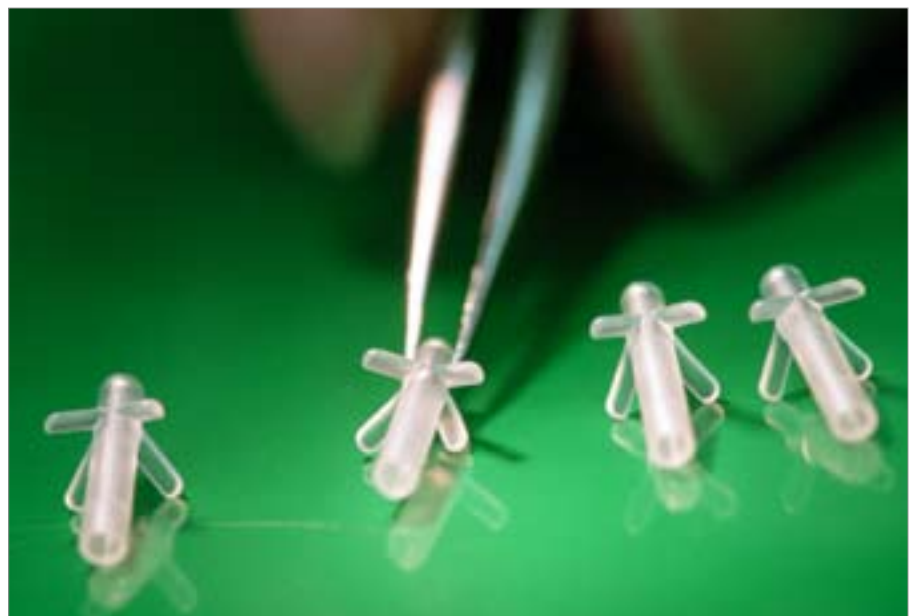
Nolato Medical works as a subsupplier to companies in medical technology and pharmaceuticals with the development and production of components and systems products in polymer materials.

Customer products include infusion sets for insulin injection, inhalers for asthma medicine, pacemaker components that attach electrodes to the heart, components for blood tests, urology products and catheter balloons for heart surgery.

Products are often for one-time use and are manufactured in large volume. Manufacture is generally carried out in clean rooms, with high standards for air and surface cleanliness.



Head of business area
Peter Krikström



High demands for cleanliness and quality are made on products that will function in the human body

The aim is to develop value-added for customers through close, in-depth collaboration and thereby support them in their business process.

Greater demands for design

The market is characterized by long development periods, long production times and high demands for quality and safety. An increasingly clear trend, however, is the move toward gradually faster product development and shorter life cycles and the higher demands made by users for ergonomics and more individualized, well-designed products. These products have to meet society's requirements for greater patient self-sufficiency in handling daily diagnosis and treatment, thereby reducing healthcare costs. Pressure on the healthcare sector to reduce costs is also forcing every player in the market to be more cost-conscious.

Like most other industrial sectors, the medical technology sector is increasingly global. Companies in pharmaceuticals and medical technology are growing ever larger, and purchases from subsuppliers are being made internationally.

Focus on medical technology

Operations at Nolato Medical are aimed exclusively at customers in medical technology and industries with similar demands and requirements, which means that the profit center is completely focused on the special preconditions that the market entails. With this focus, Nolato Medical has the in-depth expertise in areas such as risk analysis and quality assurance as well as an ability to take part in complicated medical technology processes.

Nolato Medical is a leading development and production partner in this area in Scandinavia. As experts in efficient product and production design, Nolato Medical joins early on in the development project, in order to manufacture customized polymer components and systems products cost-effectively. The techniques used in production are injection moulding, extrusion and dipping.



Ibrahim Abouaoun

Customers are offered comprehensive solution, including product development, design, choice of materials, industrialization, production, post-processing, assembly and testing. For expertise outside Nolato Medical's own field, there is a network of specialized companies – like design houses – that collaborate on different customer projects.

Production for pharmaceuticals and medical technology 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 Nolato Medical'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 and competitors

Nolato Medical is focused largely on a small number of selected medical technology companies that are leaders in their niche, have strong future potential and need high-quality polymer products with high volume.

Within Nolato Medical's main area, injection moulding, marketing efforts have until now largely targeted Scandinavia, but an internationalization of operations is underway, with a focus in particular on other European markets.

Examples of customers are Astra Tech, AstraZeneca, Biomer Merck, Coloplast, Hemocue, Pfizer, Pharmacia Diagnostics, Radi Medical Systems and S:t Jude.

Competitors consist of a number of small, local companies that are production oriented as well as global companies with development resources, like Tech Group, Wilden and Nypro. Some customers also have their own production of polymer components.

Nolato Medical is an important global player in the field of products for heart diagnosis, and its products are marketed in the US and Asia. Customers include Arrow International, B. Braun Medical and Wilson Cook. Competitors are mainly the in-house production unit of catheter manufacturers.

Strong expansion during the year

The past year has seen strong expansion at Nolato Medical. The dedicated work in recent years to focus on selected customers and expand and streamline production has resulted in a number of new orders. Development projects have also increased, both in number and in volume.

In June, medical technology operations were acquired from Bergman & Beving. The operations, whose main customer is Astra Tech, have sales of roughly SEK 20 M a year and consist of products in the urology and surgery fields. Production was moved in



Medical technology production is characterized by its clean production environment

the fall to Nolato Medical in Torekov, Sweden, where clean room facilities have been expanded. With the acquisition, Nolato Medical has taken on not just an important customer but also expertise in extrusion, something that can have positive effects on existing customers.

Looking forward

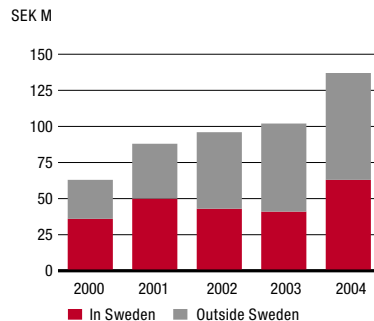
Active marketing efforts in the European market resulted in new projects for a number of new customers. These projects will be industrialized and manufactured at Nolato Protec in western Hungary, where Nolato Medical expanded development resources for customers in medical technology and hygiene during the year. The new projects mean a strategic breakthrough in an important new market.

Nolato Medical intends to continue growing organically but also through the acquisition of companies or operations.

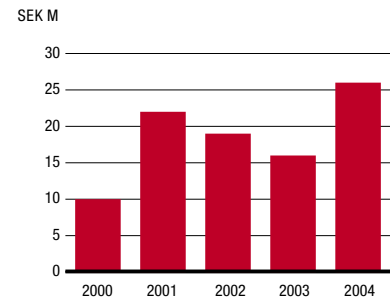


Nolato Medical 2000 – 2004

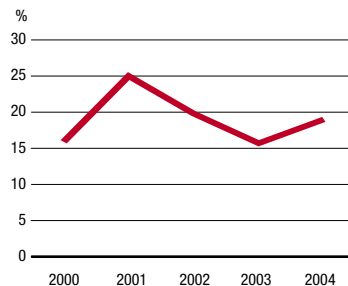
Net sales



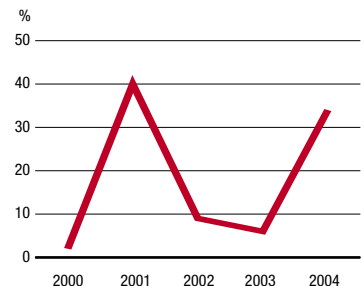
Operating income



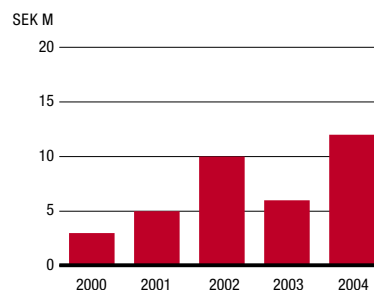
Operating margin



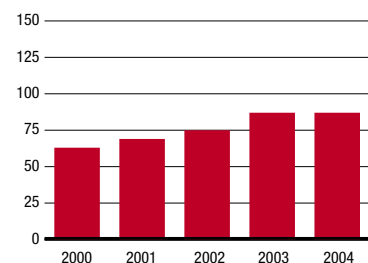
Growth



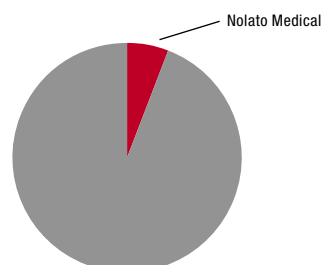
Investments



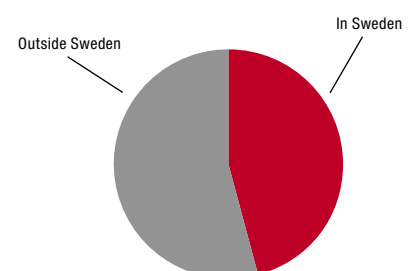
Average number of employees



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 customers in the mobile telephone sector and in telecom infrastructure.

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

Nolato Industrial Central Europe works with the development and manufacture of polymer products for customers in Central Europe in fields such as automotive components, hygiene/medical devices and selected general industrial sectors.

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 profit center is named Nolato Industrial.

The legal organization 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 and IT coordination. In 2004, four inactive subsidiaries were merged with the Parent Company.

Important events during 2004

Nolato Beijing in China continued to develop satisfactorily, increasing sales sharply with stable profitability. With a growing share of Nolato Telecom's sales now being recorded in China, given lower price and cost levels, the average unit price decreased, which had an adverse effect on the profit center's sales, despite good volume. Investments and capacity expansion continued. A strategic invest-

ment in Nolato's own injection mould production is currently being carried out, which will enhance Nolato's competitiveness. New investments in equipment and the development and transfer of related expertise are underway.

In Nolato's Hungarian operations, the cost savings implemented had their full impact but, because of low volume, operations reported continued negative earnings in 2004.

An overview of profitability by segment/customer product in Hungarian operations is being carried out in order to focus operations on more profitable areas, which had an adverse effect on the volume of existing products. One consequence of this is that Nolato in Hungary is ending most production of existing products in the Household customer segment and a large part of its production in the Consumer Electronics customer segment. Operations are now focused on automotive components, hygiene and selected general industrial sectors. Intensive marketing activities resulted in the sale of new customer projects in Central Europe, all in prioritized customer segments.

One business in medical devices, whose main customer is Astra Tech, was acquired. The acquisition is a strong fit with the strategic plan for Nolato Medical's development. The acquired business has annual sales of about SEK 20 million from medical devices for the urology and surgery customer segments. Manufacture is carried out in clean rooms with high medical technology standards.

Events after the end of 2004

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



Shareholder governance

Organization of the Board of Directors

Nolato's Board of Directors consists of seven members elected by the Annual Meeting and three members and three deputy members elected by the unions. The Board members that are elected by the shareholders at the Annual Meeting serve for a period of one year and may be re-elected.

Apart from the President and Chief Executive Officer (CEO) and union representatives, none of the Board members is employed or works in the business operations of the Company.

Board member Claes Warnander and the Chairman of the Board, Carl-Gustaf Sondén, are considered by the Board to act independently of the Company's major shareholders. From time to time, Claes Warnander and Erik Paulsson indirectly represent companies that are suppliers to Nolato; Claes Warnander also does so for Nolato customers. Both relative to the situation of these Board members and to that of each supplier/customer, Nolato's Board has determined that the transactions with these companies do not constitute significant business connections, when the size of revenues generated is compared with the annual sales of the suppliers/customers.

Nolato's Board has thus determined that all members elected by the Annual Meeting, apart from Georg Brunstam, the President and CEO, are independent relative to the Company.

The Group's Chief Financial Officer (CFO) is Board Secretary.

Swedish Code of Corporate Governance

The Code Group for Corporate Governance ('Kodgruppen för bolagsstyrning') has proposed a Swedish Code for Corporate Governance. Nolato and its Board are already working today with a working procedure, work structures and information disclosure related to these issues that follow most parts of the proposals set

forth by the Code Group.

Nolato's Board is positive about most of the Code Group's proposals and believes that Nolato will comply with most parts of the Code Group's proposals.

During spring 2005, the Board will work with the Code Group's proposals and review the various parts of the proposal in order to then decide on any changes Nolato will make and also examine the various parts of the Code Group's proposals in terms of the extent to which these are considered to have been met and when, or give reasons for any deviations.

Working methods of the Board of Directors

The Board determines the ultimate direction of Nolato's operations and prepares the necessary instructions. It determines the Nolato Group's management structure and appoints, dismisses and oversees Nolato's President and CEO.

At the Board's constituent meeting following the Annual Meeting, principles were decided concerning the Board's rules of procedure for the Board's work, the delegation of duties between the Board and the President and CEO and financial reporting. The most important parts of these principles propose the following:

- The Board shall establish a work plan with five regular meeting during the year, in which various matters as stipulated by the rules of procedure shall be considered at different meetings.

- Notice of the meeting, the agenda and relevant documentation for the Board meeting shall normally be sent out at the latest one week prior to the meeting. Numbered minutes shall be kept at every meeting.

- The delegation of duties clarifies the responsibilities of the Board and the most important duties of the Chairman and the President and CEO. Instructions to the President and CEO contain limitations on decisions regarding investments, acquisitions, transfers and certain agreements.

In order to enable the Board to continu-

ally follow and monitor the Group's financial position and performance, the President and CEO shall provide the Board with monthly reports on sales, income, capital commitment, cash flow, the balance sheet and follow-up on forecasts and forecast updates.

The Board's work in 2004

During 2004, the Board held five meetings and a constituent meeting after the Annual Meeting.

Accounts of the Company's operations, markets and finances were fixed items on the Board's agenda.

Below is a brief summary of other important items discussed in the Board meetings.

- Torekov, Sweden, February 4, 2004: Decision made on the writedown of goodwill for Hungarian operations. The auditor was debriefed by the full Board on his comments for the 2003 audit. The Board decided to propose a dividend of SEK 0.80 per share to the Annual Meeting.

- Torekov, April 28, 2004: The auditor was debriefed by the Board on his summary of the review of Group companies for 2003. The Chairman presented the results of the evaluation of the work of the Board. During the year, the Board members responded to a survey about the work and composition of the Board. A summary of the bidding process for the choice of auditor for the next four years was presented by the Chairman, and the Board decided to recommend Ernst & Young as their choice of auditor for the next four years to the Annual Meeting. The Board gave the President and CEO the mandate to carry out an acquisition of part of the assets of a small medical business, within given limits.

- Torekov, April 28, 2004: The constituent meeting after the Annual Meeting. The Board members Carl-Gustaf Sondén, Kristofer Jorlén, Henrik Jorlén, Gun Boström, Claes Warnander, Erik Paulsson and Georg Brunstam were re-elected at the Annual Meeting. Carl-Gustav Gejde declined re-election. Carl-Gustav Sondén was elected Chair-

man. Carl-Gustav Sondén and Henrik Jorlén were elected to the compensation committee and Per-Ola Holmström was elected Board Secretary. The remuneration decided by the Annual Meeting was apportioned among the Board members. The rules of procedure for the Board, the delegation of duties between the Board and the President and CEO, instructions for financial reporting and a financial policy were adopted.

■ Torekov, August 11, 2004: Schedule and program for the Board meetings in 2005 were adopted. Two major investments in machine equipment were decided. An extended lease and infrastructure investment for operations in Beijing were approved. The auditor reported to the Board on his review of the semi-annual report.

■ Torekov, October 26, 2004: Two major investments in machine equipment were decided. An updated information policy for the Group was adopted.

■ Beijing, December 20-21, 2004: The President and CEO presented strategic plans for the Group and its business areas for the next three years as well as a budget for the next year, which were discussed and adopted by the Board. The President and CEO was given a mandate to carry out a major investment in machine equipment if necessary. The Board approved the compensation committee's proposal for the President and CEO's salary and variable remuneration as well as the committee's proposal on principles for salaries and variable remuneration to other senior executives for 2005. The CFO presented a proposal on funding and liquidity, which was approved by the Board.

Nomination committee

The nomination committee consists of four members who are selected by major shareholders at the end of the third quarter, and these are appointed as follows. At the end of the third quarter, the Chairman of the Board contacts the five largest shareholders in the Company to discuss proposals for members on the committee. Individual Nolato shareholders can submit proposals for members

on the nomination committee for further consideration. Information about the composition of the nomination committee is disclosed no later than November 30. In 2004, information about the composition of the committee was disclosed in a press release on November 29. The committee shall give an account of its work at the Annual Meeting. The nomination committee prior to the 2005 Annual Meeting consists of:

- Henrik Jorlén, Chairman, representing the Jorlén family
- Gun Boström, representing the Boström family
- Erik Paulsson, representing the Paulsson family
- Erik Sjöström, representing Skandia

The Chairman of the Board, Carl-Gustaf Sondén, can be included as an associate member.

Compensation committee

Within the Board of Directors is a compensation committee. Its task is to propose principles to the Board for variable remuneration of senior executives, including the President and CEO.

The committee also proposes all remuneration and benefits for the President and CEO to the Board. The Board approved these principles for variable remuneration of senior executives and all remuneration and benefits for the President and CEO. The committee also has the task of approving all remuneration to the Group's Executive Committee.

The members of the compensation committee are:

- Carl-Gustaf Sondén (Chairman)
- Henrik Jorlén

Remuneration of the Board

For the period starting with the Annual Meeting in 2004 to the Annual Meeting in 2005, remuneration for the Board totaled SEK 665,000 (600,000), apportioned as follows:

- Chairman of the Board: SEK 165,000
- Board member: SEK 100,000

A director's fee is paid only to external mem-

bers. Employees in the Company, like the President and CEO and employee representatives, receive no director's fee. Payment was made in December 2004.

During 2004, the present members of the Board received the following remuneration:

■ Carl-Gustaf Sondén	SEK 165,000
■ Krister Jorlén	SEK 100,000
■ Henrik Jorlén	SEK 100,000
■ Gun Boström	SEK 100,000
■ Claes Warnander	SEK 100,000
■ Erik Paulsson	SEK 100,000
■ Total	SEK 665,000

Auditors

Ernst & Young are Nolato's chosen auditors as stipulated by law. Ernst & Young, with Ingvar Ganestam as chief auditor, were re-elected for a period of four years at the 2004 Annual Meeting. Ingvar Ganestam has been the Company's chief auditor since 2000.

Auditors responsible for the Company at Ernst & Young regularly read the approved minutes of Nolato's Board meetings. The auditors responsible also have continuous access to the monthly reports that the Board receives.

The Company's auditors met the full Board of Directors on three occasions during the year.

In preparation for the 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 has concluded that there is no need to appoint a separate audit committee.

Information policy

Nolato reports to the Stockholm Stock Exchange (Stockholmsbörsen), where the Company is quoted on the O-list (Attract 40). Information in the form of quarterly reports and press releases etc. is submitted in accordance with the requirements specified in the listing agreement and with the information policy adopted by Nolato's Board of Directors.



Kicki Persson and Thomas Lagemyr

Reports, press releases and other information can be downloaded from Nolato's website, www.nolato.com. There is also further information about shareholder governance in the form of Articles of Association, IR contacts, annual reports etc., under the heading "Investor Relations."

Information about remuneration

For information about fees, salaries, pensions and other benefits for the Board of Directors, the President and CEO and other senior executives, see Note 3 on page 56.

Management governance

Executive Committee

The Executive Committee consists of the CEO, the CFO and the heads of the Nolato Telecom and Nolato Medical business areas (the Group's CEO is also President of Nolato Industrial Sweden).

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 Executive Committee supplemented by the head of the Nolato Industrial Central Europe business area, the President of Nolato Beijing and the marketing manager of Nolato Medical. The Group Management prepares and oversees strategic, marketing and organizational issues for the Group. It meets four to six times a year.

Business operations

All business operations in the Group are conducted by subsidiaries, in keeping with the decentralized corporate culture that has always 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 continuous-

ly in touch with the presidents and management of the subsidiaries that belong to the business area.

Subsidiaries

The success of the Nolato Group 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 distribution 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.

Risks and risk management

It is part of Nolato's strategy to continuously minimize business and operational risks but at the same time take advantage of opportunities in the market. In order to manage the financial risks, the Group operates according to a financial policy adopted by Nolato's Board of Directors. This policy specifies what levels of financial risk the Group can accept, including risks for foreign currencies and various types of funding, as well as how risks are to be minimized.

Business and operational risks

Revenues and earnings risks

Nolato's growth objective is to show growth in the customer segments the Group operates in which is at least equal to the level of growth in the corresponding market segments. For the Telecom profit center, which accounts for roughly 50 percent of the Group's sales, the market's growth has varied considerably in recent years. Both the more long-term growth and fluctuations over shorter periods mean opportunities for strong growth in this profit center, but at the same time a higher risk of negative changes. Changes in the markets for Nolato Industrial, which accounts for just under 40 percent of the Group's sales, are more in line with the growth in industrial production in Scandinavia and Central Europe. The trend is more stable for this market with less fluctuation. The market for Nolato Medical has good long-term growth potential but currently has less impact on the Group, as it accounts for about 6 percent of sales.

In the markets for Nolato Telecom and Nolato Industrial in particular, there is continuing price pressure with falling price levels as a result of tough competition in the market. Managing this price risk is part of the day-to-day work and requires continuous cost cuts and productivity increases, which Nolato has been able to

do advantageously to date. At Nolato Telecom, this has included moving production to low-cost countries, mainly China, which has resulted in lower costs. At Nolato Industrial, cost-effective high-productivity facilities in Sweden, combined with production of labor-intensive parts in low-cost countries, have allowed the profit center to meet the price pressure.

At Nolato Telecom, there is a greater dependency on a small number of customers. At present, the two largest customers account for about half of the profit center's sales. However, Nolato enjoys very good collaboration with the two customers and was appointed strategic supplier of component systems in the field of polymer products by both. In the other profit centers, the customer base is much broader, and no individual or customer category is so dominant that the loss of any customer would affect the Group's profitability significantly.

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 companies were to experience financial problems, however, it could lead to losses of significant amounts. Nolato has not been hit by any significant customer losses in recent years.

Risks associated with product deliveries

Nolato's ambition is to deliver products that meet customer wishes for quality and delivery. This is managed by skilled staff in the subsidiaries, who are responsible for day-to-day operations. The greatest risk of interruptions to quality and products is normally at the start of the production of new products. Especially in the ramping up of major telecom projects, there is a risk of interruptions to quality and productivity

that can have a considerable impact on the Group's earnings. To prevent such interruptions, the Group, and Nolato Telecom in particular, work with a well-developed concept for running the project prior to the industrialization and production phase, in accordance with established quality assurance requirements and checklists etc.

To avoid the risk of problems with deliveries, it is important to have very close contacts with the different customers as well as effective, reliable systems for quality control and quality development. Nolato has chosen to work with relatively few customers and have close, extensive collaboration with them. This allows continual close contact with the customers to ensure that deliveries satisfy their wishes. At the same time, all of the Group's subsidiaries operate according to various kinds of quality and continuous improvement systems that are tailored to the requirements of production or the customer.

Supplier risks

These include risks related to pricing and access to raw materials and other input goods as well as process costs for production.

For deliveries of plastic and rubber raw materials as well as machinery, there are a number of suppliers in Europe and around the world. Alternative suppliers can be used, but the switch may require customer approval in some cases. For delivery of components going into the component systems delivered by the Group, the choice of suppliers is usually made together with Nolato's customer.

Products normally have a content of plastic or rubber raw materials of between 5 and 50 percent of the selling price. These raw materials are often developed from different forms of oil-based or similar products. This means that raw material prices depend on oil prices and the dollar exchange rate, but also on other factors such as production capacity and other production costs.

The content of plastic raw material, which is clearly the dominant raw material in the Group, varies among the different prof-

Transaction exposures and sensitivity analyses

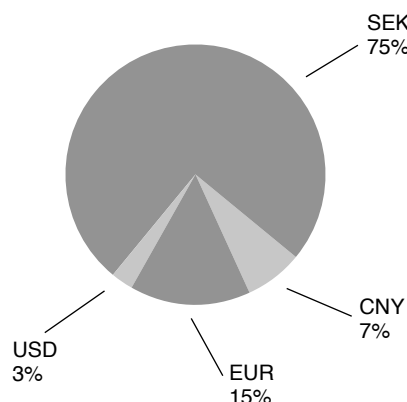
Net exposure of sales and purchases in foreign currencies

SEK M	12 mo estimated net flows	Total hedging	Percent- age	Average ex- change rate
EUR	255	185	73%	9.01
USD	79	56	71%	6.78
DKK	14	11	79%	1.21
Total	348	252	72%	

Unhedged currency flows USD	63	—
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Nolato's Swedish and Estonian operations have a net exposure largely in EUR, USD and DKK, whereas Hungarian operations have only limited net flows in foreign currency. Chinese operations have a forecast net inflow of SEK 63 M, which is not hedged as the Chinese currency is pegged to the USD within an interval. At the end of the year, 72 percent of the future forecast net flow was hedged via forward contracts.

Breakdown of interest-bearing liabilities by currency



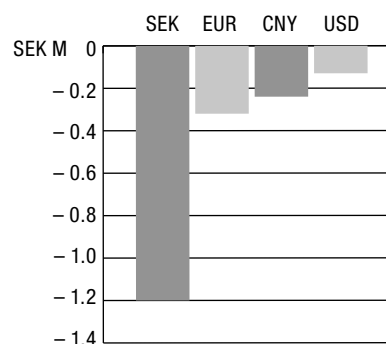
The diagram includes derivatives to hedge loans valued in foreign currencies in SEK.

Interest-bearing net liabilities on December 31, 2004

	Outstanding amount (SEK M)	Term out-standing (mo)	Remaining fixed-interest period (mo)	Average interest rate (%)
Interest-bearing net liabilities				
Bank loans, SEK *	227	42	5	3.7
Bank loans, USD	13	12	3	3.1
Bank loans, EUR	32	3	1	3.1
Bank loans, CNY	24	5	3	4.8
Leasing liability, EUR	25	150	20	3.8
Pension liability	56	12	0	4.2
	377	38	5	3.8
Interest-bearing assets				
Liquid funds	-134	0	0	1.6
Short-term investments	-80	1	1	2.1
	-214	0	0	1.8
Total net liabilities	163			

* Including the effect of currency swaps

Interest rate effect



The effect on interest expense with a 1 percent rise in interest rates, including derivatives, calculated on interest-bearing liabilities on December 31, 2004. A 1 percent rise in interest rates has a negative effect on the Group of SEK 2 M.

Translation exposure of net assets on December 31, 2004

SEK M	Net assets	Swedish krona 1% stronger
Nolato Beijing, CNY	133	-1
Nolato Tallinn, EEK	71	-1
Nolato Protec, HUF	21	0
Total	225	-2

The Group has SEK 225 M in foreign net assets, and a 1 percent rise in the value of the Swedish krona would have an effect of SEK -2 M.

Transaction exposure on December 31, 2004

	Unhedged forecast net flows, 12 months	Change in currency	Effect on earnings
EUR	70 SEK M	+/- 1%	1 SEK M
USD	23 SEK M	+/- 1%	0 SEK M
DKK	3 SEK M	+/- 1%	0 SEK M
Total	96 SEK M		1 SEK M

The Group has SEK 96 M in unhedged net flows, including hedging effects. A change in the value of the Swedish krona of +/- 1 % would have a SEK 1 M effect on earnings. This table does not include effects of the unhedged net flow at Nolato Beijing, as this flow is currently pegged to the Chinese currency.

it centers. At Nolato Telecom, with numerous “thin-walled” products, plastic accounts for only about 5 percent of the selling price, whereas the corresponding figure is roughly 20 percent at Nolato Industrial and about 15 percent at Nolato Medical.

At Nolato Industrial, which has the highest percentage of plastic raw material, most customer agreements give Nolato the right to pass on costs to the customer or renegotiate the effects of price increases for plastic raw materials. This right becomes operative in most agreements when material prices change beyond certain agreed levels, reducing Nolato’s sensitivity to changes in material prices. During 2004, price increases in plastic raw materials were quite sharp from a historical perspective, even though the construction plastics that Nolato normally uses generally had a lower price increase than basic plastics. The price increases did not adversely affect Nolato’s margins to any significant degree in 2004.

The production of polymers carried out by the Group is relatively electricity-intensive, and the Group is thus dependent on the price of electricity.

The Group is working on a new policy for electricity purchases in order to even out the effects of changes in the variable portions of the price of electricity. The policy means that 40–80 percent of the electricity needs for the next four quarters are purchased in advance by forward contract. The variable portion of the cost of electricity totaled approximately SEK 25 M in 2004, excluding taxes. For 2005, purchases have been made of 63 percent of the estimated electricity needs at an average price 9 percent lower per kWh than the average price for 2004.

Legal risks

Nolato works with external lawyers and consultants on legal issues. Internally, there are policies and regulations on what agreements etc. people in various positions can decide.

The Group has few mechanical and design patents, and few trademarks, which is typical of the industry Nolato operates in.

The Group is not presently involved in any ongoing legal disputes of any significance. There are no ongoing tax cases in the Group of any significance.

Property and liability risks

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

Financial risks

Nolato’s financial policy specifies how responsibility for financial operations is to be delegated in the Group, what financial risks the Group is prepared to assume and what financial risks are to be limited. The policy balances and limits the following financial risks:

- foreign exchange risks (cash flow and translation exposure)
- borrowing and interest rate risks
- liquidity and credit risks in the financial markets.

The policy is adopted by Nolato’s Board and revised annually or when needed.

Foreign exchange risks

Flow risks

These are defined as changes in cash flow due to foreign exchange rate fluctuations in currency flows.

According to the Group’s financial policy, 70 percent of future forecast net flows of foreign currency for products and services are hedged for a period of 12 months.

Foreign exchange risks for financial flows relating to loans and investments in foreign currencies can be avoided by the Group’s companies borrowing in foreign currencies or hedging these flows. According to this policy, any hedging or risk-taking is decided

on a case-by-case basis for foreign exchange risk in financial flows. Any hedging costs and any differences in interest rate levels between countries are taken into consideration in decisions about any possible risk-taking. Nolato’s current exposure can be seen in the sensitivity analysis on the preceding page.

Translation exposure

Translation exposure is the effect produced when the income statement and balance sheet of a foreign subsidiary are translated into Swedish krona in the consolidated income statement and balance sheet. Translation is a effect calculated on every reporting date. The income statement is translated at the average rate for the year, while the closing rate on December 31 is used to translate the balance sheet.

According to the Group’s policy, the Group’s capital, that is, its foreign net assets, are not hedged. Nolato’s current exposure can be seen in the sensitivity analysis on the preceding page.

Funding and borrowing risk

In order to maintain financial flexibility and satisfy the Group’s capital needs, Nolato has negotiated credit facilities with varying contract lengths, in part so that it can finance financial fluctuations and organic growth and in part be prepared to make large investments and acquisitions. During the fall, roughly one third of the Group’s funding was renegotiated with a new three-year agreement. Current liquid reserves are detailed in Note 23 on page 63 and in the analysis of interest-bearing net liabilities on page 37.

Interest rate risk

Interest rate risk is defined as the risk of an effect on the Group’s earnings as a result of changes in market interest rates. The maturity of the Group’s fixed-term loans and investments determines how quickly

interest rate changes impact earnings. The Group's policy specifies that the average maturity of fixed-term loans and investments for the Group shall be between 5 months and 2 years. This affects all interest-bearing assets and liabilities, that is, net liabilities. The interest rate effect and interest-bearing liabilities can be seen in the sensitivity analysis on page 37.

Liquidity and credit risks

The Group's policy for investing liquid funds specifies that they can only be invested in financial instruments that can be redeemed on short notice or that have a highly liquid secondary market to reduce liquidity risk. Investments, apart from traditional bank deposits, may only be made

in what are called low-risk interest-bearing securities (with a high rating based on official statistics from official rating agencies) and high liquidity. The tenor of these interest-bearing securities may not exceed three months, according to the policy.

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

Income statements, 2000-2004

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 Group sales by more than SEK 400 M.

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 US.

During the five-year period as a whole, sales grew at an average of 2 percent.

Naturally, the trend in earnings during the

Income statements (SEK M)					
	2004	2003	2002	2001	2000
Net sales	2,401	2,671	2,011	2,359	3,302
Cost of goods sold *	- 2,006	- 2,347	- 1,744	- 2,243	- 2,822
Gross income	395	324	267	116	480
Selling expenses	- 56	- 46	- 56	- 89	- 105
Administrative expenses **	- 134	- 172	- 156	- 188	- 216
Other operating expenses ***	- 10	- 49	- 13	- 349	- 22
Operating income	195	57	42	- 510	137
Financial items ****	- 16	- 51	- 6	- 54	- 36
Income after financial items	179	6	36	- 564	101
Tax on earnings for the year	- 49	- 41	24	135	- 49
Net income	130	- 35	60	- 429	52
Scheduled depreciation/amortization included	140	156	162	209	215

* 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 US
In 2000, includes net nonrecurring items of SEK -120 M for restructuring of operations and capital gain on fixed assets sold

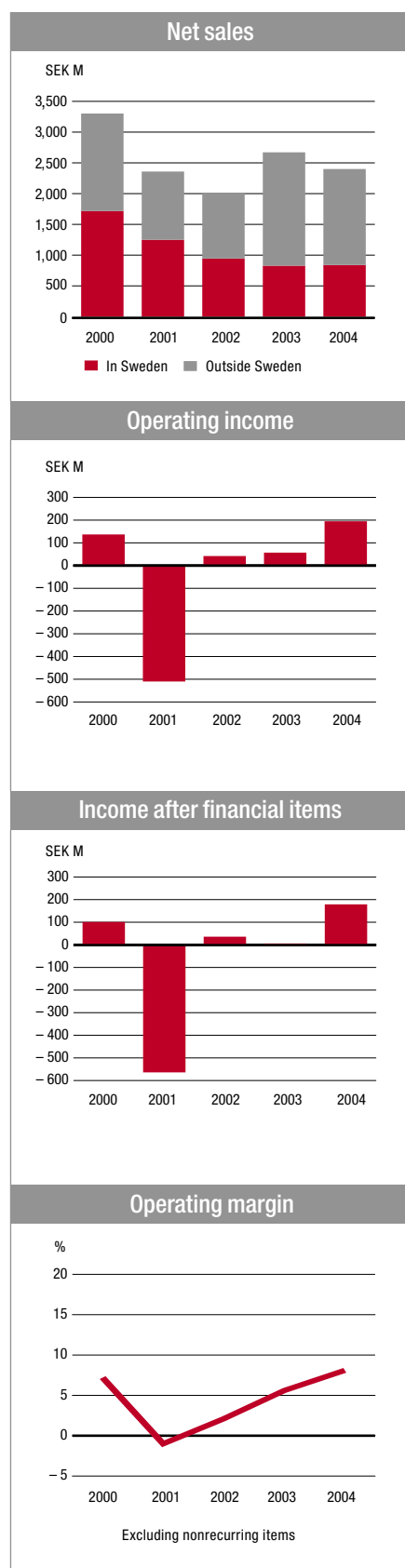
** In 2003, includes nonrecurring expenses of SEK 3 M due to restructuring of operations in Hungary

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, US

**** In 2002, includes capital gain of SEK +31 M from the divestment of Nolato Elastoteknik
In 2001, includes capital gain of SEK +3 M



period was dominated by the volume trends at Nolato Telecom described above. The operating margin, excluding nonrecurring items, was 7.2 percent and return on capital employed was 17.7 percent during 2000. 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 4.7 percent during the five-year period (excluding nonrecurring items).

Income statement, 2004

Net sales

During 2004, Nolato Group sales totaled SEK 2,401 M (2,671).

Sales at Nolato Telecom's totaled SEK 1,342 M (1,686), thus accounting for 55 percent (62) of total Group sales. Compared to 2003, sales were adversely affected by about SEK 320 M as a result of the decline in the sale of products with a high value of purchased components.

With lower price and cost levels, the average unit price fell, which had a negative impact on Nolato Telecom's sales, despite good volume.

Deliveries of network products to telecom customers from the Kristianstad unit developed satisfactorily in 2004, but the rate of increase declined in the fourth quarter.

Sales at Nolato Industrial totaled SEK 936 M (912), thus accounting for 39 percent (34) of total Group sales. After a weak start of the year, volume improved and stabilized at a high level for most customers. Customers in the automotive industry in particular showed strong growth. The Household customer segment, however, showed weak volume during the year.

Nolato Medical increased sales by 34 percent to SEK 137 M (102), thus accounting

for 6 percent (4) of total Group sales. Volume increased during the 2004 and the growth in customer projects that were launched in 2003 was positive. Integration of the acquisition made in June proceeded as planned. The acquired operations were consolidated as of July 1. Excluding the acquisition, organic growth was 26 percent compared to 2003.

Operating income

Consolidated operating income increased during 2004 to SEK 195 M (57). During 2003, restructuring expenses and write-downs of goodwill in Hungary totaling SEK 93 M were charged to income. Excluding these restructuring and writedown expenses, operating income was SEK 150 M in 2003.

The operating margin increased to 8.1 percent in 2004, compared to 5.6 percent in 2003, excluding restructuring and write-down expenses in Hungary in 2003. The Group's objective is an operating margin in excess of 7 percent over a business cycle.

Return on capital employed was 18.4 percent for 2004 (11.0 percent for 2003, excluding nonrecurring items). The Group's target is a return in excess of 15 percent. Return on operating capital totaled 23.0 percent for 2004 (15.0 percent for 2003, excluding nonrecurring items).

Operating income at Nolato Telecom totaled SEK 133 M (109). The operating margin improved to 9.9 percent (6.5). The margin improved mainly as a result of a lower share of volume with a high value of purchased components, but also as an effect of good profitability for the profit center's companies specializing in shielding solutions, tapes and gaskets as well as stable growth in the profitability of Chinese operations. Price competition intensified during 2004 and is currently strong. During 2004, the profit center ramped up production of new products for its two main customers. Start-up of the new products was carried out without affecting profitability adversely to any significant extent.

Operating income at Nolato Industrial totaled SEK 58 M (-34 including nonrecurring

ring items in 2003). The operating margin was essentially unchanged at 6.2 percent (6.5 excluding nonrecurring items in 2003).

In Hungarian operations, the cost-cutting measures implemented had their full impact, but because of low volume operations showed continued negative earnings in 2004.

Operating income at Nolato Medical totaled SEK 26 M (16). The operating margin was at a high level in 2004, 19.0 percent (15.7), due to a favorable product mix and good growth.

Income after financial items

Income after net financial items totaled SEK 179 M (6). Net financial items included SEK +8 M (-16) in effects of currency exchange rate differences, most of which is related to loans in foreign currencies in operations outside Sweden. Net financial items also improved as a result of renegotiated external funding with better terms and because of lower interest rates and a reduction in net debt. Excluding restructuring and writedown expenses, income after financial items was SEK 99 M in 2003.

Taxes

Tax expenses in 2004 totaled SEK 49 M compared to SEK 41 M in 2003. The effective tax rate in percent fell during the year as a result of the favorable tax situation in China and was 27 percent in 2004. The tax effect of losses in the Group's Hungarian subsidiary was not capitalized as a tax credit.

Balance sheets, 2000–2004

During the five-year period, total assets decreased from SEK 2,563 M to SEK 1,598 M. During Nolato Telecom's strong expansion at the beginning of the period, total assets increased considerably and amounted to SEK 2,563 M at the end of 2000.

On average during the five-year period, roughly 39 percent of assets were inventories and receivables. These items are closely related to the trend in 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 assets (through

goodwill that arose from acquisitions during 2000 in Sweden, the US and Hungary).

In connection with the closure of US 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.

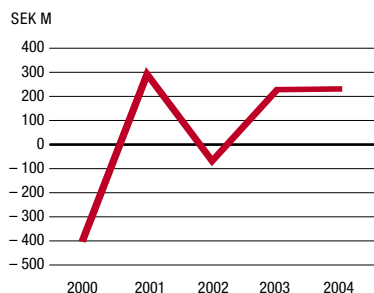
Goodwill from acquisitions in the US and Hungary was written down to zero. This occurred in 2001 in the case of the US acquisition and in 2003 for the Hungarian acquisitions, reducing intangible assets sharply. Remaining intangible assets consist primarily of remaining goodwill from the acquisition of 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 US operations. A new share issue was carried out during 2002, which added a net amount of SEK 246 M to shareholders' equity. Despite improved operating profitability during 2002 and above all

Balance sheets (SEK M)

	2004	2003	2002	2001	2000
Intangible fixed assets	48	54	102	121	424
Tangible fixed assets	664	690	801	855	1,022
Financial fixed assets	—	4	29	6	27
Total fixed assets	712	748	932	982	1,473
Inventories	170	181	257	160	323
Current receivables	502	588	505	384	690
Short-term investments	80	90	25	—	—
Cash and bank balances	134	228	176	136	77
Total current assets	886	1,087	963	680	1,090
Total assets	1,598	1,835	1,895	1,662	2,563
Shareholders' equity	655	569	624	342	730
Long-term liabilities, interest-bearing	230	485	583	645	826
Long-term liabilities, non-interest-bearing	82	70	45	109	256
Current liabilities, interest-bearing	147	140	118	133	124
Current liabilities, non-interest-bearing	484	571	525	433	627
Total shareholders' equity and liabilities	1,598	1,835	1,895	1,662	2,563

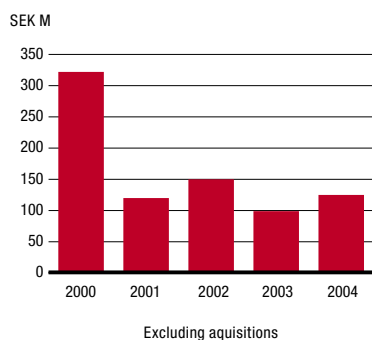
Cash flow after investments



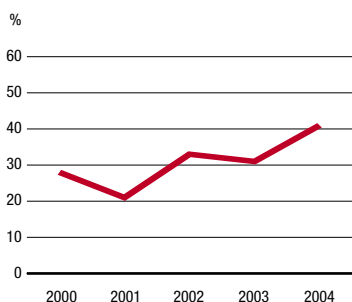
Return



Investments



Equity/assets ratio



2003, shareholders' equity did not increase, due to nonrecurring expenses in Hungary approved in 2003.

The sharp improvement in operating profitability during 2004, together with an improvement in net financial items and a falling average tax rate, resulted in an increase in shareholders' equity at the end of the period.

The equity/assets ratio was affected by the events above and increased sharply from 28 percent in 2000 to 41 percent in 2004. The Group's objective is an equity/assets ratio not below 35 percent.

Interest-bearing liabilities and provisions consist largely 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 573 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, 2004

Total assets were SEK 1,598 M (1,835). Fixed assets declined somewhat as a result of lower investments compared to annual depreciation and amortization and a negative translation effect. Assets in the form of inventories and current receivables decreased largely as a result of a decline in sales compared to 2003.

Despite a positive cash flow, cash holdings decreased by a total of SEK 104 M to SEK 214 M (318) as a result of sizable repayments of interest-bearing liabilities. Shareholders' equity increased as a result of net income. Interest-bearing liabilities declined sharply as a result of lump payments made at the end of the year.

Cash flow statements, 2000–2004

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 9 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 is given by suppliers.

The general trend of longer credit periods during this period also applies to Nolato, but this has been offset by Nolato's being given longer credit periods from its 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 period, normally cause high levels of accounts receivable and vice versa in the event of relatively low sales during the last quarter.

Investments

During 2000, the Group acquired Nolato Shieldmate in the US, 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 (2001–2004), 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 US – to other, expanding companies in the Group, mainly in China.

The main expansion in the Group in

recent years has taken place largely in China, where expansion is normally less investment-intensive because production is less automated compared to corresponding expansion in Europe.

Only one minor acquisition was made during 2004.

Funding

The strong expansion and acquisitions that occurred in 2000 required funding that could not be supplied internally from regular operations. This funding was provided in its entirety by borrowed capital.

The Group then paid off this external funding during the period 2001-2004. It carried out a new share issue in 2002, which gave the Group a net amount of SEK 246 M in liquidity from the shareholders.

Dividend

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, and SEK 13 M was paid out in 2003. For 2003, the dividend was SEK 0.80 per share, with SEK 21 M being paid out in 2004.

The Board proposes a dividend for 2004 of SEK 1.75 per share, with SEK 46 M to be

paid out in 2005, following approval at the Annual Meeting.

Cash flow statements, 2004

Cash flow from operations

Cash flow before investments amounted to SEK 356 M (323). Improved profitability combined with a smaller need for working capital led to sharply improved cash flow.

Investments

Cash flow after investments was SEK 231 M (228). Total gross investments in fixed assets were SEK 125 M (99). Net investments totaled SEK 125 M (99). Investments consisted of the following:

SEK M	2004	2003
Capitalized expenditures	—	4
Goodwill	4	—
Buildings and land	5	—
Machinery and equipment	91	81
Construction in progress	25	14
Total investments	125	99

Funding

Interest-bearing assets totaled SEK 214 M (318) and interest-bearing liabilities

and provisions totaled SEK 377 M (625). Net liabilities thus shrank by SEK 144 M to SEK 163 M (307). Shareholders' equity totaled SEK 655 M (569). The equity/assets ratio was SEK 41 percent (31).

Credits from financial institutions, banks and pension funds consisted of the following:

SEK M	2004	2003
Loans	321	574
Provisions for pensions	56	51
Total interest-bearing liabilities	377	625
Unutilized lines of credit	347	176
Total credit available	724	801

Cash flow statements (SEK M)

	2004	2003	2002	2001	2000
Cash flow before changes in working capital	330	260	166	61	371
Changes in working capital	26	63	-146	297	-40
Cash flow from operations	356	323	20	358	331
Investment activities	-125	-95	-57	-66	-735
Cash flow after investments	231	228	-37	292	-404
Financing activities	-335	-111	102	-233	466
Other changes	—	—	—	—	1
Increase in liquid funds	-104	117	65	59	63
Liquid funds on January 1	318	201	136	77	14
Liquid funds on December 31	214	318	201	136	77

Personnel

The average number of employees was 2,700 compared to 2,353 in 2003. Most of the increase was attributable to Nolato's expansion in China.

Product development costs

Group expenditures for development work were SEK 213 M (247), of which SEK 0 M (4) was capitalized. This included development of tools, materials, designs and technology. Costs consisted almost entirely of development expenditures in conjunction with project and product development undertaken in partnership with Group companies.

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 environmental management systems that are certified

according to the ISO 14001 standard, and Nolato's goal is that all its companies obtain such certification during 2004. Further environmental information about the Group can be found on page 17.

Future prospects

Volume growth in the mobile telephone market is expected to fall off during 2005 compared to 2004 and reach 5 to 10 percent. Development at Nolato Telecom is shaped largely by this market growth. At the same time, price pressure is still intense and the move of production and costs to Asia has the opposite impact on revenues. Nolato expects this will result in unchanged or slightly lower sales for Nolato Telecom during 2005.

Nolato Industrial is growing apace with the main markets in this business area and is expected to have stable volume while price pressure remains strong.

Transition to IFRS in 2005

As of January 1, 2005, Nolato will apply the International Financial Reporting Standards (IFRS) as approved by the EU. Comparative figures will be restated starting January 1, 2004, because the Nolato Group publish-

es financial information with a comparative year in its Annual Report. The interim report for the first quarter of 2005 will be the first financial report for Nolato to be presented in accordance with IFRS.

There are differences for Nolato between current accounting practice and IFRS in the areas "Business Combinations" (IFRS 3) and "Financial Instruments: Recognition and Measurement" (IAS 39).

The report on the impact of the transition to IFRS is essentially complete, and in Note 28 on page 64 there are a description and a quantification of those areas preliminarily expected to have a material effect on Nolato's equity and net income for 2004.

The information related to the transition has been compiled in accordance with the IFRS principles that are expected to be applied on December 31, 2005. IFRS is the subject of an ongoing review and approval by the EU, which is why changes are still possible. This may affect the information provided.

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, 2000 – 2004						
		2004	2003	2002	2001	2000
Sales and earnings						
Sales	SEK M	2,401	2,671	2,011	2,359	3,302
Sales growth	%	– 10	33	– 15	– 29	54
Percentage outside Sweden	%	65	68	53	47	48
Operating income, including nonrecurring items	SEK M	195	57	42	– 510	137
Operating income, excluding nonrecurring items	SEK M	195	150	42	– 23	237
Financial items	SEK M	– 16	– 51	– 6	– 54	– 36
Income after financial items, including nonrecurring items	SEK M	179	6	36	– 564	101
Income after financial items, excluding nonrecurring items	SEK M	179	99	5	– 80	201
Net income for the year	SEK M	130	– 35	60	– 429	52
Nonrecurring items *	SEK M	—	– 93	43	– 484	– 100
Financial position						
Total assets	SEK M	1,598	1,835	1,895	1,662	2,563
Shareholders' equity	SEK M	655	569	624	342	730
Interest-bearing assets	SEK M	214	318	201	136	77
Interest-bearing liabilities and provisions	SEK M	377	625	701	778	950
Net liabilities	SEK M	163	307	500	642	873
Equity/assets ratio	%	41	31	33	21	28
Percentage of risk-bearing capital	%	44	32	33	21	33
Liquidity	%	140	153	150	120	145
Debt/equity ratio	Times	0.6	1.1	1.1	2.3	1.3
Cash flow						
Cash flow from operations	SEK M	356	323	20	358	331
Investment activities	SEK M	– 125	– 95	– 57	– 66	– 735
Cash flow before financing activities	SEK M	231	228	– 37	292	– 404
Profitability **						
Return on total assets before tax	%	11.9	7.4	3.1	– 1.1	11.6
Return on capital employed before tax	%	18.4	11.0	4.5	– 1.7	17.7
Return on operating capital before tax	%	23.0	15.0	4.0	– 1.8	18.2
Return on shareholders' equity after tax	%	21.2	9.7	3.5	– 16.6	19.5
Operating margin	%	8.1	5.6	2.1	– 1.0	7.2
Profit margin	%	7.5	3.7	0.2	– 3.4	6.1
Interest coverage ratio	Times	8	4	1	0	6
Personnel						
Number of employees		2,700	2,353	1,992	2,218	2,679
Sales per employee	SEK K	889	1,135	1,010	1,064	1,233
Income after financial items per employee **	SEK K	66	42	3	– 36	75

* During 2003, nonrecurring items consisted of restructuring expenses for operations in Hungary in the amount of SEK 55 M and a write-down 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 US.

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.

** Calculated excluding nonrecurring items.

Income statements

(SEK M)		Group		Parent Company	
Note		2004	2003	2004	2003
1	Net sales	2,401	2,671	37	36
2	Cost of goods sold	-2,006	-2,347	—	—
	Gross income	395	324	37	36
	Selling expenses	-56	-46	-16	-12
4	Administrative expenses	-134	-172	-39	-57
5	Other operating expenses	-10	-49	—	—
		-200	-267	-55	-69
3, 7	Operating income	195	57	-18	-33
	Income from financial investments				
8	Income from shares in Group companies	—	—	-47	-90
7, 9	Other interest income and similar income items	12	5	17	18
7, 10	Interest expenses and similar expense items	-28	-56	-22	-36
		-16	-51	-52	-108
	Income after financial items	179	6	-70	-141
11	Appropriations	—	—	11	—
12	Tax on earnings for the year	-49	-41	—	14
	Net income for the year	130	-35	-59	-127
6	Scheduled depreciation/amortization included	140	156	—	—
14	Earnings per share after full tax, including nonrecurring items (SEK)	4.95	-1.35		
14	Earnings per share after full tax, excluding nonrecurring items (SEK)	4.95	2.20		
20	Number of shares on December 31 (thousands)	26,307	26,307		
14	Average number of shares (thousands)	26,307	26,307		

Quarterly data, 2003 – 2004

Group highlights

		Q1	Q2	Q3	Q4	Full year
Net sales (SEK M)	2004	593	611	540	657	2,401
	2003	638	659	681	693	2,671
Operating expenses (SEK M)	2004	—	—	—	—	—
	2003	—	—	– 55	– 38	– 93
Operating income (SEK M)	2004	39	54	51	51	195
	2003	33	40	– 17	1	57
Income after financial items (SEK M)	2004	36	49	46	48	179
	2003	18	24	– 26	– 10	6
Net income for the period (SEK M)	2004	23	34	37	36	130
	2003	10	15	– 37	– 23	– 35
Cash flow after investments (SEK M)	2004	70	15	95	51	231
	2003	12	42	40	134	228
Earnings per share (SEK)	2004	0.85	1.30	1.40	1.40	4.95
	2003	0.40	0.55	– 1.40	– 0.90	– 1.35
Average number of shares (thousands)	2004	26,307	26,307	26,307	26,307	26,307
	2003	26,307	26,307	26,307	26,307	26,307

Net sales by profit center (SEK M)

		Q1	Q2	Q3	Q4	Full year
Nolato Telecom	2004	337	339	303	363	1,342
	2003	375	402	459	450	1,686
Nolato Industrial	2004	228	244	207	257	936
	2003	244	238	200	230	912
Nolato Medical	2004	30	32	35	40	137
	2003	24	27	22	29	102
Intra-Group adjustments, Parent Company	2004	– 2	– 4	– 5	– 3	– 14
	2003	– 5	– 8	0	– 16	– 29
Group total	2004	593	611	540	657	2,401
	2003	638	659	681	693	2,671

Operating income by profit center (SEK M)

		Q1	Q2	Q3	Q4	Full year
Nolato Telecom	2004	25	35	35	38	133
	<i>Operating margin</i>	7.4%	10.3%	11.6%	10.5%	9.9%
	2003	22	29	27	31	109
	<i>Operating margin</i>	5.9%	7.2%	5.9%	6.9%	6.5%
Nolato Industrial	2004	15	17	14	12	58
	<i>Operating margin</i>	6.6%	7.0%	6.8%	4.7%	6.2%
	2003	13	17	– 38	– 26	– 34
	<i>Operating margin</i>	5.3%	7.1%	– 19.0%	– 11.3%	– 3.7%
Nolato Medical	2004	5	7	7	7	26
	<i>Operating margin</i>	16.7%	21.9%	20.0%	17.5%	19.0%
	2003	4	6	3	3	16
	<i>Operating margin</i>	16.7%	22.2%	13.6%	10.3%	15.7%
Intra-Group adjustments, Parent Company	2004	– 6	– 5	– 5	– 6	– 22
	2003	– 6	– 12	– 9	– 7	– 34
Group total	2004	39	54	51	51	195
	<i>Operating margin</i>	6.6%	8.8%	9.4%	7.8%	8.1%
	2003	33	40	– 17	1	57
	<i>Operating margin</i>	5.2%	6.1%	– 2.5%	0.1%	2.1%

Balance sheets

(SEK M)		Group		Parent Company	
Note		2004	2003	2004	2003
Assets					
Fixed assets					
15	Intangible fixed assets				
	Capitalized expenditures	11	14	—	—
	Goodwill	37	40	—	—
		48	54	—	—
16,17	Tangible fixed assets				
	Buildings and land	273	280	—	—
	Machinery and other technical facilities	338	371	—	—
	Equipment, tools, fixtures and fittings	26	24	—	1
	Construction in progress and advances on tangible fixed assets	27	15	—	—
		664	690	—	1
	Financial fixed assets				
18,19	Holdings in Group companies	—	—	326	308
	Receivables from Group companies	—	—	406	390
12	Deferred tax claims	—	4	1	64
		—	4	733	762
	Total fixed assets	712	748	733	763
Current assets					
	Inventories etc.				
	Raw materials and supplies	89	103	—	—
	Products being manufactured	23	25	—	—
	Finished goods and goods for resale	55	51	—	—
	Advances to suppliers	3	2	—	—
		170	181	—	—
	Current receivables				
	Accounts receivable	449	505	—	—
	Receivables from Group companies	—	—	18	59
	Other receivables	37	58	2	1
	Prepayments and accrued income	16	25	1	2
		502	588	21	62
	Short-term investments	80	90	80	90
	Cash and bank balances	134	228	40	137
	Total current assets	886	1 087	141	289
	Total assets	1,598	1,835	874	1,052

(SEK M)		Group	Parent Company	
Note		2004	2003	2004 2003
Shareholders' equity and liabilities				
20 Shareholders' equity				
	Restricted equity			
	Share capital (26,307,408 shares with a par value of SEK 5 each)	132	132	132 132
	Share premium reserve	209	208	209 208
	Revaluation reserve	64	66	— —
	Restricted reserves/statutory reserve	28	9	19 19
		433	415	360 359
	Unrestricted equity			
	Unrestricted reserves/retained earnings	92	189	276 284
	Net income for the year	130	– 35	– 59 – 127
		222	154	217 157
	Total shareholders' equity	655	569	577 516
Provisions				
21	Provisions for pensions	56	51	— —
12	Deferred tax liability	55	14	— —
22	Other provisions	27	56	4 —
		138	121	4 —
Long-term liabilities				
23	Liabilities to credit institutions	174	434	145 350
	Liabilities to Group companies	—	—	36 44
		174	434	181 394
Current liabilities				
23	Liabilities to credit institutions	119	122	95 80
23	Bank overdraft liability	28	18	— —
	Advances from customers	3	8	— —
	Accounts payable	277	356	2 1
	Liabilities to Group companies	—	—	5 23
	Tax liabilities	1	2	— —
	Other current liabilities	22	39	1 1
24	Accrued expenses and prepayments	181	166	9 37
		631	711	112 142
	Total shareholders' equity and liabilities	1,598	1,835	874 1,052
26 Collateral pledged				
		159	212	— —
27 Contingent liabilities				
		1	6	129 160

Changes in consolidated shareholders' equity

(SEK M)

	Share capital	Share premium reserve	Revaluation reserve	Restricted reserves	Unrestricted equity	Total share equity
Shareholders' equity on December 31, 2002	132	208	68	18	198	624
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
Shareholders' equity on December 31, 2003	132	208	66	9	154	569
Translation differences	—	—	—	—	– 13	– 13
Total changes in shareholders' equity not reported in the income statement	—	—	—	—	– 13	– 13
Transfers between unrestricted and restricted equity	—	—	– 2	19	– 17	—
Dividend to shareholders	—	—	—	—	– 21	– 21
Other changes	—	1	—	—	– 11	– 10
Net income for the year	—	—	—	—	130	130
Shareholders' equity on December 31, 2004	132	209	64	28	222	655
Accumulated translation differences						
Amount on January 1	– 16					
Changes in accumulated translation differences during the period	– 13					
Amount on December 31	– 29					

Changes in Parent Company shareholders' equity

(SEK M)

	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total shareholders' equity
Shareholders' equity on December 31, 2002	132	208	19	170	529
Dividend to shareholders	—	—	—	– 13	– 13
Group contributions after tax	—	—	—	127	127
Net income for the year	—	—	—	– 127	– 127
Shareholders' equity on December 31, 2003	132	208	19	157	516
Dividend to shareholders	—	—	—	– 21	– 21
Merger gain	—	—	—	20	20
Other changes *	—	1	—	– 43	– 42
Group contributions after tax	—	—	—	163	163
Net income for the year	—	—	—	– 59	– 59
Shareholders' equity on December 31, 2004	132	209	19	217	577

* Other changes of SEK –43 M pertain to a capital gain on an equity swap that was terminated early in 2004. See also Note 22.

Cash flow statements

(SEK M)

	2004	Group 2003	Parent Company 2004	2003
Operations				
Operating income	195	95	-18	-33
Adjustments for items not included in cash flow				
Depreciation/amortization	140	156	—	—
Writedowns and provisions	24	59	—	—
Translation differences etc.	3	-14	7	-8
	362	296	-11	-41
Dividends from subsidiaries	—	—	—	90
Interest received	5	5	12	18
Interest paid	-30	-41	-23	-31
Income tax paid	-7	—	—	—
Cash flow from operations before changes in working capital	330	260	-22	36
Changes in working capital				
Changes in inventories	11	77	—	—
Changes in accounts receivable	56	-62	—	—
Changes in accounts payable	-79	32	—	—
Other changes in working capital	38	16	21	-12
Cash flow from operations	356	323	-1	24
Investment activities				
Acquisitions of intangible fixed assets	-4	-4	—	—
Acquisitions of tangible fixed assets *	-121	-95	—	—
Acquisitions of financial fixed assets	—	—	-95	-89
Government grants received	—	4	—	—
Divestments of tangible fixed assets	—	—	1	2
Cash flow from investment activities	-125	-95	-94	-87
Cash flow before financing activities	231	228	-95	-63
Financing activities				
Borrowings	3	27	—	—
Payments of loan principal	-257	-92	-190	-86
Changes in other long-term liabilities and provisions	-60	-33	-42	—
Change in receivables from Group companies	—	—	65	53
Dividends paid	-21	-13	-21	-13
Net Group contributions	—	—	176	146
Cash flow from financing activities	-335	-111	-12	100
Increase in liquid funds	-104	117	-107	37
Liquid funds on January 1	318	201	227	190
Exchange rate differences in liquid funds	—	—	—	—
Liquid funds on December 31	214	318	120	227

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.

Basic valuation principles

The financial reports are presented in millions of Swedish kronor unless otherwise indicated. They have been prepared based on historical acquisition values with the exception of reappraisals of tangible fixed assets, which occurred to a limited extent. The accounting principles described here are unchanged from preceding years with the exceptions described below and which are a result of new recommendations from the Swedish Financial Accounting Standards Council.

Fixed assets, long-term liabilities and provisions consist in all significant respects only of amounts that are expected to be recovered or paid in more than twelve months. Current assets and current liabilities consist in all significant respects only of amounts that are expected to be recovered or paid within twelve months from the balance sheet date.

Offsetting of receivables and liabilities and of revenues and costs is made only if this is required or expressly permitted in a Standards Council recommendation.

Change in accounting principles

As of January 1, 2004, the following new Standards Council recommendations are applied: RR 29, "Employee Benefits."

RR 29 "Employee Benefits"

Pensions and other remuneration after completion of service were previously reported in accordance with local rules for each country. In the consolidated financial statements, this has been replaced by RR 29 for the most significant pension plans. Application of this recommendation did not entail any change in shareholders' equity as of January 1, 2004.

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 Standards Council recommendation (RR 1:00) regarding consolidated financial statements and by applying the purchase method of accounting. This method means that shareholders' equity in the Group includes shareholders' equity in the Parent Company and the portion of shareholders' equity in subsidiaries that has accumulated since the acquisition. The difference between the acquisition value of shares in a subsidiary and that company's shareholders' equity at the time of acquisition, adjusted in accordance with consolidated accounting principles, has been allocated among the assets and liabilities valued at market value that were taken over in the acquisition. Amounts that cannot be allocated are reported as goodwill.

Translation of financial statements of foreign subsidiaries

All foreign subsidiaries have been classified as independent, which means that their income statements and balance sheets are translated in the consolidated statements using the current method of accounting.

This means that the assets and liabilities of foreign subsidiaries are translated at the rate in effect on the balance sheet date. The income statement has been translated using the average rate of exchange during the financial year. Translation differences that have arisen as a result of using the current method have a direct impact on the Group's shareholders' equity.

Business segment information

The Group's primary classifying principles for business segments are based on lines of business which correspond with the Group's classification of operations.

The Group's secondary information on business segments is based on where customers and where the assets and investments of subsidiaries are located geographically.

Revenues, costs and earnings for the various profit centers have been affected by internal deliveries.

Internal prices between profit centers are

market-based. Internal deliveries are eliminated when the consolidated financial statements are prepared.

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 periods of the assets.

The following periods have been used:

Capitalized expenditures	5 years
Goodwill	10 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

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. The recovery value is the higher of fair value or value in use. Writedowns are taken if the reported value exceeds the recovery value.

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 that are reported against shareholders' equity are reported against shareholders' equity.

Deferred tax is calculated using the balance sheet method for all but 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 deductions are reported to the extent that they are likely to be used to offset taxable surpluses within the foreseeable future.

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, material, 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.

Intangibles 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 to have a utilization period of 20 years, based primarily on its strategic and market-related values. During 2003, goodwill in Nolato Protec was written down to 0.

Inventories

Inventories are valued at acquisition value or fair value, whichever is lower. The Compa-

ny 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 revenue 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.

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 acquisition value plus accrued interest.

Liquid funds

Liquid funds include, in addition to cash holdings and bank deposits, short-term financial 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.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies have been valued and reported at rates prevailing on the balance sheet date. Earnings and losses on operating receivables and liabilities are reported as revenue or charged to operating income.

Exchange rate differences that have arisen as a result of reappraisals of loans and receivables in foreign currencies and other financial allocation 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.

Employee benefits

In the consolidated financial statements, defined benefit pension plans were entered into through 2003 following local rules and recommendations in the various countries without translating them according to common principles. With application of Standard Council recommendation RR 29, "Employee Benefits," defined benefit pension plans will be reported in the consolidated financial statements as of January 1, 2004 according to common principles and calculation methods.

On January 1, 2004, pension obligations were calculated in accordance with RR 29. Application of this recommendation has not entailed any significant adjustment to shareholders' equity on the balance sheet date. In accordance with RR 29, adjustment figures have not been restated according to the new accounting principles.

There are a number of both defined contribution and defined benefit pension plans within the Group. In Sweden, employees are included in both defined benefit and defined contribution pension plans. In other countries like China, Hungary and Estonia, employees are included in defined contribution pension plans.

In defined contribution plans, the company pays defined contributions to a separate legal unit and has no obligation to make further contributions. Charges are expensed to consolidated income as the benefits are earned.

In defined benefit plans, payment to employees and former employees is made

based on their salary at the time they retired and the number of years served. The Group bears the risk of ensuring that payments undertaken are made.

Nolato's defined benefit plans are unfunded. These obligations are reported in the balance sheet as provisions.

Pension expenses and pension obligations stemming from defined benefit plans are calculated using the projected unit credit method. The method allocates pension expenses as employees perform services for the Company, which increases their entitlement to future payment. Calculation is made annually by independent actuaries. The Company's liabilities are valued at the present value of expected future payments using a discount rate equal to the interest rate of top-rated corporate bonds or government bonds with a maturity equal to that of such liabilities. The most important actuarial assumptions can be seen in Note 21.

There may arise actuarial gains and losses in setting the present value of pension obligations and the fair value of plan assets. These arise either when the difference between these two values deviates from the difference using previous assumptions or when assumptions change. The portion of actuarial gains and losses on the balance sheet date of the preceding year that exceeds 10 percent of the present value of pension obligations or the fair value of plan assets, whichever is higher, is reported in the income statement over the employees' average remaining period of service.

The liability for retirement pensions and family pensions for executives in Sweden is insured through a policy with Alec-ta. According to a statement issued by the Standards Council's Emerging Issues Task Force, URA 42, this is a multi-employer defined benefit pension plan. For the 2004 financial year, the Company had no access to any such information that would allow it to report this plan as a defined benefit plan. The ITP pension plan (for salaried employees in industry), which is insured through a policy with Alec-ta, is thus reported as a defined contribution plan. Charges for the year for pension policies insured at Alec-ta totaled SEK 6 M. Alec-ta's surplus can be allocated to insurers and/or insurees. At year-end 2004, Alec-ta's surplus, in the form of a collective fund-

ing ratio, totaled 128.0 percent (119.9). The collective funding ratio is determined by the market value of Alec-ta's assets as a percent of the pension liability using Alec-ta's own actuarial calculation assumptions, which do not comply with RR 29.

If the pension expenses and pension provisions set for Swedish plans in accordance with RR 29 differ from corresponding amounts according to FAR (the Swedish Institute of Authorized Public Accountants) Recommendation No. 4, a cost for the special salary tax on the difference is reported, in accordance with URA 43.

The accounting principles for defined benefit pension plans described above are only applied in consolidated financial statements. The Parent Company reports defined benefit pension plans in accordance with FAR Recommendation No. 4, Measuring Pension Obligations. At present, employees in the Parent Company are only included in defined contribution pension plans.

Cash flow statement

The cash flow statement is prepared using the indirect method. Reported cash flow only includes transactions that result in payments made or payments received.

Borrowing costs

Borrowing costs are reported according to the general rule in the 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.

Share-based payment

The Group has agreements on variable remuneration, which is determined by Nolato's share price performance and shall be paid in cash.

The synthetic option described above is reported in the balance sheet as a provision and is valued at the share price on that balance sheet day. Any change in the provision is

charged to income and reported as a personnel expense.

Government grants

Government grants are reported in the balance sheet and income statement only when it is reasonably certain that the terms and conditions associated with these grants will 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.

Financial instruments

Financial assets and liabilities are normally entered at acquisition value. Financial assets and liabilities in foreign currencies are reported at rates prevailing on the closing date. To the extent these have been hedged, they are reported at the contract rate.

The Group uses derivative instruments to hedge its exposure to fluctuations in exchange rates and interest rates.

Forward contracts and currency options are entered at fair value on the balance sheet date to the extent they have been entered into in order to hedge receivables and liabilities. Contracts outstanding that were entered into in order to hedge future flows resulting from transactions involving goods and investments that are likely to be completed are not valued. Instead, the effect of these contracts is first reported once the hedged transactions are reported.

Interest rate derivatives are used to hedge against any changes in interest rates. The effect of interest rate swaps on the income statement is allocated over the life of the derivatives.

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 – 31.

The assets included in each profit center consist of all operating assets used by the division, primarily fixed assets, inventories and accounts receivables. Liabili-

ties assigned to divisions include all operating liabilities, mainly accounts payable and accrued expenses. Liquid funds, borrowings, provisions for pensions, provisions for an equity swap and deferred taxes have not been allocated to profit centers.

	Nolato Telecom		Nolato Industrial		Nolato Medical		Elimination		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenues										
External sales	1,337	1,658	927	911	137	102	—	—	2,401	2,671
Intra-Group sales	5	28	9	1	—	—	-14	-29	—	—
Total revenues	1,342	1,686	936	912	137	102	-14	-29	2,401	2,671
Earnings										
Items that do not reflect operations *	—	—	—	-93	—	—	—	—	—	-93
Earnings by division	133	109	58	-34	26	16	—	—	217	91
Expenses not allocated									-22	-34
Operating income									195	57
Financial expenses									-28	-56
Financial income **									12	5
Tax expenses for the year									-49	-41
Net income for the year									130	-35
Other information										
Assets	607	760	708	702	74	63	-5	-12	1,384	1,513
Assets not allocated									214	322
Total assets									1,598	1,835
Liabilities	301	388	201	195	27	25	-18	-12	511	596
Liabilities not allocated									432	670
Total liabilities									943	1,266
Investments	53	47	63	47	12	6	-3	-1	125	99
Depreciation/amortization	62	73	70	76	8	7	—	—	140	156
Significant expenses, other than depreciation/amortization with no offsetting payments, writedowns and provisions	28	18	2	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.

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 Telecom 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
External net sales	1,032	982	780	1,214	111	52	478	423	2,401	2,671
Assets	1,021	1,312	285	314	—	—	292	209	1,598	1,835
Average number of employees	1,058	1,311	554	612	—	—	1,088	430	2,700	2,353
Investments	56	74	25	11	—	—	44	14	125	99

Note 2 Research and development, Group

	2004	2003
Expensed customer project development expenditures	213	243
Capitalized development expenditures	—	4
Total	213	247

Note 3 Personnel

Average number of employees

	2004		2003	
	No. of empl.	Of whom men	No. of empl.	Of whom men
Parent Company				
Nolato AB, Torekov	5	100%	7	100%
Subsidiaries				
Nolato Alpha AB, Kristianstad	291	83%	553	85%
Nolato Beijing, China	1,088	18%	430	28%
Nolato Gota AB, Götene	112	76%	109	78%
Nolato Jász, Hungary	—	—	67	55%
Nolato Lövepac AB, Skånes Fagerhult	66	68%	55	76%
Nolato Medevo AB, Torekov	87	62%	87	64%
Nolato Plastteknik AB, Gothenburg	118	54%	117	51%
Nolato Polymer AB, Torekov	96	73%	103	73%
Nolato Protec, Hungary	292	42%	291	37%
Nolato Silikonteknik AB, Hallsberg	134	60%	112	64%
Nolato STG AB, Lönsboda	39	74%	46	74%
Nolato Sunne AB, Sunne	110	85%	122	83%
Nolato Tallinn AS, Estonia	262	20%	254	22%
Group total	2,700	42%	2,353	56%

Salaries, other remuneration and employer payroll fees

	2004		2003	
	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	11	5	15	8
		(3)*		(5)*
Subsidiaries	422	177	449	193
		(35)**		(44)**
Group total	433	182	464	201
		(38)		(49)

* Of the Parent Company's non-statutory pension expenses, SEK 814 K (770 K) pertained to the President and SEK 0 (0) to the Board of Directors.

** Of the Group's non-statutory pension expenses, SEK 5,069 K (4,333 K) pertained to the category of Board of Directors and President.

Salaries and other remun. by country	2004		2003	
	Board and President	Other employees	Board and President	Other employees
Parent Company	6	5	6	9
Subsidiaries in Sweden	11	339	9	381
Subsidiaries outside Sweden				
Estonia	1	16	1	17
China	2	25	2	11
Hungary	2	26	2	26
Total subsidiaries	16	406	14	435
Group total	22	411	20	444

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 for the President and other senior executives is made up of a basic salary, variable remuneration, other benefits and a pension. "Other senior executives" refers to the individuals who, together with the President, constitute the Group's Executive Committee. During 2004, Group Management consisted of 6 people plus the President. For the current composition, see page 69.

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 2004

SEK K	Basic sal./ Director's fee	Variable remun.*	Other benef.**	Pension premiums	Other remun.***	Total
Chairman of the Board	165	—	—	—	2	167
Other Board members	500	—	—	—	—	500
President	2,923	877	141	743	11	4,695
Other senior executives (6)	7,704	2,112	351	1,742	379	12,288
Total	11,292	2,989	492	2,485	392	17,650

Remuneration and other benefits during 2003

SEK K	Basic sal./ Director's fee	Variable remun.*	Other benef.**	Pension premiums	Other remun.***	Total
Chairman of the Board, new	150	—	—	—	—	150
Chairman of the Board, ret.	—	—	—	—	155	155
Other Board members	450	—	—	—	—	450
President, new ¹	1,883	835	73	472	—	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
Total	12,339	3,081	757	3,000	1,588	20,765

¹ Remuneration and other benefits during 8 months.

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

** "Other benefits" pertains to a company car.

*** "Other remuneration" refers to the Chairman of the Board's travel allowance and consulting fees (2003) as well as payment made to the President and other senior executives for accrued vacation benefits.

Variable remuneration

Variable remuneration paid to the President and other senior executives is based on operating income and return on capital employed. The maximum outcome is 30 percent of basic salary. This also requires that the respective profit center is reporting positive earnings, excluding nonrecurring items. The maximum outcome for the President is 40 percent starting in 2005. In 2004, the outcome for the President was 30 percent of basic salary (30) and for other senior executives an average of 27 percent of basic salary (26).

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 Q1, 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, 2004, SEK 2,700 K (1,365) has been reserved for this remuneration.

Financial instruments

	Program from previous years
	Employee stock options 2000
President	—
Other senior executives	23,500
Total	23,500

Pensions

The retirement age for the President and other senior executives is 65. The President's pension premium amounts to 40 percent of pension-qualifying salary starting in 2005 and is a defined contribution plan. Variable remuneration does not qualify as pensionable income. For 2004, the average pension premium was 25 percent of basic salary (25).

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 pension plan (for salaried employees in industry). They thus have a defined benefit pension plan. For 2004, the average pension premium was 23 percent (27). Variable remuneration does not qualify as pensionable income.

Severance pay

The Company and the President have agreed on a notice period of 6 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 6 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. No such deduction shall be made for the President. Both the President and other senior executives collect basic salary and other benefits during the notice period. There is no remuneration after the notice period.

Gender distribution of senior executives, 2004

	Group		Parent Company	
	Men	Women	Men	Women
Presidents	13	—	1	—
Board members	57	4	9	1
Other senior executives in subsidiaries/Parent Company	62	8	6	—
Total	132	12	16	1

Gender distribution of senior executives, 2003

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

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. 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, 133,000 options have been forfeited and as of December 31, 2004, the number of options outstanding was 67,000 (72,500), of which all were eligible to be exercised at the end of 2004. 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 more than SEK 0.1 M. 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 58.00 and the expected volatility of the underlying share was calculated based on 33 percent. The expected dividend was estimated at SEK 1.75 for 2004 and the risk-free interest rate for the expected term at 2.7 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.

Note 4 Information on remuneration to auditors

The Company's auditing firm has been remunerated:

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

SEK K	Group		Parent Company	
	2004	2003	2004	2003
Ernst & Young	1,959	1,811	400	350
Total	1,959	1,811	400	350

For independent consulting, assistance, etc.

SEK K	Group		Parent Company	
	2004	2003	2004	2003
Ernst & Young	1,207	1,764	898	1,367
Total	1,207	1,764	898	1,367

Note 5 Other operating expenses, Group

	2004	2003
Goodwill writedown	—	– 38
Depreciation of capitalized expenditures	– 3	—
Goodwill amortization	– 7	– 11
Total	– 10	– 49

Note 6 Depreciation/amortization

Depreciation/amortization was included in operating expenses as follows:

	Group		Parent Company	
	2004	2003	2004	2003
Capitalized expenditures	3	2	—	—
Goodwill	7	11	—	—
Buildings and land	14	16	—	—
Machinery and other technical facilities	103	111	—	—
Equipment, tools, fixtures and fittings	13	16	—	—
Total	140	156	—	—

Depreciation was distributed according to utilization as follows:

	Group		Parent Company	
	2004	2003	2004	2003
Cost of goods sold	124	138	—	—
Selling expenses	1	2	—	—
Administrative expenses	5	5	—	—
Other operating expenses	10	11	—	—
Total	140	156	—	—

Note 7 Exchange rate differences

	Group		Parent Company	
	2004	2003	2004	2003
Exchange rate diff., operating income, net	—	– 6	—	—
Exchange rate diff., financial items, net	8	– 16	5	– 8
Summa	8	– 22	5	– 8

Note 8 Income from shares in Group companies

	Group		Parent Company	
	2004	2003	2004	2003
Dividend from subsidiaries	—	—	—	90
Loss coverage reserve related to subsid.	—	—	—	– 22
Writedowns of shares in subsidiaries	—	—	– 47	– 158
Total	—	—	– 47	– 90

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	
	2004	2003	2004	2003
Interest income, Group companies	—	—	8	14
Interest income, other	4	4	4	4
Exchange rate differences	8	—	5	—
Other financial income	—	1	—	—
Total	12	5	17	18

Note 10 Interest expenses and similar expense items

	Group		Parent Company	
	2004	2003	2004	2003
Interest expenses, Group companies	—	—	– 1	—
Interest expenses, other	– 26	– 39	– 20	– 28
Other financial expenses	– 2	– 1	– 1	—
Exchange rate differences	—	– 16	—	– 8
Total	– 28	– 56	– 22	– 36

Note 11 Appropriations

	Group		Parent Company	
	2004	2003	2004	2003
Reversal of tax allocation reserve	—	—	11	—
Total	—	—	11	—

The tax allocation reserves that were reversed during 2004 were realized by Nolato AB in connection with the merger of Nolato Mobile AB in 2004.

Note 12 Tax on earnings for the year

	Group		Parent Company	
	2004	2003	2004	2003
Current tax	– 4	– 2	63	49
Deferred tax	– 45	– 39	– 63	– 35
Total	– 49	– 41	—	14

	Group		Parent Company	
	2004	2003	2004	2003
Deferred tax exp./revenue for the year	– 45	– 39	– 63	– 35
Tax expense from temp. diff.	– 45	– 39	– 63	– 35
Total	– 45	– 39	– 63	– 35

Difference between Group tax and tax based on applicable tax rate

	Group		Parent Company	
	2004	2003	2004	2003
Reported income before tax	179	6	– 59	– 141
Tax according to applicable tax rate	– 50	– 2	17	39
Tax effects of non-deductible expenses	– 1	– 1	—	—
Non-deduct. writedowns of shares in subsid.	—	—	– 13	– 50
Adjustments for taxes in prior years	– 3	—	– 3	—
Dividends from subsidiaries	—	—	—	25
Non-deductible goodwill writedowns	– 2	– 13	—	—
Loss carry forwards not utilized	– 9	– 24	—	—
Effect of foreign tax rates	3	– 3	—	—
Tax-exempt earn. in Group comp. outside Sweden	12	4	—	—
Other	1	– 2	– 1	—
Total	– 49	– 41	—	14

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	
	2004	2003	2004	2003
Deferred tax attributable to equity swap	- 12	1	—	—
Current tax related to Group contributions	—	—	-63	-49
Total	- 12	1	-63	-49

Deferred tax liabilities

	Group		Parent Company	
	2004	2003	2004	2003
Untaxed reserves	10	31	—	—
Revaluation of real estate	25	26	—	—
Surplus values, cons. financial statements	4	4	—	—
Earnings from foreign subsidiaries	26	14	—	—
Other	4	2	—	—
Total deferred tax liabilities	69	77	—	—

Deferred tax claims

	Group		Parent Company	
	2004	2003	2004	2003
Loss carry forwards	1	64	1	64
Provisions for pension obligations	2	—	—	—
Other	11	3	—	—
Total deferred tax claims	14	67	1	64

Net deferred taxes	- 55	- 10	1	64
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Offsetting of deferred tax claims and deferred tax liabilities occurs where a legal right of offset applies. Thus SEK 0 M (4) was reported as deferred tax claims and SEK 55 M (14) as deferred tax liabilities.

The Group's unutilized loss carry forwards amounted to SEK 168 M (130) 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 13 Items affecting comparability, Group

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

	2004	2003
Restructuring of operations in Hungary *	—	-55
Writedown of goodwill, Nolato Protec, Hungary **	—	-38
Total	—	-93

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

	2004	2003
Cost of goods sold	—	-52
Administrative expenses	—	-3
Other expenses	—	-38
Total	—	-93

* 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 14 Earnings per share

	2004	2003
Net income, including nonrecurring items	130	-35

Nonrecurring items

Restructuring of operations in Hungary	—	55
Writedown of goodwill in Nolato Protec	—	38
	—	93

Net income, excluding nonrecurring items	130	58
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Average number of shares (thousands) *	26,307	26,307
Earnings per share after full tax (SEK)	4.95	-1.35
Earnings per share after tax, excl. nonrec. items (SEK)	4.95	2.20

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

Note 15 Intangible fixed assets

	Group	
	2004	2003
Capitalized expenditures		
Acquisition value on January 1	18	15
Purchases *	—	4
Divestments and disposals	—	—1
Accumulated acquisition value on December 31	18	18
Amortization on January 1	4	2
Amortization for the year	3	2
Accumulated amortization on December 31	7	4
Reported value on December 31	11	14

* Of purchases, SEK 0 M (3) was accrued internally and SEK 0 M (1) was acquired externally. All capitalized expenditures are amortized in 5 years.

Capitalized expenditures consist of development expenses for technology projects.

	Group	
	2004	2003
Goodwill		
Acquisition value on January 1	179	526
Purchases	4	—
Divestments and disposals	—	—347
Accumulated acquisition value on December 31	183	179
Amortization on January 1	101	114
Divestments and disposals	—	—24
Amortization for the year	7	11
Accumulated amortization on December 31	108	101
Writedowns on January 1	38	323
Disposals	—	—323
Amortization for the year	—	38
Accumulated writedowns on December 31	38	38
Reported value on December 31	37	40

Divestments and disposals of goodwill were mainly related to US operations, which were discontinued completely during 2003.

Note 16 Tangible fixed assets

	Group	
	2004	2003
Buildings and land		
Acquisition value on January 1	347	360
Purchases	5	—
Government grants	—	—1
Translation differences	2	—9
Reclassifications	—2	—3
Accumulated acquisition value on December 31	352	347
Depreciation on January 1	128	117
Depreciation for the year	11	13
Translation differences	—	—1
Reclassifications	—2	—1
Accumulated depreciation on December 31	137	128
Revaluations on January 1	92	95
Depreciation for the year	—3	—3
Accumulated revaluations on December 31	89	92
Writedowns on January 1	31	—
Writedowns for the year	—	31
Accumulated writedowns on December 31	31	31
Reported value on December 31	273	280
<i>Reported value, real estate in Sweden</i>	<i>192</i>	<i>200</i>
<i>Tax assessment values, buildings in Sweden</i>	<i>92</i>	<i>92</i>
<i>Reported value, real estate in Sweden</i>	<i>32</i>	<i>32</i>
<i>Tax assessment values, land in Sweden</i>	<i>19</i>	<i>18</i>
	Group	
	2004	2003
Machinery and other technical facilities		
Acquisition value on January 1	1,129	1,186
Purchases	85	67
Divestments and disposals	—33	—131
Translation differences	—2	—15
Government grants	—	—3
Reclassifications	—34	25
Accumulated acquisition value on December 31	1,145	1,129
Depreciation on January 1	755	740
Divestments and disposals	—32	—99
Depreciation for the year	103	111
Translation differences	—1	—4
Reclassifications	—24	7
Accumulated depreciation on December 31	801	755
Writedowns on January 1	3	30
Divestments and disposals	—	—30
Writedowns for the year	3	3
Accumulated writedowns on December 31	6	3
Reported value on December 31	338	371

	Group	
	2004	2003
Equipment, tools, fixtures and fittings		
Acquisition value on January 1	115	117
Purchases	6	14
Divestments and disposals	- 11	- 11
Translation differences	1	- 1
Reclassifications	15	- 4
Accumulated acquisition value on December 31	126	115
Depreciation on January 1	91	90
Divestments and disposals	- 10	- 11
Reclassifications	6	- 4
Depreciation for the year	13	16
Accumulated depreciation on December 31	100	91
Reported value on December 31	26	24

	Group	
	2004	2003
Construction in progress and advances on tangible fixed assets		
Acquisition value on January 1	15	20
Purchases	25	14
Translation differences	—	- 3
Reclassifications	- 13	- 16
Accumulated acquisition value on December 31	27	15
Reported value on December 31	27	15

	Parent Company	
	2004	2003
Equipment		
Acquisition value on January 1	3	5
Divestments and disposals	- 1	- 2
Accumulated depreciation on December 31	2	3
Depreciation on January 1	2	3
Depreciation for the year	—	- 1
Accumulated depreciation on December 31	2	2
Reported value on December 31	—	1

Note 17 Leasing

	Group	
	2004	2003
Financial leases		
Acquisition value, buildings and machinery	49	49
Accumulated depreciation, buildings and machinery	- 12	- 9
Accumulated writedowns, buildings and machinery	- 31	- 31
Reported value	6	9

Future payment obligations, December 31, Group

	Financial leases	Operating leases
Lease payment for the year	3	8
2005	2	11
2006	2	7
2007	2	5
2008	2	1
2009	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 18 Shares in Group companies, Parent Company

	2004	2003
Acquisition value on January 1	511	438
New share issue/additions	95	89
Divestments and disposals	—	- 16
Merger effect	- 8	—
Accumulated acquisition value on December 31	598	511
Accumulated writedowns on January 1	203	61
Divestments and disposals	—	- 16
Writedowns for the year	69	158
Accumulated writedowns on December 31	272	203
Reported value on December 31	326	308

Of the SEK 69 M in writedowns for the year, SEK 22 M relating to Nolato Jász, in 2000, was charged to income.

Note 19 Shares in Group companies, Parent Company

The Parent Company's holdings	% of equity	% of votes	Book value
Nolato Alpha AB, Kristianstad, Sweden	100%	100%	12
Nolato Beijing Ltd, China	100%	100%	58
Nolato Gota AB, Götene, Sweden	100%	100%	103
Nolato Jász Kft, Hungary	100%	100%	2
Nolato Lövepac AB, Skånes Fagerhult, Sweden	100%	100%	9
Nolato Medevo AB, Torekov, Sweden	100%	100%	6
Nolato Plastteknik AB, Gothenburg, Sweden	100%	100%	62
Nolato Polymer AB, Torekov, Sweden	100%	100%	5
Nolato Protec Kft, Hungary	100%	100%	19
Nolato Silikonteknik AB, Hallsberg, Sweden	100%	100%	7
Nolato STG AB, Lönsboda, Sweden	100%	100%	4
Nolato Sunne AB, Sunne, Sweden	100%	100%	35
Nolato Tallinn AS, Estonia	100%	100%	1
Nolato Tallinn Polymer AS, Estonia	100%	100%	0
Nolato Torekov AB, Sweden	100%	100%	3
Total book value			326

Subsidiaries' holdings	% of equity	% of votes	Book value
Nolato Gejde AB, Lomma, Sweden	100%	100%	—

Information on subsidiaries' corporate identity numbers and registered offices:

Nolato Alpha AB	556164-1050	Kristianstad
Nolato Beijing Ltd	—	China
Nolato Gota AB	556054-1301	Götene
Nolato Jász Kft	—	Hungary
Nolato Lövepac AB	556120-6052	Skånes Fagerhult
Nolato Medevo AB	556309-0678	Torekov
Nolato Plastteknik AB	556198-4385	Gothenburg
Nolato Polymer AB	556380-2890	Torekov
Nolato Protec Kft	—	Hungary
Nolato Silikonteknik AB	556137-5873	Hallsberg
Nolato STG AB	556098-4584	Lönsboda
Nolato Sunne AB	556101-2922	Sunne
Nolato Tallinn AS	—	Estonia
Nolato Tallinn Polymer AS	—	Estonia
Nolato Torekov AB	556042-2858	Torekov
Subsidiaries		
Nolato Gejde AB	556545-5549	Lomma

Note 20 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, 2002	26,307,408	5.00	131,537
Share capital, December 31, 2003	26,307,408	5.00	131,537
Share capital, December 31, 2004	26,307,408	5.00	131,537

Note 21 Provisions for pensions and similar obligations

SEK K	2004
Defined benefit pension plans	50,675
Other pension plans	5,700
Total	56,375

Defined benefit pension plans

In the Group, there are defined benefit plans in which employees are entitled to remuneration after leaving their position based on their final salary and period of service. In the Group, such plans are only found in Sweden.

The amounts reported in the balance sheet have been calculated as follows:

SEK K	2004
Present value of unfunded obligations	53,533
Unreported actuarial losses	– 2,858
Net liability in the balance sheet	50,675

The amounts reported in the income statement during the financial year for defined benefit pension plans are as follows:

SEK K	2004
Expenses related to service during the financial year	275
Interest expense	2,614
Severance pay	– 921
Total expense for defined benefit pension plans	1,968
Expense for defined contribution pension plans	28,934
Expense for special salary tax and yield tax	7,415
Total pension expense	38,317

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

SEK K	2004
Cost of goods sold	– 674
Selling expenses	– 107
Administrative expenses	135
Financial expenses	2,614
Total	1,968

Changes in net liability as reported in the balance sheet are as follows:

SEK K	2004
Net liability on January 1 according to balance sheet adopted	50,404
Effect of change in accounting principle	– 888
Net liability on Dec. 31 adjusted in acc. to new accounting principle	49,516
Net expense reported in income statement	1 968
Payment of pensions and	– 809
Net liability on December 31	50,675

Important actuarial assumptions on the balance sheet date (weighted averages)

%	2004	2003
Discount rate	5.0	5.3
Future annual salary increases	3.2	3.5
Future annual pension increases	3.2	3.5
Employee turnover	5.0	7.0

Alecta:

The liability for retirement pensions and family pensions for executives in Sweden is secured through a policy with Alecta. According to a statement issued by the Standards Council's Emerging Issues Task Force, URA 42, this is a multiple-employer defined benefit pension plan. For the 2004 financial year, the Company had no access to any such information that would allow it to report this plan as a defined benefit plan. The ITP pension plan (for salaried employees in industry), which is insured at Alecta, is thus reported as a defined contribution plan. Charges for the year for pension insurance policies at Alecta totaled SEK 6 M. Alecta's surplus can be allocated to insurers and/or insureds. On December 31, 2004, Alecta's surplus, in the form of the collective funding ratio, amounted to 128.0 percent (119.9). The collective funding ratio is determined by the market value of Alecta's assets as a percentage of the pension liability using Alecta's own actuarial calculation assumptions, which do not comply with RR 29.

Note 22 Other provisions

	Equity swap	Share bonus	Provision to restructuring reserve	Total
Amount on January 1	31	—	25	56
Provisions for the year	12	4 *	22	38
Amount reversed	—	—	– 7	– 7
Provisions utilized	– 43	—	– 17	– 60
Amount on Dec. 31	0	4	23	27

The year's "Provisions to restructuring reserve" consists mainly of personnel costs relating to personnel reductions in Kristianstad, Sweden. Payments of these provisions will take place mostly during 2005. The Group's equity swap was paid off in early 2004. The provision for share bonuses is expected to be paid out in 2006 and is described in Note 3.

* As of December 31, 2003, this provision of SEK 2 M was included in accrued expenses.

Note 23 Liabilities to credit and pension institutions

Total confirmed lines of credit in the Group are SEK 724 M (801). As of the balance sheet date, utilized credit was SEK 377 M (625).

The Group's utilized credit is payable as follows:

	Total liabilities	Within 1 year	2–5 years	Later than 5 years
Liabilities to credit inst.	293	119	4	170
Overdraft facilities	28	28	—	—
Provisions for pensions	56	1	8	47
Total	377	148	12	217

Note 24 Accrued expenses and prepayments

	Group		Parent Company	
	2004	2003	2004	2003
Salary liabilities	70	77	4	6
Employer payroll fees	38	46	2	3
Other items	73	43	3	28
Total	181	166	9	37

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

Note 25 Financial instruments

The objectives and policies for Nolato's risk management can be found in the Report of the Directors on pages 38 – 39.

Currency forward contracts

Currency forward contracts entered into but not utilized on December 31, 2004, are detailed in the table below. Of the market value, SEK 1 M, SEK 0 M is related to the hedging of existing assets and liabilities on December 31, 2004, and was thus realized. The remaining market value has not been realized and thus had no effect on the income statement or balance sheet.

Currency	Nominal value in contract (SEK M)	Average rate	Market value	Realized gains/losses	Unrealized gains/losses
EUR	185	9.01	0	0	0
USD	56	6.78	1	0	1
DKK	11	1.21	0	0	0
Total			1	0	1

Net assets in foreign currencies

At the end of 2004, the Group's book value of net assets in its subsidiaries in foreign currencies was SEK 225 M (116).

Company	2004	2003
Nolato Beijing, China	133	55
Nolato Protec, Hungary	21	7
Nolato Tallinn, Estonia	71	54
Total	225	116

The translation difference for the year related to net assets totaled SEK –13 M (–11). At the end of the year, the accumulated translation difference was SEK –29 M (–16).

Borrowings in foreign currencies

At the end of the year, foreign borrowings totaled SEK 144 M (83). Such borrowings are subject to translation exposure in the consolidated income statement.

Country	Currency	Amount (SEK M)
Sweden	USD	13
Sweden	EUR	135
Hungary	EUR	57
External loan liability		205
Hungary	SEK	35
Sweden	EUR	26
China	USD	13
Internal loan liability		74

Currency swap				
Amount	Currency	Rate	Market value	Amount (SEK M)
15,000	EUR	8.79	3	- 135
Total borrowings incl. currency swap				144

Interest-bearing liabilities and interest rate swaps

At the end of the year, the Group's interest-bearing liabilities amounted to SEK 377 M (625). The average interest rate, including effects of interest rate swap contracts, was 3.8 percent (5.9). The average fixed-interest term is 5 months (6).

	2004	2003
Liabilities with fixed interest rates	25	267
Liabilities with floating interest rates	352	358
Total liabilities	377	625

At the end of 2004, the following fixed interest rate swaps were also entered into:

Maturity date	Interest rate	Currency	Amount	Market value
January 21, 2005	4.06%	SEK	200	0
December 29, 2006	3.75%	SEK	40	- 1
November 6, 2005	5.21%	SEK	67	- 2
Total			307	- 3

Valuation of financial instruments

	2004	
	Reported value	Fair value
Receivables		
Customer receivables	449	449
Other receivables	37	37
Forward contracts	—	1
Short-term investments	80	80
Cash and bank balances	134	134
Liabilities		
Interest-bearing liabilities	377	377
Accounts payables	277	277
Other liabilities	22	22
Interest rate swaps	—	3

Note 26 Collateral pledged for own liabilities and provisions

	Group		Parent Company	
	2004	2003	2004	2003
Chattel mortgages	118	118	—	—
Real estate mortgages	41	94	—	—
Total	159	212	—	—

Note 27 Contingent liabilities

	Group		Parent Company	
	2004	2003	2004	2003
Guarantees on behalf of subsidiaries	—	—	129	160
Government grants	—	1	—	—
Other contingent liabilities	1	5	—	—
Total	1	6	129	160

Note 28 Transition to IFRS

Beginning in 2005, all publicly-listed companies in the European Union shall prepare their consolidated financial statements according to International Financial Reporting Standards (IFRS), which also include current International Accounting Standards (IAS). The recommendations of the Swedish Financial Accounting Standards Council, which have been applied by Nolato up to and including 2004, are to a large extent based on IAS, which is why consolidated financial statements by these means already conform largely to the new rules and regulations.

Effects of the transition to IFRS

The Group's financial reporting for 2005 shall take place in accordance with IFRS and the information for the comparative year 2004 shall be restated. The rules for how the introduction and recalculation are to take place can be found in IFRS 1, "First-Time Adoption of International Financial Reporting Standards."

The significant effects for the Group of the transition to IFRS concern reporting company acquisitions and financial instruments. IAS 32 and 39, relating to financial instruments, are to be applied starting in 2005, and, in accordance with the transition rules, comparative figures for 2004 have not been restated. The significant changes in accounting principles for the Nolato Group are described below in connection with the presentation of the effects of reported earnings for 2004 and shareholders' equity as of December 31, 2003 and 2004.

According to IFRS 1, accounts shall be prepared according to the IFRS standards in force on December 31, 2005. These standards will also have to be approved by the EU. The effects of the transition to IFRS that are reported below are thus preliminary and based on current IFRS standards and interpretations of these, which may be changed prior to December 31, 2005 with consequent effects on reported figures. The idea underlying IFRS 1 is that all standards shall be applied retroactively, but there are a number of exceptions to this rule. The extent to which the Nolato Group has used any of these exceptions can be seen in the comments below.

IAS 16 requires a detailed breakdown of property, plant and equipment into components, each with its own useful life. Nolato believes that the Company already uses component depreciation with separate useful lives, which is relevant in our operations. This means that the introduction of IAS 16 will not have any material effect on our accounts.

Compilation of effects from the transition to IFRS

SEK M	Note	Amount
Net income according to Swedish accounting principles, 2004		130
Purchase price allocation for acquisitions, 2004	1	- 1
Goodwill amortization	1	7
Total change IFRS		6
Net income according to IFRS, 2004 (prel.)		136

SEK M	Note	Amount
Shareholders' equity acc. to Swe. account. princ., Jan. 1, 2004		569
Shareholders' equity according to IFRS, Jan. 1, 2004		569
Shareholders' equity acc. to Swe. account. princ., Dec. 31, 2004		655
Purchase price allocation for acquisitions, 2004	1	-1
Goodwill amortization	1	7
Total change to IFRS		6
Shareholders' equity according to IFRS, Dec. 31, 2004		661
Market value of commercial forward exchange contracts	3	1
Market value of interest rate derivatives, 3 with tax deduction of 1	3	-2
Shareholders' equity according to IFRS, Jan. 1, 2005		660

Reconciliation of operating income by profit center, overview

SEK M	Note	2004	Adjustm. IFRS	IFRS 2004
Nolato Telecom		133	—	133
Nolato Industrial	1	58	7	65
Nolato Medical	1	26	-1	25
Group adjustments, Parent Company		-22	—	-22
Group total		195	6	201

Note 1 IFRS 3, "Business Combinations," entails changes in the way company acquisitions are reported and that there shall be no amortization of goodwill. Among the changes noted is that there shall be a more detailed allocation of the purchase price, whereby identifiable intangible assets such as trademarks, customer relations, technology etc. shall be valued. These assets shall be amortized over their useful life, provided that it is not indefinite, in which case there shall be no amortization. Goodwill and other intangible assets that are not amortized shall be tested for impairment at least annually to determine whether they have been impaired. Moreover, there can be no provision in the purchase analysis for restructuring costs expected to be incurred as a result of the business combination.

Company acquisitions prior to January 1, 2004, have not been restated. For acquisitions by the Nolato Group carried out during 2004, application of IFRS 3 resulted in the reclassification of SEK 1 M from goodwill to other intangible assets. This effect is reported in its entirety in 2004 and does not recur in later periods.

For the Nolato Group, application of IFRS 3 means that income for 2004 increases by SEK 7 M because there will be no amortization of goodwill starting January 1, 2004. Nolato has carried out writedown tests as of January 1, 2004, and December 31, 2004. According to these tests, there is no need for writedowns.

Note 2 IFRS 2, "Share-Based Payment" entails that an expense shall be reported in the income statement for programs in which employees are granted options or other share-based payment under conditions that deviate from market conditions. The expense is calculated based on the fair value of the benefit when granted and is allocated over the vesting period.

For the Nolato Group, application of IFRS 2 is only of minor significance. Calculation of the value has been made using a Black-Scholes option pricing model.

In the transition to IFRS, expensing according to IFRS 2 only needs to be applied to programs that were agreed on after November 7, 2002, and were not vested on January 1, 2005. The Nolato Group has a program for share-based payment for the CEO, which is described in Note 3. In addition to this program, there are also programs in which agreements were entered into prior to November 7, 2004, which are described in Note 3.

Note 3 IAS 32, "Financial Instruments: Disclosure and Presentation," and IAS 39, "Financial Instruments: Recognition and Measurement," will be applied beginning in 2005 without restating figures for the comparative year 2004. The version of IAS 39 adopted by the EU differs in some respects from the recommendations issued by the IASB. For the Nolato Group, these differences have no effect, which is why the Group's application of IAS 39 is in accordance with the version adopted by the EU and the text published by the IASB. Application of IAS 32 is considered to have no impact on shareholders' equity with its introduction on January 1, 2005.

IAS 39 requires that financial assets and liabilities be classified in different categories in order to be valued and reported according to the principles in force for the different

categories. Most of the Group's financial assets and liabilities are attributable to deliveries of goods and services, where receivables have a short maturity. The Nolato Group reports these receivables based on their acquisition value. Because of their short maturity, there is no need to consider the time value until payment is made, which is why no change is entailed in the principles applied to date.

Liquid funds and short-term investments have been classified as assets where value is set at fair value and changes in value are reported in the income statement.

Financial liabilities are valued at accumulated acquisition value. This is calculated so that a constant effective interest rate is obtained over the lending period provided that they have a short maturity and there is no contractual interest rate. In this way, trade payables and similar current liabilities are reported at nominal value.

Financial derivative instruments are reported in the balance sheet at fair value. Changes in value are reported in the income statement provided that the derivative is a hedge for another transaction in accordance with the Group's adopted policies. The Group's policy is that derivatives may only be held for hedging purposes. Derivatives that are held for hedging purposes are related to cash flow hedges and hedges of fair value exposures.

Cash flow hedges have been carried out through the sale and purchase of currency forward contracts to hedge the inflow and outflow of foreign currencies from the sale and purchase of goods and interest rate swaps in which the Group pays fixed interest rates and receives floating interest rates to hedge the Group's interest payments on floating-rate loans. Until the underlying transaction is completed, the effect of valuing the derivative at fair value is reported directly in shareholders' equity. It is then reported in the income statement when the underlying transaction is completed. Hedging loan liabilities in foreign currencies is done through currency swaps at predetermined exchange rates. The effect of valuing derivatives at fair value is reported in the income statement, where the corresponding change in fair value on the hedged asset is reported.

For a more detailed description of financial policies, please see page 38.

IAS 32 and IAS 39 are to be applied starting in 2005 without restating comparative figures. As the Group's derivatives are held for hedging purposes, it is thought that application of IAS 39 during 2004 would have had limited effects on income.

After restatement of its financial statements for 2004 to IFRS, Nolato will report the following comparative figures for 2004:

Group highlights

	Q1	Q2	Q3	Q4	Full year
Net sales, SEK M	593	611	540	657	2,401
Operating income, SEK M	40	56	52	53	201
Income after financial items, SEK M	37	51	47	50	185
Net income, SEK M	24	36	38	38	136
Cash flow after investments, SEK M	70	15	95	51	231
Earnings per share, SEK	0.90	1.35	1.45	1.45	5.15
Average number of shares, thousands	26,307	26,307	26,307	26,307	26,307

Net sales by profit center

	Q1	Q2	Q3	Q4	Full year
Nolato Telecom	337	339	303	363	1,342
Nolato Industrial	228	244	207	257	936
Nolato Medical	30	32	35	40	137
Group adjustments, Parent Company	-2	-4	-5	-3	-14
Group total	593	611	540	657	2,401

Operating income by profit center

	Q1	Q2	Q3	Q4	Full year
Nolato Telecom	25	35	35	38	133
Operating margin	7.4%	10.3%	11.6%	10.5%	9.9%
Nolato Industrial	16	19	16	14	65
Operating margin	7.0%	7.8%	7.7%	5.4%	6.9%
Nolato Medical	5	7	6	7	25
Operating margin	16.7%	21.9%	17.1%	17.5%	18.2%
Group adjustments, Parent Company	-6	-5	-5	-6	-22
Group total	40	56	52	53	201
Operating margin	6.7%	9.2%	9.6%	8.1%	8.4%

Proposed distribution of earnings

Group

Unrestricted reserves in the Group amount to SEK 222 M (154). 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	276
Net income for the year	– 59
Total	217

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

Dividend of SEK 1.75 per share to the shareholders	46
To be carried forward	171
Total	217

Torekov, Sweden, March 2, 2005

Carl-Gustaf Sondén
Chairman

Gun Boström

Henrik Jorlén

Krister Jorlén

Erik Paulsson

Claes Warnander

Georg Brunstam
President

Magnus Bergqvist
Employee representative

Mats Engvie
Employee representative

Björn Jacobsson
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 2004. These accounts and the administration of the Company and the application of the Annual Accounts Act when preparing the Parent Company and consolidated accounts 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 President and significant estimates made by the Board of Directors and the President when preparing the Parent Company and consolidated accounts 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 of the President in some way or other 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. The statutory Report of the Directors is consistent with the other parts of the Parent Company and consolidated accounts.

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 2, 2005

Ernst & Young
Ingvar Ganestam
Authorized Public Accountant, Chief Auditor

Board of Directors



CG Sondén

Erik Paulsson

Claes Warnander

Gun Boström

Krister Jorlén

Henrik Jorlén

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 and
NP Nilssons Trävaru AB

Erik Paulsson
Born 1942
President, Wihlborgs Fastigheter AB
Shareholding (incl. family and
company holdings): 856,575
Board member since 2003
Other directorships:
Chairman, SkiStar AB
Board member, Klöver 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:
1,441,520
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:
554,950
Board member since 1974

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

Ingegerd Andersson
Born 1951
Employee representative, LO,
Nolato Plastteknik AB
Shareholding: 0
Deputy member since 2004

Bo Eliasson
Born 1947
Employee representative, LO,
Nolato Polymer AB
Shareholding: 0
Deputy member since 2004

Auditors

Ernst & Young AB

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

Nomination committee

Henrik Jorlén, representing the
Jorlén family, chairman
Gun Boström, representing the
Boström family,
Erik Paulsson, representing the
Paulsson family,
Erik Sjöström, representing Skandia

Information about corporate
governance on pages 33–34

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

Peter Krikström
Born 1949
Head, Nolato Medical since 2003
Joined Nolato in 1997
Shareholding, incl. family
holdings: 2,000
Options equivalent to 5,500 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

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



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

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, by the president of Nolato Beijing and by the marketing manager of Nolato Medical.



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



Jonas Persson
Born 1969
President, Nolato Beijing
since 2001
Joined Nolato in 1999
Shareholding, incl. family holdings: 0

Annual Meeting and financial calendar

Annual Meeting

Shareholders are welcome to attend Nolato's Annual Meeting at 2:00 p.m. on Wednesday, April 27, 2005 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 Thursday, April 21, 2005.

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 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 assistants. 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 15, 2005 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 15, 2005, shareholders must request re-

gistration by the manager no later than a few banking days prior to this date.

Financial calendar

All financial information will be posted on Nolato's web site, www.nolato.com, as soon as it is published.

During 2005, financial information will be released as follows:

- Q1 Interim Report 2005:
April 27, 2005
- Annual Meeting:
April 27, 2005
- Q2 Interim Report 2005:
July 20, 2005
- Q3 Interim Report 2005:
October 27, 2005

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

He can be reached:
by telephone at +46 431 44 22 93 or
by e-mail at per-ola.holmstrom@nolato.se



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