



Nolato AB (publ) Annual Report 2005

## Nolato Annual Report 2005

Nolato in brief .....	4	Report of the Directors .....	34
The CEO's comments .....	6	The Board of Directors' work in 2005 .....	34
Nolato's mission .....	8	Business risks and risk management .....	35
Nolato's financial objectives .....	8	Comments on the financial statements .....	36
The Group's overall strategies .....	9	Future prospects .....	40
Corporate philosophy – Our Basic Principles .....	10	Five-year review .....	41
Nolato's history .....	11	Financial statements .....	42
Share data and shareholders .....	12	Proposed distribution of earnings .....	66
Nolato's personnel .....	14	Auditors' report .....	67
Environment and quality .....	16	Board of Directors and Auditors .....	68
Nolato Telecom .....	18	Group Management .....	69
Nolato Medical .....	24	Annual Meeting .....	70
Nolato Industrial .....	28	Financial calendar .....	70
Corporate Governance Report .....	32		

### Some common uncommon words in Nolato's Annual Report

#### EMS

Electronic Manufacturing Services, company that takes responsibility on behalf of an OEM (see below) for activities such as final assembly and configuration of the mobile phones.

#### Injection mould

An injection mould consists 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 phone, including the display window, gaskets, buttons, speaker, microphone etc.

#### ODE

Original Development Engineering, company that pro-

vides project design and development. Also called design house.

#### ODM

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

#### OEM

Original Equipment Manufacturer, company that develops and markets mobile phones. Examples include Sony Ericsson, Nokia and BenQ-Siemens.

#### Polymer material

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

#### Shielding

By shielding electronics in products such as mobile phones, the product is protected against electromagnetic waves. At the same time, shielding prevents the electromagnetic waves from the telephone's electronics from disturbing other electronic systems.

” 2005 has been the best year so far in Nolato’s history. All three profit centers posted growth in earnings and significantly strengthened their customer and market positions.

Financially, we are very strong again, with good earnings and strong cash flows. After a few weak years earlier in the decade, we reported a gradual improvement in 2003, which was followed by a good 2004 and now an even better 2005.

Nolato today is a stable and well-positioned global group. Through our committed staff, high level of technology and broad expertise, we have attained a strong position as a systems provider and development partner to leading customers throughout the world.



#### 2005 in brief

- Sales were SEK 2,256 M (2,401).
- Income after financial items increased 12% to SEK 208 M (185).
- Nolato Telecom set up a new production unit in Kuala Lumpur, Malaysia, as well as a technology and sales office in Tokyo, Japan. Operations in China continued to expand. Continued restructuring in Europe.
- The strong, profitable growth at Nolato Medical also continued in 2005. Production also set up in Hungary.
- In Hungary, a thorough restructuring of operations, in which nearly the entire customer base was replaced, resulted in improved profitability.
- The Swedish companies within Nolato Industrial further strengthened their market positions and improved productivity.

*Experience and Innovation*

# The Nolato Group

## Three profit centers

### Nolato Telecom

Sales (SEK M): 1,172 (1,342)  
 Operating income (SEK M): 137 (133)  
 Operating margin (%): 11.7 (9.9)  
 No. of employees Dec 31: 2,311 (2,337)



Share of Group  
net sales



Share of Group  
operating income

### Nolato Medical

Sales (SEK M): 184 (137)  
 Operating income (SEK M): 42 (25)  
 Operating margin (%): 22.8 (18.2)  
 No. of employees Dec 31: 134 (102)



Share of Group  
net sales



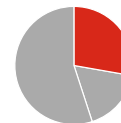
Share of Group  
operating income

### Nolato Industrial

Sales (SEK M): 911 (936)  
 Operating income (SEK M): 71 (65)  
 Operating margin (%): 7.8 (6.9)  
 No. of employees Dec 31: 696 (822)



Share of Group  
net sales



Share of Group  
operating income

## Four business areas



Ning Ling, Nolato Beijing



Jasminica Susak, Nolato Medevo



Jan Jacobsson, Nolato Gota



Ibolya Kiss, Nolato Protec

### 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 Kuala Lumpur, Malaysia
- Nolato Tallinn, Estonia
- Nolato Lövepac, Skånes Fagerhult, Sweden and Beijing, China
- Nolato Silikonteknik, Hallsberg, Sweden and Tallinn, Estonia

Technology and sales office:

- Nolato Japan, Japan

Example of customers: BenQ-Siemens, Elcoteq, Ericsson, Flextronics, GN Netcom, Nokia, Sony Ericsson.

### 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, Novo Nordisk, Pfizer, Phadia, Radi Medical Systems and S:t Jude Medical.

### Nolato Industrial Sweden

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

Sales, development and production:

- Nolato Gota, Götene, Sweden
- Nolato Plastteknik, Gothenburg, Sweden
- Nolato Polymer, Torekov and Ängelholm, Sweden
- Nolato STG, Lönsboda, Sweden
- Nolato Sunne, 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

Development and production of polymer products for customers in automotive and general industrial sectors, as well as hygiene and medical devices with Nolato Medical.

Sales, development and production:

- Nolato Protec, Mosonmagyaróvár, Hungary

Example of customers: Elring Klingler, Lear, Nilfisk, SCA, Solectron and Woco.



Niilo Penttilä, Nolato Alpha

### Business mission

Nolato is a high-tech developer and manufacturer of polymer components and product systems for leading customers in telecommunications, the automotive industry, household appliances, medical technology, hygiene and other selected 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.

### 68 years of experience

Nolato was founded in 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.

### Close collaboration with customers

Our operations are based on in-depth expertise in 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 post-processing of customer products and complete systems.

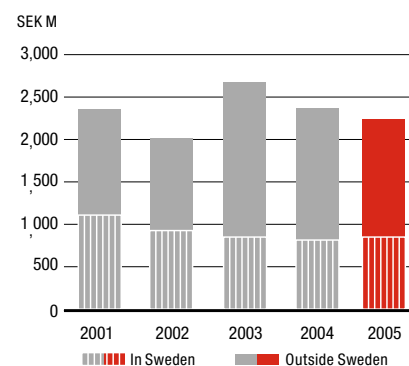
### International operations

At year-end 2005, Nolato had 3,145 employees in 16 units in Sweden, China, Malaysia, Japan, Hungary and Estonia.

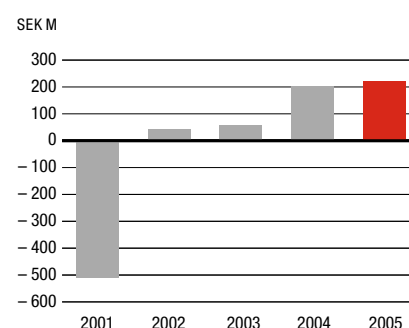
Group highlights	2005	2004	2003	2002	2001
Net sales, SEK M	2,256	2,401	2,671	2,011	2,359
Operating income, SEK M	221	201	57	42	-510
Income after financial items, SEK M	208	185	6	36	-564
Net income, SEK M	181	136	-35	60	-429
Cash flow after investments, SEK M	158	231	228	-37	292
Operating margin (excl. nonrec. items), %	9.8	8.4	5.6	2.1	-1.0
Equity/assets ratio, %	50	41	31	33	21
Earnings per share, SEK	6.88	5.15	-1.35	2.45	-20.05
Average number of shares, thousands	26,307	26,307	26,307	24,466	21,397
Number of employees	2,790	2,700	2,353	1,992	2,218

Information for 2001–2003 is not restated following IFRS accounting principles.

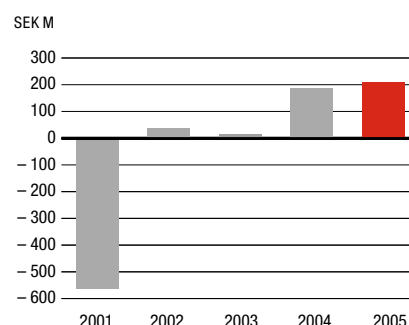
### Net sales



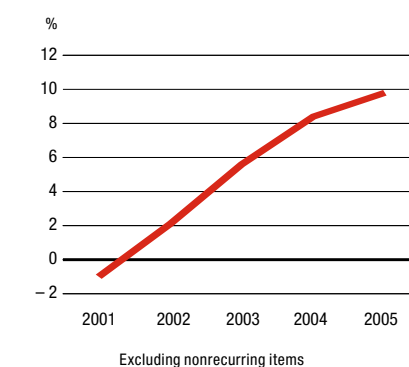
### Operating income



### Income after financial items



### Operating margin



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.



# Our best year so far

*Dear shareholders,*

2005 has been the best year so far in Nolato's history. Sales were SEK 2,256 M, income after financial items increased twelve percent to SEK 208 M and earnings per share increased 34 percent to SEK 6.88.

All three profit centers posted growth in earnings and significantly strengthened their customer and market positions.

Financially, we are very strong, with good earnings and strong cash flows. After a few weak years earlier in the decade, we reported a gradual improvement in 2003, which was followed by a good 2004 and now an even better 2005.

Nolato today is a stable and well-positioned global group with good opportunities for growth in every profit center. Through our committed staff, high level of technology and broad expertise, we have attained a strong position as a systems supplier and development partner to leading customers throughout the world.

## Improved market positions

The Nolato Group has a decentralized organization, in which operations are carried out in 16 companies/operations, organized in three profit centers: Nolato Telecom, Nolato Medical and Nolato Industrial.

Nolato Telecom is a world-leading global developer and manufacturer of polymer systems products for mobile phones. Earnings for this profit center continued to improve, as a result of greater volumes in Asia and cost reductions implemented in Europe.

Nolato Telecom took on a sizable number of major new projects for mobile phone products during the year. There is intense marketing work under way to expand the customer base with one or more of the leading mobile phone manufacturers.

Nolato Medical, which is a focused market leader in the development and manufacturing of polymer medical devices, contin-

ued its strong growth. Sales increased 34 percent for the second year in a row, while earnings further improved. In 2005, production in Hungary began, and the focus is now on further developing Nolato Medical's strong position in Scandinavia as well as establishing it as a similarly important player in Central Europe.

Nolato Industrial, which has its base in Scandinavia and Central Europe, also improved its earnings, despite somewhat lower sales.

The restructuring in Hungary has been successful, resulting in a new customer base and improved earnings. In Sweden, where Nolato Industrial is a clear market leader, the earnings level was stable as a result of successful work on efficiency and customer development.

The three areas of operation share not just in-depth technical expertise in polymers and similar technologies in both product development and manufacturing. Also uniting them is their desire to be involved early on in the customer's development work, as well as expand their market offering further with assembly, testing and verification.

Our objective in collaborating with customers is quite simply to create solutions that make it easier for them to concentrate on their core competencies.

## Profitable growth in Asia

Operations in China continued to have strong, profitable growth, which has meant in part further investments in resources for injection mould manufacturing and painting.

In order to increase sales to mobile phone manufacturers in Malaysia, we began to set up a new plant for mobile phone products in Kuala Lumpur in fall 2005. The plant will be in production in the second quarter of 2006.

In Japan, a technology and sales office was set up, which already in 2005 resulted in customer project undertakings.

The expansion in Asia is being driven by customers setting up their own operations in

Asia and by their desire to have Nolato's production close to the final assembly of their products.

## Restructuring in Europe for telecom

The radical restructuring of Nolato Telecom's operations in Europe continued in 2005. Our customers' expansion in Asia has meant lower volumes in Europe, and Nolato Telecom has thus adapted production in Europe but grown sharply in Asia.

I regret that the restructuring unfortunately meant that we were forced to let employees go this year as well.

## Technology creates opportunities

Advanced technologies and high technological content are important criteria for success in the mobile phone sector.

Because the product development of our mobile phone customers is located primarily in Europe, Nolato Telecom has considerable development resources at its development center in Kristianstad, Sweden.

Cutting-edge technology at Nolato Telecom, with its patented solutions for rapid and flexible mould manufacturing as well as for the hard coating and decoration of mobile phones, generated considerable interest during the year both among existing and potential mobile phone customers.

## Strong development in medical technology

It gives me great pleasure that operations at Nolato Medical continued their strong advance in 2005 as well. For the second year in a row, growth was 34 percent and profitability was good.

From having previously focused on Scandinavia, medical operations have now taken a step further into Europe and started production in Hungary. The expansion of its customer offering has been very warmly welcomed by customers and resulted in a number of new orders, with Nolato Medical benefiting from the strategic opportunities provided by production in Hungary.

I see the collaboration between Sweden

and Hungary as a very good example of the strength and breadth that we can offer our customers.

### Strong competitiveness

In Sweden, the companies under Nolato Industrial further strengthened their market positions and improved productivity, which pleases me. The companies have very efficient production, with every operator contributing to greater competitiveness by taking considerable personal responsibility, based on their high level of basic skills, continuous further training and work in teams based on management by objective.

The level of automation is high in all our companies. During the year, strategic investments were made in several more fully automated production cells, including six-axle robots, which perform a number of assembly tasks in conjunction with the moulding.

In 2005, Nolato Automotive intensified its efforts in the automotive sector, which resulted in a large number of projects, including for Volvo's new models. Among the customers are both automotive manufacturers and their systems contractors. Proximity to Swedish automakers obviously means a lot, but we are also making deliveries to an ever increasing extent outside Scandinavia.

The greatest threat to operations in Sweden is still whether our customers will be unable to handle the competitive situation and thus move production to countries with lower costs.

In Hungary, the sweeping restructuring of the customer base began to yield results in the form of improved profitability. The changes have been rather drastic, and nearly all sales today come from new customer areas.

### New Board member

At the 2005 Annual Meeting, Lars-Åke Rydh was elected to Nolato's Board of Directors. Mr. Rydh is president and CEO of Nefab, which among other things provides packaging solutions to the telecom industry.

### Change in dividend policy

In early 2006, Nolato's Board of Directors adopted a change in the dividend policy, which reflects the Board's intention to propose a dividend that is on average at least 35 percent of net income.

The Board's proposed dividend for 2005,

which is SEK 2.40 per share, means an increase of 37 percent compared to 2004.

### Priorities for 2006

In 2005, Nolato showed healthy development in all areas, and we have good opportunities for further advances.

Creating growth, especially at Nolato Telecom, is thus one of our most important priorities in 2006.

Other priorities are the continued expansion of Nolato Telecom's customer base, with the goal being to take on another major mobile phone manufacturer as a customer. We will also continue to work actively to deal with the intense price pressure. Other main priorities are continued growth at Nolato Medical and greater market share for Nolato Industrial.

Investments in high technology, broad skills development and efficient production will continue in 2006 as well. Our corporate motto – Experience and Innovation – feels fully grounded in our daily reality, where experience and innovation are the foundation of everything we do.

As we look to 2006, we continue to see

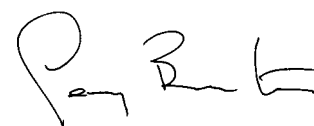
good opportunities for growth. We are working actively on acquisitions, mainly at Nolato Medical and Nolato Industrial.

For full-year 2006, Nolato Telecom is expected to increase sales as a result of increased volumes and greater value per delivered unit. Nolato Industrial's sales are expected to be relatively unchanged while Nolato Medical is expected to continue its positive growth in sales.

### Gratitude for fine contribution

Finally, I would like to take the opportunity to thank every employee at Nolato for their dedication and excellent work in 2005, work that formed the basis enabling Nolato to report its best earnings ever.

*Torekov, Sweden, March 2006*



*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
- A dividend of at least 35 percent of net income





## 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.

## The path to our financial targets

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.

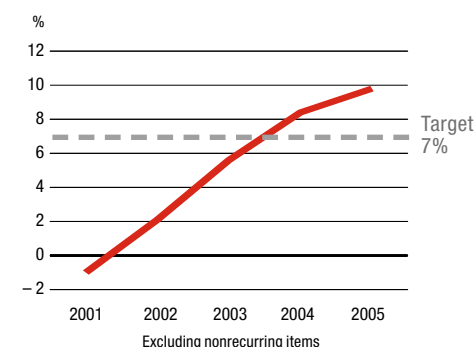
Achievement of these objectives over the last five years is shown in the diagram to the right.

Nolato exceeded all these levels in 2005, when the operating margin was 9.8 percent

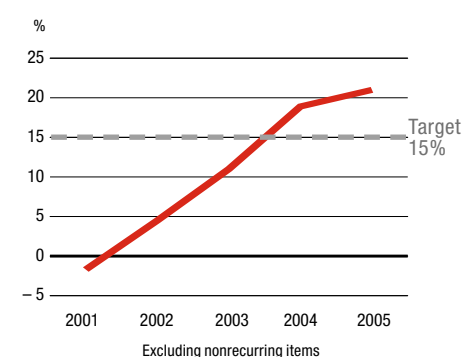
(target 7 percent), return on capital employed was 21.0 percent (target 15 percent) and the equity/assets ratio at the end of the year was 50 percent (target 35 percent).

All profit centers improved their operating margins, which is the primary reason the targets could be achieved in 2005.

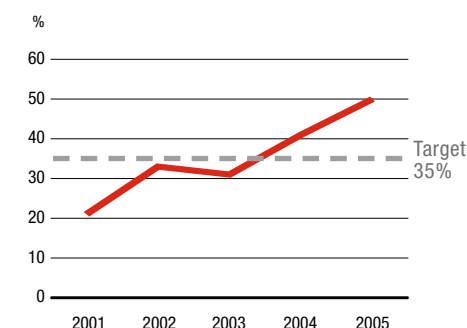
### Operating margin



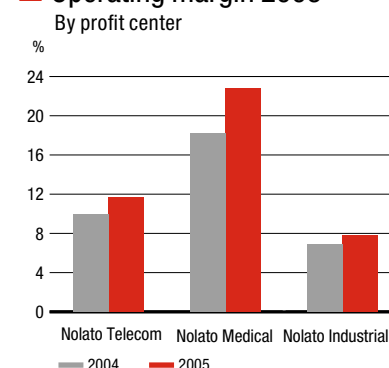
### Return on capital employed



### Equity/assets ratio



### Operating margin 2005



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.



Hovs Hallar, near the Nolato headquarters in Torekov, Sweden.

## Our Basic Principles

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 68 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.

### ■ Being businesslike

Everything we do at Nolato shall have the aim of strengthening our long-term profitability. This 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 prerequisite for all business operations.

Consequently, we must be businesslike and consider customer benefits in everything we do, regardless of what our job is and at what level of the organization we work.

### ■ Long-term customer relationships

At Nolato, our customers are the basis of all our operations. Therefore, their long-term

needs, interests and desires shall direct our development.

We shall serve as a partner to our customers and work so they perceive us as an obvious strategic resource for development work as well as production.

Our goal is to join the development process at an early stage, in order to create customer-specific, comprehensive solutions. Through active, close collaboration between the various parts of the Group, we bring our customers unique expertise in 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 prerequisite for this is that everyone is provided opportuni-

ties 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 Business 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. 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 prerequisite 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 ecological way of thinking.

## ■ 68 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.
- 1993 Elastoteknik in Åmål is acquired.
- 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 Medical, which in 2000 changes its name to Nolato Medevo.
- 1998 The first major unit outside Sweden is established: a plant for mobile phone components in Fort Worth, Texas.
- 1999 Nolato establishes a mobile phone 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 phones – 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 Acquisition of medical technology operations for Astra Tech from Bergman & Beving. Strong expansion for Nolato Telecom in China.
- 2005 Nolato Telecom sets up Nolato Kuala Lumpur in Malaysia as well as a technology and sales office in Tokyo, Japan. Continued expansion in China and restructuring in Europe. Nolato Silikonteknik sets up a shielding manufacturing unit at Nolato Tallinn in Estonia. Nolato Medical sets up production of medical devices at Nolato Protec in Hungary.

# Share data and shareholders

## 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.

## Share capital

The share capital of Nolato AB totals SEK 132 M, consisting of 26,307,408 shares.

Of these, 2,759,400 are Class A shares and 23,548,008 are Class B shares.

Class A shares entitle the holder to ten 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 36 percent during the year and were quoted at SEK 79.00 (58.00) at the end of 2005. The increase was 3.4 percent better than the Stockholm Stock Exchange average.

The highest and lowest market prices during the year were SEK 80.00 and 47.60, respectively. Total market capitalization of Nolato AB on December 31, 2005, was SEK 2,078 M.

During 2005, trading in Nolato shares on the Stockholm Stock Exchange totaled 17.3 million shares (21.4). The turnover rate, i.e. the degree of liquidity, was 74 percent (91).

## Ownership structure

On December 31, 2005, Nolato AB had 8,376 shareholders (9,265).

The portion of shares held by Swedish institutions and funds was 30 percent of capital (27). The portion held by foreign owners was 10 percent of capital (4).

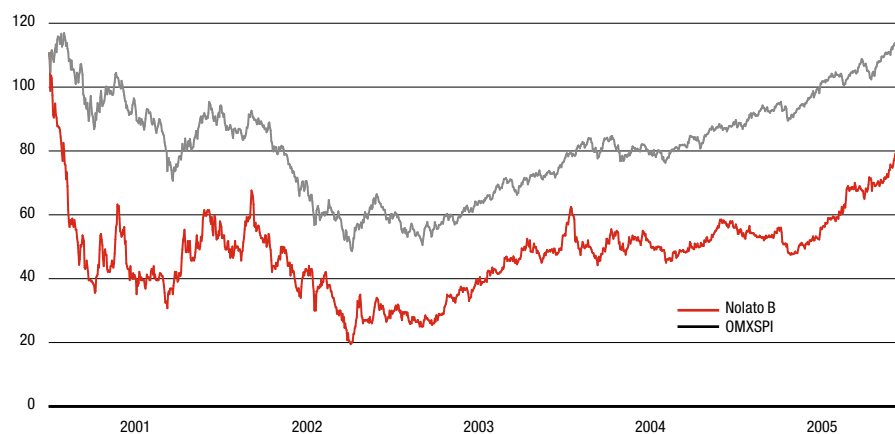
The ten largest owners accounted for 57 percent (54) of the share capital and 78 percent of the votes (76).

## Dividend policy

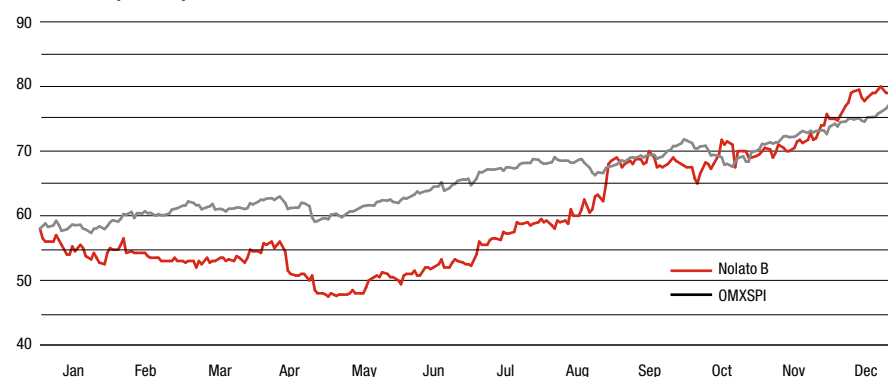
The Board's dividend proposal shall take into consideration Nolato's long-term development potential, financial position and investment needs.

The Board's long-term dividend policy

## Share price performance 2001 – 2005



## Share price performance 2005



## Per share data

	2005	2004	2003	2002	2001
Earnings per share after tax, SEK * <sup>1</sup>	6.88	5.15	-1.35	2.45	-20.05
Shareholders' equity per share, SEK * <sup>2</sup>	32	25	22	24	16
Cash flow per share, SEK *	6.01	8.80	8.65	-1.50	13.65
Market price on December 31, SEK *	79	58	49	30	55
Price/earnings ratio, times * <sup>3</sup>	11	11	neg	12	neg
Dividend (for 2005: proposed), SEK	2.40	1.75	0.80	0.50	0
Yield (2005 proposal), % <sup>4</sup>	3.0	3.0	1.6	1.7	—
Dividend as a percentage of earnings per share (2005: proposed)	35	34	—	20	—
Average number of shares, thousands *	26,307	26,307	26,307	24,466	21,397
Price/equity ratio	2.5	2.3	2.2	1.2	3.4
Market capitalization, SEK M	2,078	1,526	1,300	789	1,174

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

### Definitions

<sup>1</sup> Net income divided by the average number of shares.

<sup>2</sup> Reported shareholders' equity divided by the number of shares.

<sup>3</sup> Quoted share price on December 31 divided by earnings per share after tax.

<sup>4</sup> Dividend for the year divided by the market price quoted on December 31.

In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.



means that the Board intends to propose a dividend that is on average equal to at least 35 percent of net income.

For the financial year 2005, a dividend of SEK 2.40 (1.75) per share is proposed.

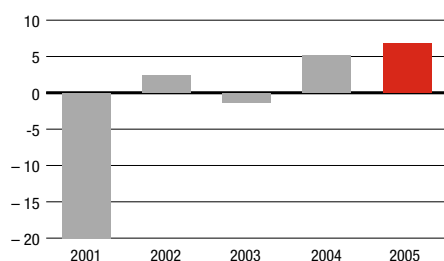
### Shareholder value

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.

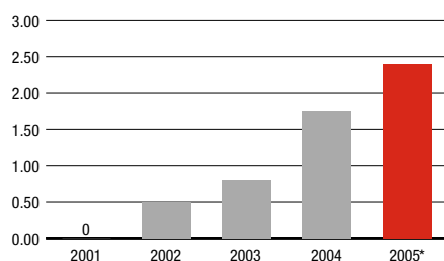
During the year, the Nolato shares were followed and analyzed by the following analysts:

- ABG Sundal Collier – Magnus Innala  
+468 566 28633
- Carnegie – Charlotte Widmark  
+468 676 8787
- Evli Bank – Anders Berg  
+468 407 8025
- H&Q – Mattias Cullin  
+468- 696 2085
- Kaupthing Bank – Mikael Laséen  
+468 791 4827
- Swedbank – Jan Ihrfelt  
+468 5859 1848

### Earnings per share



### Dividend per share



\* Board's proposal

## The largest shareholders on December 31, 2005

Shareholder	Total shares	Class A shares	Class B shares	% of capital	% of votes
Jorlén family	3,021,291	1,169,700	1,851,591	11.5	26.5
Boström family	2,536,170	835,500	1,700,670	9.6	19.7
Paulsson family	1,535,775	754,200	781,575	5.8	16.3
Skandia	2,076,410	0	2,076,410	7.9	4.1
Skandia/Carlson Funds	1,986,714	0	1,986,714	7.6	3.9
If Skadeförsäkring	928,800	0	928,800	3.5	1.8
Nordea Bank Norway	873,600	0	873,600	3.3	1.7
Carnegie Funds	825,800	0	825,800	3.1	1.6
Robur Funds	717,469	0	717,469	2.7	1.4
Svolder	634,800	0	634,800	2.4	1.2
Others	11,170,579	0	11,170,579	42.6	21.8
<b>Total</b>	<b>26,307,408</b>	<b>2,759,400</b>	<b>23,548,008</b>	<b>100.0</b>	<b>100.0</b>

## Breakdown of shareholders

Shareholders	% of capital	% of votes
Swedish owners	89.8	94.8
of which institutions etc.	30.5	15.7
of which others	59.3	79.1
Owners outside Sweden	10.2	5.2

## 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
<b>Total</b>	<b>26,307,408</b>	<b>51,142,008</b>	<b>100.0</b>	<b>100.0</b>

## Breakdown of shareholdings by size on December 31, 2005

	Number of shareholders	Class A shares	Class B shares	% of capital	% of votes
1– 500	5,161	—	974,836	3.7	1.9
501– 1,000	1,563	—	1,271,301	4.8	2.5
1,001– 5,000	1,324	—	3,001,554	11.4	5.9
5,001– 10,000	134	—	1,009,130	3.8	2.0
10,001– 15,000	49	—	620,007	2.4	1.2
15,001– 20,000	23	—	413,880	1.6	0.8
20,001–	122	2,759,400	16,257,300	72.3	85.7
<b>Total</b>	<b>8,376</b>	<b>2,759,400</b>	<b>23,548,008</b>	<b>100.0</b>	<b>100.0</b>

## Changes in share capital, 1984 – 2005

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

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

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

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

<sup>4</sup> Split with an increase in the number of shares, with 5 new shares for every old share.

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

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

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

## 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.

That is why we set high standards for our employees. They should be knowledgeable and highly motivated. Meanwhile, the com-

pany 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, Malaysia

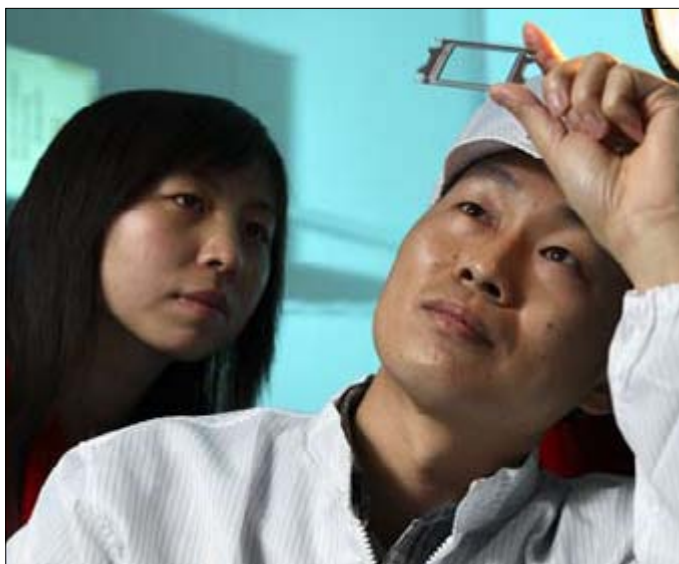
and Hungary, is a fundamental set of values that should permeate all of Nolato. According to this corporate philosophy, which is presented in its entirety on page 10-11, all individuals at Nolato are equally important if we are to achieve our objectives.

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 intermedi-

Mikael Jönsson and Jimmy Wallin, Nolato Polymer



Ljubov Vostokova, Nolato Tallinn



Ma Zhongy and Zhu Zhi, Nolato Beijing



Christer Landgren, Nolato Medevo



Edit Heszkó, Nolato Protec



Fauziah Binti Ismail, Nolato Kuala Lumpur

aries 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 development of the individual.

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

### Two thirds of employees outside Sweden

The average number of employees during the year was 2,790 (2,700). The number increased in Asia but decreased in Europe.

At year-end, the Nolato Group had 3,145 (3,264) employees, consisting of 2,311 (2,337) at Nolato Telecom, 696 (822) at

Nolato Industrial and 134 (102) at Nolato Medical.

### 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 2005, the rate averaged 3.7 percent (3.6) for all the Group companies, with 1.6 percent (1.7) of this long-term absence due to illness.

Operations in China had the lowest rate of absence due to illness, 0.3 percent (0.3). In Estonia, the rate of absence due to illness was 7.6 percent (3.5) and in Hungary 10.9 percent (9.8). The average for the Group's Swedish companies was 6.1 percent (6.5).

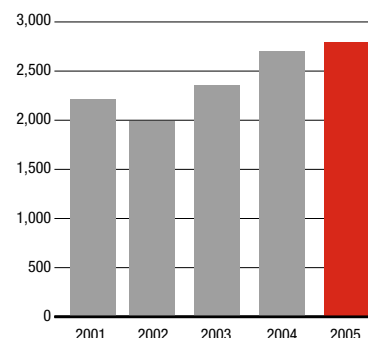
### Outplacement help

Unfortunately, at some of the Group's companies, it has been necessary to issue notices of termination to employees, primarily in connection with the continuing restructuring of operations at Nolato Telecom.

In 2005, a total of some 190 people were given notice at Nolato Alpha in Kristiansstad, Nolato Silikonteknik in Hallsberg and Nolato Plastteknik in Gothenburg, Sweden.

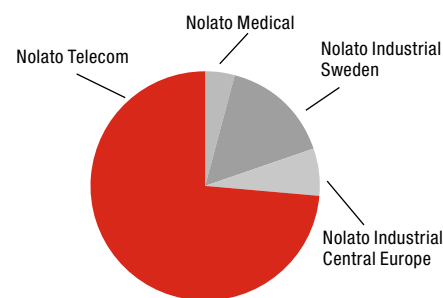
Nolato's ambition is to actively provide as much help as possible to people who have been terminated. The Company has initiated programs to ease the transition for the individual. These outplacement programs have included mental support, training in job seeking techniques and active efforts to arrange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

### Average number of employees



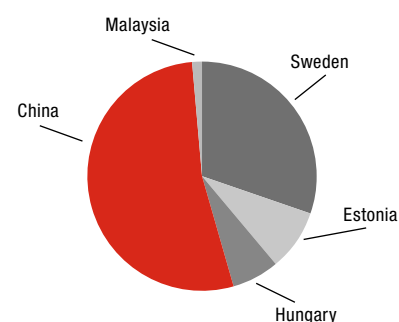
### Employees by business area

Dec 31, 2005

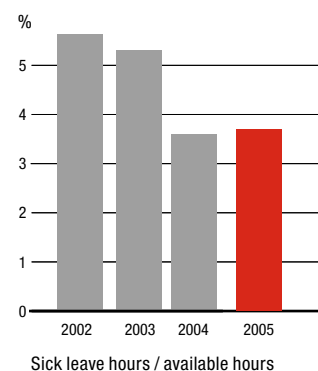


### Employees by country

Dec 31, 2005



### Absence due to illness





# Nolato's quality and environment work

## ■ Company certifications

### Nolato Alpha

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

### Nolato Beijing

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

### Nolato Gota

QS 9000 (2000)  
ISO 14001 (1998)

### Nolato Lövepac

ISO/TS 16949:2002 (2005)  
ISO 9001:2000 (2005)  
ISO 14001:2004 (1996)

### Nolato Medevo

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

### Nolato Plastteknik

ISO 9001:2000 (1993)  
ISO/TS 16949:2002 (2006)  
ISO 14001:2004 (1999)

### Nolato Polymer

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

### Nolato Protec

ISO 9001:2000 (1999)  
ISO/TS 16949 (2006)  
ISO 13485 (2006)  
ISO 14001 (2004)

### Nolato Silikonteknik

ISO 9001:2000 (1997)  
ISO 14001 (2005)

### Nolato STG

ISO 9001:2000 (1994)  
ISO 14001 (2000)

### Nolato Sunne

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

### Nolato Tallinn

ISO 9001:2000 (2001)  
ISO 14001:2004 (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 con-

stant improvements provide employees with good opportunities to meet quality requirements.

### Well-established quality management

All companies in the Group have well-established quality management systems that are certified either according to ISO 9001 or QS 9000. Some companies also have supplementary certifications, such as ISO/TS 16949, an international quality management system focusing on the automotive industry.

Nolato's medical technology production is also certified according to the special requirements that apply to this type of products and are FDA registered.



Testing and verification are an important part of Nolato's customer offering.



## ■ 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 the operations recently started up at Nolato Kuala Lumpur are environmentally certified according to ISO 14001.

## 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 project

Systematic work is under way at Nolato to prevent operations from being a nuisance to people's health or environment.

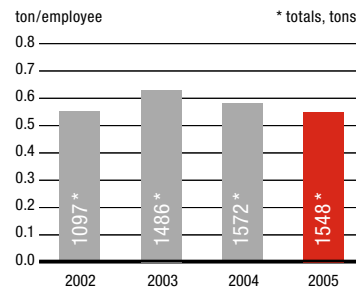
An example of this is Nolato Beijing in China, which expanded its painting facility with another line. The new line is constructed so that it is highly sensitive to the environment, in part through the recycling of solvents. Consumption of paint has also been reduced by 20 percent. A highly efficient catalytic system minimizes VOC emissions from the plant. The new air purification system is self-sustaining in terms of heat and thus requires lower amounts of energy for operation. The degree of purification is 96–98 percent.

In 2005, Nolato Beijing started work to be certified as a Sony Ericsson Green Partner. The work includes further developing employee expertise and updating the existing environmental management system to meet Sony Ericsson's specific requirements. These stipulate, among other things, that certain materials may not be used in products that are manufactured for them and that the manufacturer can verify this through tests carried out by external laboratories.

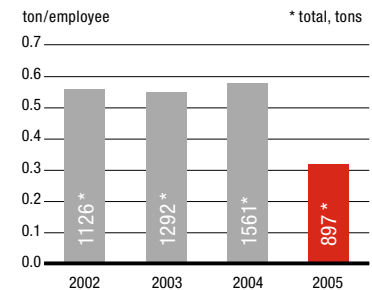
The audit for Green Partner was carried out in January 2006, when operations passed the audit.

## Environmental highlights 2002–2005

### ■ Burnable waste

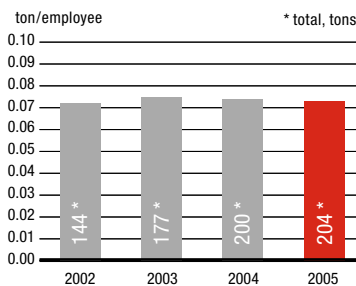


### ■ Disposal site waste



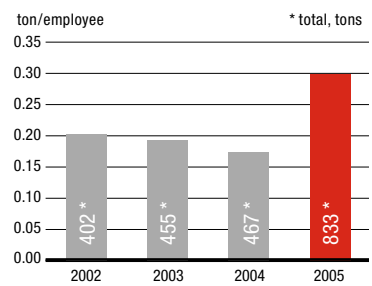
A common Group goal for 2005 was to reduce the amount of waste that is left at disposal sites.

### ■ Hazardous waste



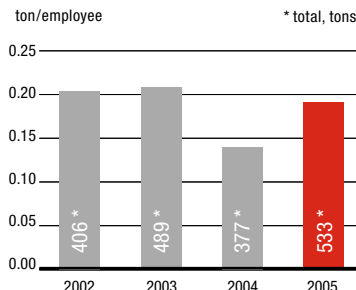
Projects are under way to further adjust the painting lines to reduce their environmental impact.

### ■ Recycling, plastic

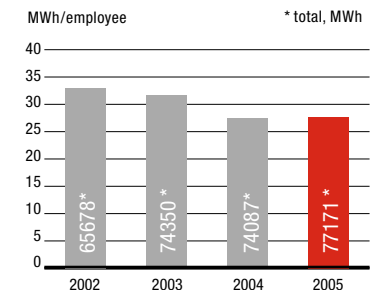


The recycling of plastic has increased considerably, largely in conjunction with the reduction in the amount left at disposal sites.

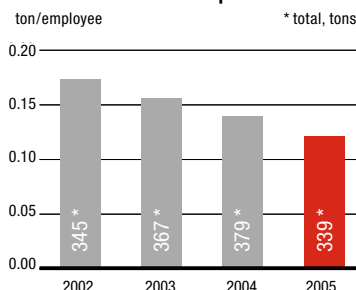
### ■ Other recycling



### ■ Electricity consumption

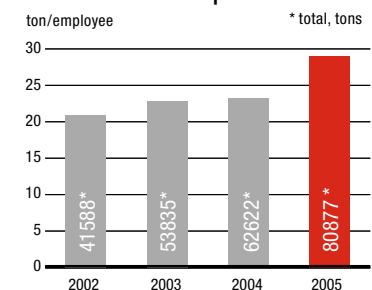


### ■ Fuel oil consumption



Waste heat from injection moulding machines is used for heating.

### ■ Water consumption



The increase is due to the temporary use of water for process cooling in 2005.

# Nolato Telecom: Strong growth in Asia

## Successful restructuring in Europe

### ■ Nolato Telecom in brief

A world-leading global developer and manufacturer of polymer systems products, for customers in the mobile phone industry, and network products for the telecom industry.

The market is global, with a small number of customers and suppliers. Characterized by high technological content, extremely short development times, quick production starts and the short economic lifespan of products. Customers include Sony Ericsson, Nokia, BenQ-Siemens, Flextronics, Elcoteq, GN Netcom and Ericsson.

Sales: SEK 1,172 M (1,342)

Operating income: SEK 137 M (133)

Operating profit: 11.7 % (9.9)

No. of employees (Dec 31): 2,311 (2,337)

Head of Business Area:

Jonas Persson (as of Mar 1 2006)

Tommy Johansson (until Feb 28, 2006)

#### ■ Nolato Alpha, Kristianstad, Sweden

No. of employees (Dec 31): 154

Managing Director Jonas Persson

(as of Mar 1 2006)

Tommy Johansson (until Feb 28 2006)

#### ■ Nolato Beijing, China

No. of employees (Dec 31): 1,625

Managing Director Peeter Mõrd

(as of Mar 1 2006)

Jonas Persson (until Feb 28 2006)

#### ■ Nolato Kuala Lumpur, Malaysia

No. of employees (Dec 31): 35

Plant Manager Martin Dahlqvist

#### ■ Nolato Tallinn, Estonia

No. of employees (Dec 31): 158

Managing Director Jonas Persson

(as of Mar 1 2006)

Peeter Mõrd (until Feb 28 2006)

Plant Manager Tiit Tallo (as of Mar 1 2006)

#### ■ Nolato Lövepac, Skånes Fagerhult, Sweden

and Beijing, China

No. of employees (Dec 31): 124

Managing Director Jörgen Karlsson

#### ■ Nolato Silikonteknik, Hallsberg, Sweden

and Tallinn, Estonia

No. of employees (Dec 31): 203

Managing Director Jan-Erik Lans

Technology and sales office:

#### ■ Nolato Japan, Tokyo, Japan

Nolato Telecom is a world-leading global developer and manufacturer of polymer systems products for customers in the mobile phone industry and in network products for the telecom industry. Customers include global players like Sony Ericsson, Nokia, BenQ-Siemens, GN Netcom, Flextronics and Ericsson.

Operations are characterized by a high technological content, exacting requirements for quality, extremely short development times, quick production starts and a short economic lifespan for each product. The market is concentrated and consists of a small number of dominant global mobile phone companies and a small number of global systems providers delivering products to them.

The customer offering is extensive and includes product development, prototype production, project management, mould manufacturing, injection moulding, shielding solutions, tapes, gaskets, painting, decoration, assembly, testing, verification and quality control. (See page 21 for a description of Nolato's customer offering.)

Nolato Telecom participates very actively already in the early stage of the customer's development work in order to provide knowledge about the choice of materials, product design and mechanical functions. A typical customer project involves the development and manufacturing of a large number of polymer components, which are assembled together with purchased components to form complete mechanical units or modules, ready for the customer's final assembly.

With its broad range of resources and expertise, Nolato Telecom created opportunities during the year, based on its customers' basic specifications, to take responsibility for a larger share of developing a mobile phone's mechanical components and as a result has taken on customer projects that include a larger portion of the value chain.

### Operations in Europe and Asia

Nolato Telecom has operations in Sweden, Estonia, Japan, China and Malaysia. Of the total of roughly 2,300 employees in the business area at year-end, some 1,700 were working in Asia, where operations have expanded



Bai Na and Wang Xiaoping, Nolato Beijing



Jonas Persson  
Head of Business Area  
Managing Director  
Nolato Alpha  
and Nolato Tallinn



Tommy Johansson  
Director of  
Marketing & Sales  
Nolato Telecom



Peeter Mõrd  
Managing Director  
Nolato Beijing



Martin Dahlqvist  
Plant Manager  
Nolato Kuala Lumpur



Tiit Tallo  
Plant Manager  
Nolato Tallinn



Jörgen Karlsson  
Managing Director  
Nolato Lövepac



Jan-Erik Lans  
Managing Director  
Nolato Silikonteknik

sharply in the last few years as a result of customer desires that Nolato carry out operations close to their own production units.

Nolato Telecom includes seven units: Nolato Beijing in China, Nolato Alpha in Sweden, Nolato Tallinn in Estonia, Nolato Kuala Lumpur in Malaysia and Nolato Japan in Tokyo work with development, manufacturing and assembly of polymer systems products for mobile phones. Nolato Lövepac, which has operations in Sweden and China, is a leader in gaskets and self-adhesive tapes for mobile phones and the telecom industry. Nolato Silikonteknik, which has operations in Sweden and Estonia, is a leading developer and manufacturer of shielding solutions to protect the electronics in mobile phones and telecom infrastructure.

To support Nolato Telecom's main global customers with efficient project solutions, technological development, marketing, sales and project management are coordinated in close collaboration with the area of operation's different units in Europe and Asia. Nolato Lövepac and Nolato Silikonteknik also have extensive operations that directly target their own customers in the telecom and electronics industries.

### Customers

Examples of Nolato Telecom's customers in the mobile phone sector are Sony Ericsson, BenQ-Siemens and Nokia as well as contract manufacturers like Flextronics, Elcoteq and Soletron. Ericsson and Nokia are major customers in telecom infrastructure.

In 2005, Nolato Telecom's new customers included the world leader in headset manufacturing, GN Netcom.

### Competitors

Nolato Telecom is one of the leading, global systems providers in the mobile phone sec-

tor. The main competitors are considered to be the global players Perlos (Finland), Balda (Germany), Nypco (US), Hi-P (Singapore) and Taiwan Green Point (Taiwan).

Some contract manufacturers, like Flextronics and Foxconn, are also Nolato Telecom's competitors since they have their own resources to develop and manufacture polymer components for mobile phones, while at the same time meeting customer orders to manufacture essentially complete phones.

### Continued strong growth in the market

In 2005, the strong growth in the market for mobile phones continued. According to the analyst firm Gartner Dataquest, 816 million mobile phones were sold in the world in 2005, which is an increase of 21 percent compared to 2004 and a new sales record.

According to Gartner, growth is expected to continue in 2006. Statistics from Gartner show that Nokia is the largest player in the mobile phone market, with a market share in the fourth quarter of 35.0 percent. Motorola is second with 17.8 percent, Samsung third with 12.1 percent, LG fourth with 7.2 percent, SonyEricsson fifth with 6.9 percent and BenQ-Siemens sixth with 4.7 percent.

These six manufacturers thus account for 84 percent of the total world market for mobile phones.

### Customers want more support

Mobile phones are becoming ever more complex, which places increasingly higher demands on manufacturers' expertise and resources for development and production. Cameras are more or less standard in mobile



Roman Ignatov, Nolato Tallinn



phones, advanced capabilities for downloading music (Mp3) have been a great success, and now there is the possibility of watching television on mobile phones. But it is not simply the technological content that is increasing. Users are also making ever greater demands on finish, design and material.

For the mobile phone industry, this increased complexity means new challenges and opportunities. The number of models is multiplying, while the lifespan of individual models is becoming increasingly shorter. The development time for new products has been more than halved in just a few years, which means a continually growing need for resources and a more efficient development process. The refined technological content likewise places higher demands on the mobile phone's mechanical function.

The trend is for mobile phone manufacturers to outsource more and more of their development work to close collaborative partners, who can run the development of new models based on given design guidelines.

This trend favors Nolato Telecom, which as a result further developed its role as systems provider in the form of increased resources and broader expertise in development, testing, verification and assembly.

Providing its own manufacturing of specialist moulds is also a strategically important part of Nolato Telecom's customer offering. With today's high demands for short lead times and very complex products, it is important to have total control over mould manufacturing and to ensure that it is an integral part of operations. In 2005, resources for mould manufacturing at Nolato Beijing were

thus further increased. This expansion was achieved both through new investments and a transfer of equipment from Nolato's operations in Europe.

There has also been an investment in increasing the capacity for advanced painting of mobile phone components. The consumer's focus on design and finish means that very high demands are also made on painting, which is done in several layers on robotic high-quality painting lines.

As part of its expanded customer offering, Nolato Telecom carried out its own development project during the second half of 2005 in the form of a redesign of one of the existing mobile phone models on the market. The work was conducted entirely in-house at Nolato Telecom and included design, construction, quality assurance, verification and final testing, as well as all the "traditional" phases like mould production, injection moulding, painting and assembly.

This expansion of the customer offering was warmly welcomed by customers, who now have proof from the development project that Nolato can take on a larger portion of the value chain.

The growing complexity of mobile phones and accelerating technological demands represent a great advantage to Nolato Telecom, which is a well-established systems provider in the mobile phone sector. The barriers to entry today are high, and it is not easy for new players to enter this market.

### Continued good growth in Asia

Lead times for the production of new mobile phones continue to get shorter, while production volumes are strongly governed by the market. Customers are setting up progressively more of their own production in Asia. Their desire for very limited advanced planning for day-to-day production places great demands on proximity to the customer and flexible production.

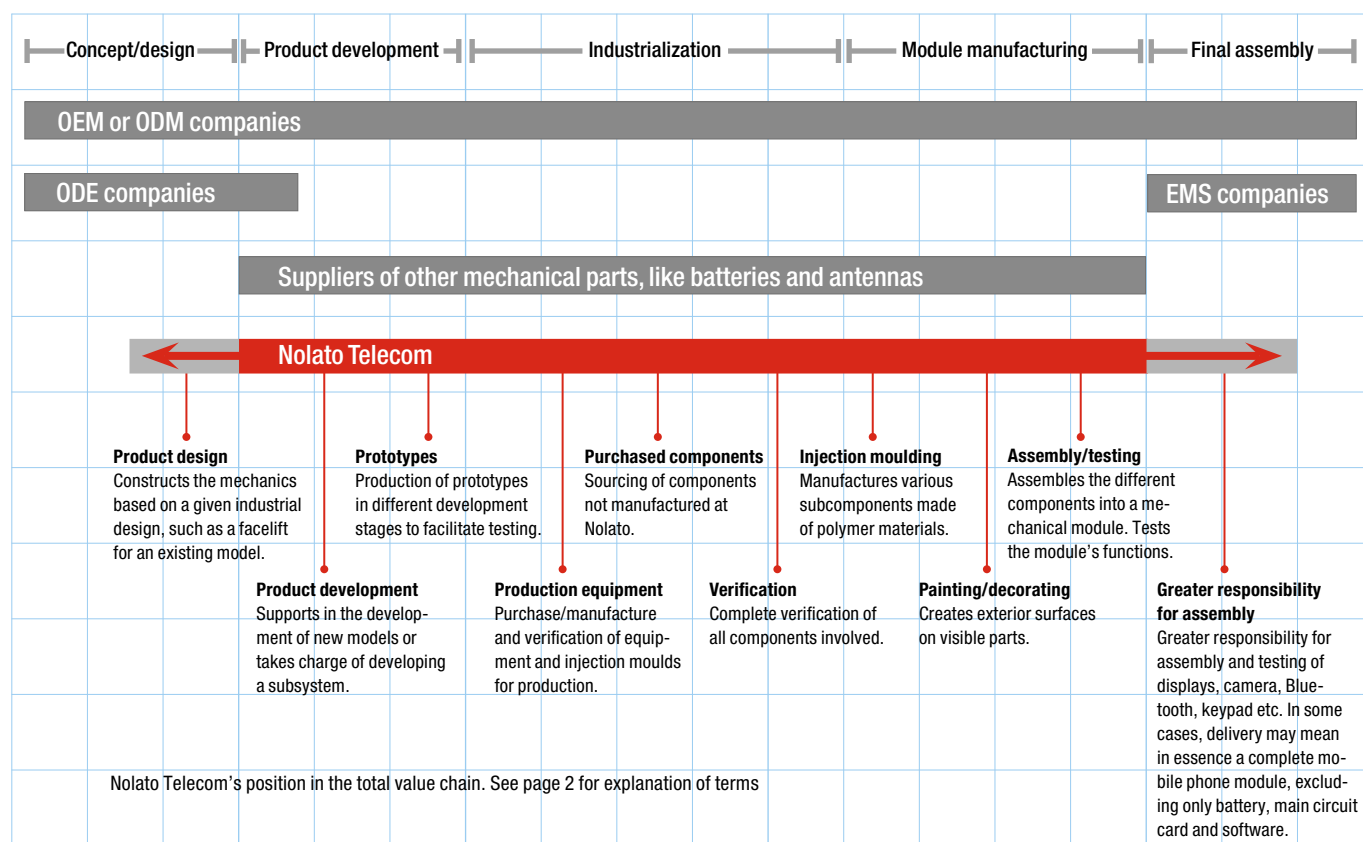
As a result, in 2005 a new production unit was set up in Kuala Lumpur, Malaysia. Nolato Kuala Lumpur will be a complete production unit, with resources in injection moulding, painting, tape production and assembly. The set-up has gone as planned and production will start in the second quarter of 2006.

In Japan, Nolato Telecom set up a technology and sales office in Tokyo. The office is



David Hu, Nolato Beijing





part of the strategy to increase technical support to Nolato's main customers, but also move closer to the Japanese mobile phone manufacturers. The set-up has been successful and resulted in new customer projects during the year.

In order to meet customer desires for quick production start and flexible production, the assembly of mobile phones is done largely manually or semi-manually instead of using extensive automation. This is also one of the basic reasons that customers have moved production of mobile phones from high-cost countries to countries with lower costs.

However, customers still have large parts of their development resources in Europe. So Nolato Telecom has its global technology development center in Kristianstad, Sweden, which can thus work in close collaboration with the development resources of its main customers.

The share of production in Europe is decreasing, but there are models that mobile phone companies for various reasons still want developed as well as manufactured in Europe. Reasons for this can include proximity to the customer's own development cent-

ers or because the mobile phones are intended largely for the European market.

The work with restructuring operations in Europe has been completed, and Nolato Telecom is now well positioned in the market, with customized development and production resources in Europe (Sweden and Estonia) as well as Asia (China and Malaysia). Discussions about setting up operations in new markets are also being held with customers on an ongoing basis.

### Developing globally unique technology

In order to remain at the cutting edge in terms of its level of technology and thus enhance its competitiveness, Nolato Telecom has an R&D unit that works solely with developing future technical solutions.

The unique, patented F1 mould concept, which was developed by the R&D unit and increases flexibility in injection moulding, was used in commercial operation during the year in a significant number of mobile phone projects. The concept has more than surpassed expectations and allows, among other things, a high level of flexibility with rapid changes in volume and the potential to

meet customers' ever growing demands for cosmetic quality.

Since summer 2005, Nolato has also been using its own patented technique, developed in-house, in full commercial operation to apply an exterior coating to mobile phone display windows. This coating improves the window's optical qualities and makes it considerably more resistant to scratches and other damage. The surface is so hard that the mobile phone looks new even after extensive use.

The new technology, called digital decoration, gives better results than competing technologies in the world market while at the same time being more cost-effective and more flexible.

The next area of use for this coating technology is to transfer operator logos, for instance, directly onto the mobile phone window or casing instead of using traditional printing methods. As a result, labeling can be done flexibly and without long-term planning, while a high level of resistance to wear and tear is achieved. The development of the technology is in progress, the aim being to provide the entire mobile phone casing with a

three-dimensional picture in a single process. The technology gives rise to interesting new commercial opportunities, such as offering

customers specially-designed mobile phones in short runs, or even individual examples, late in the production chain.



Dan Wong and Iris Chen, Nolato Lövepac Beijing



Magnus Bergkvist, Nolato Alpha

The two new technologies have attracted considerable attention from both existing and potential customers in the mobile phone sector, where advanced technologies and high technological content are important criteria for success.

#### Operations in 2005

Nolato Telecom's sales in 2005 totaled SEK 1,172 M (1,342), thus corresponding to 52 percent (55) of total Group sales.

Compared to 2004, sales were adversely affected by roughly SEK 75 M as a result of a lower share of products with a high value of purchased components. There was no further component effect as of the start of the third quarter.

Volumes of products for mobile phones increased in 2005 compared to 2004. At the same time, both average price and cost levels per unit were lower, which offset the rise in volumes in terms of sales. Volumes continued to grow in Asia, while volumes in Europe declined.

Operating income increased to SEK 137 M (133). The operating margin increased to 11.7 percent (9.9) as a result of better capacity utilization in Asia and cost reductions implemented in Europe as well as a lower share of volumes with a high value of purchased components.

Operations expanded sharply in part through new resources at Nolato Beijing for mould production, painting, testing and verification. A new manufacturing center was set up in Kuala Lumpur, Malaysia. The unit provides such operations as injection moulding, painting and assembly of mobile phone mechanical modules and will be in production starting the second quarter of 2006. A technology and sales office was also opened in Tokyo, Japan.

There were intensive marketing efforts during the year and a number of significant customer projects were taken on for its main customers in the mobile phone sector for production start-up in 2005 and 2006. The expansion of Nolato Telecom's customer offering was warmly welcomed by customers, and its positions with its main customers have been further improved through good operational efficiency, strong project management and an interesting array of technologies on offer.

Deliveries of base station products to tele-

com customers from Nolato Alpha and Nolato Silikonteknik were stable during the year, and a number of new projects were taken on which will come into production in 2006.

In Estonia, Nolato Silikonteknik was successful in setting up new operations for silicone coating. Operations are located in the same premises previously occupied by Nolato Tallinn, which moved during the year to a larger manufacturing building in order to handle greater production volume and at the same time create better flows and more efficient production.

Operations in Sweden continued to shrink as a result of the transfer of labor-intensive processes to China and Estonia. In 2005, some one hundred employees were given notice at Nolato Alpha and some sixty at Nolato Silikonteknik in order to adjust resources to a lower production volume.

### Looking forward

According to the assessments of analyst institutes and customers, the global mobile phone market is expected to continue its good growth in volume in 2006.

Nolato Telecom is working actively to expand its customer base, by focusing on collaboration with another one or more of the leading manufacturers of mobile phones. However, the key to good volume is not simply collaborating with a successful manufacturer. It is also a question of being selected as a supplier of those models that can be great sales successes.

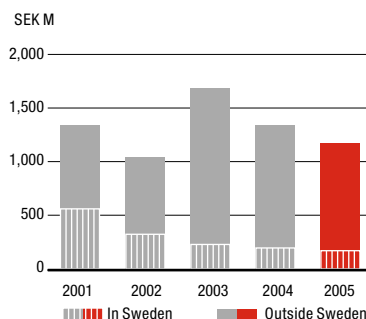
Nolato Telecom's flexible FI<sup>1</sup> production technology, which allows both quick start-up and quick changes in volume, represents a favorable competitive advantage here. The patented digital decoration technology has also attracted great interest from existing and potential customers.

The price pressure in the mobile phone sector is expected to increase. The transfer of labor-intensive processes to countries with lower costs continues to have a negative impact on production in Western Europe. With active, efficient collaboration between the Swedish units and existing units in Asia and Estonia, Nolato has a strong customer offering in this respect.

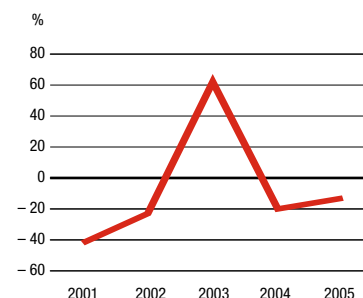
Nolato Telecom expects to increase sales as a result of greater volumes and greater value per delivered unit.

## Nolato Telecom, Five-year review

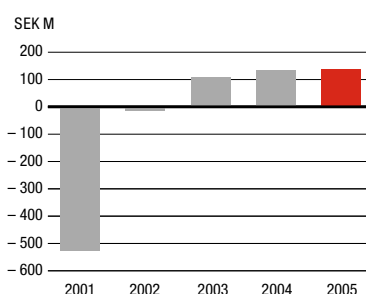
### Net sales



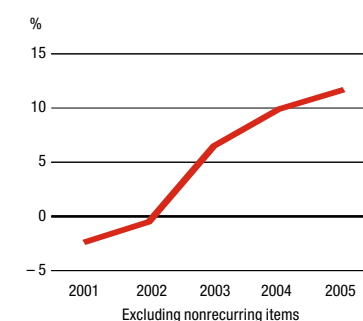
### Growth



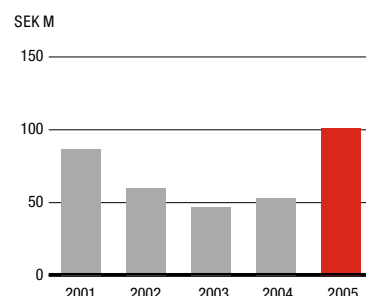
### Operating income



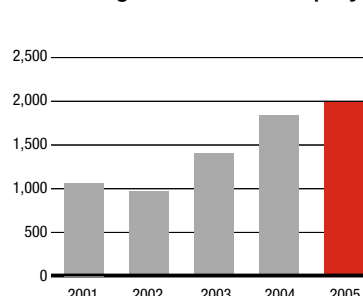
### Operating margin



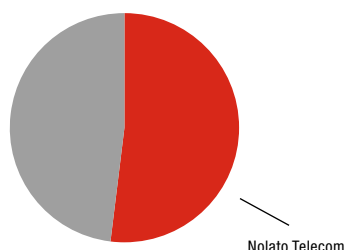
### Investments



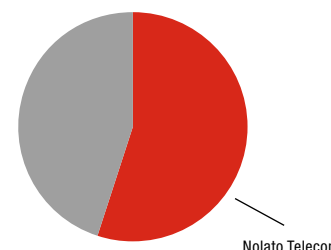
### Average number of employees



### Share of group net sales



### Share of group operating income



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.

# Nolato Medical: Continued strong, profitable growth

## Customer offering expanded with production in Hungary

### ■ 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.

Customers include Astra Tech, AstraZeneca, Biomet Merck, Coloplast, Hemocue, Novo Nordisk, Pfizer, Phadia, Radi Medical Systems and S:t Jude Medical.

Sales: SEK 184 M (137)

Operating income: SEK 42 M (25)

Operating margin: 22.8 % (18.2)

No. of employees (Dec 31): 134 (102)

Head of Business Area:

Christer Wahlquist (as of Oct 1 2005)

Peter Krikström (until Sep 30 2005)

- Nolato Medevo, Torekov & Lomma, Sweden  
No. of employees (Dec 31): 134  
Managing Director Peter Krikström
- Production also at Nolato Protec,  
Mosonmagyaróvár, Hungary

Nolato Medical is a leading developing and production partner in polymer products and subsystems to customers in medical technology and pharmaceuticals.

Operations are focused on complex products manufactured in large volumes over a long period, particularly in the homecare, diabetes therapy, analysis/diagnosis and surgery customer segments.

Production is carried out to meet extremely high quality standards in terms of tolerances, cleanliness and traceability.

The area is characterized by long project and product life cycles for every product.

In 2005, Nolato Medical's customer offering was expanded and now also includes production in Hungary, which was warmly welcomed by customers and resulted in new customer projects.

### 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 prerequisites that the market entails. Because operations are concentrated on a small number of customers, each customer can be

given considerable resources, while at the same time development and production can be customized to individual needs. Nolato Medical has in-depth expertise in areas such as risk analysis and quality assurance as well as the capability to take part in complicated medical technology processes.

Nolato Medical joins in the development project early on in order to help with product and production design. Customers are offered solutions based on close, long-term collaboration which include product development, design, development of production equipment, production in Sweden or Hungary (injection moulding, extrusion, dipping), post-processing in the form of decoration, assembly, final packaging and testing. Collaboration is carried out with a network of specialized companies, including design houses, in order to be able to give customers an even better product offering.

Production for medical use 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.



Magnus Asplund, Nolato Medevo





Christer Wahlquist  
Head of Business Area



Peter Krikström  
Managing Director  
Nolato Medevo

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.

### Market expansion creates opportunities

The global market in medical technology is expected to grow annually by 10-15 percent. The main driving forces behind this growth are the changing population pyramid in industrialized countries and lifestyle changes. Areas of growth include asthma treatment, diabetes, cancer and heart diseases. The entire healthcare market is undergoing change, and the costs are already considered to be too high. This has promoted efforts to diagnose potential illnesses as early as possible in order to minimize absence from work due to illness and the risk of complications.

To handle these changes in healthcare, hospitals are becoming centers for diagnosis and emergency treatment, while actual care is taking place in the home. These changing conditions entail even higher demands on medical aid devices, which favors Nolato Medical as a developer and manufacturer in this area. Such devices must be able to function in a complicated situation, be entirely safe and still easy for the consumer to use.

Healthcare thus has a strong focus on total cost. If developing a reliable device for activities such as daily analysis and medication enables patients to oversee their own medication, money is saved, even if the actual home-care device is more expensive.

For consumers, design and appearance are also increasingly important. Patients are not satisfied with good function; they also want devices in colors and designs that communicate something other than illness.

In order to meet these challenges, many players in the market are focusing on their core competencies, which leads to greater outsourcing of development and production.

This creates good opportunities for Nolato Medical, which can help companies reduce their costs and shorten times between product concept and launch by taking over these parts of production.

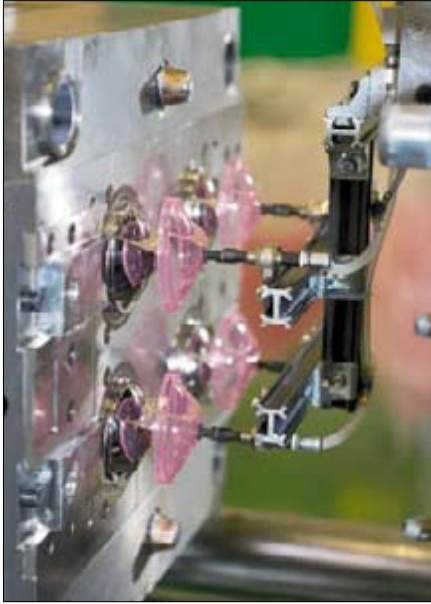
### Customers and competitors

Nolato Medical has a very strong position as market leader in Scandinavia. Operations are focused mainly on global medical technology companies that are among the lead-

Christer Wahlquist, Nolato Medical; Magnus Nilsson and Istvan Olah, Nolato Protec



József Németh, Nolato Protec



ers in their market, have strong future potential and high production volume. Essentially all the companies in Scandinavia in this niche are already customers today, including Astra Tech, AstraZeneca, Coloplast, Hemocue, Novo Nordisk, Pfizer, Phadia, Radi Medical Systems and S:t Jude.

There is intensive marketing work under way to attract similar customer groups elsewhere in Europe, where the combination of advanced Scandinavian employee skills and a strategically placed, well-functioning plant in Hungary enhances their competitiveness.

Competitors consist primarily of global companies with their own development resources, like Wilden, Perlos and West Pharma. Some customers also have their own production of polymer components.

Nolato Medical is one of the leading play-

ers in the world in products for heart diagnosis, with sales also in Asia and the US. Customers include major producers of catheters for heart diagnostics. Competitors are mainly the in-house production unit of catheter manufacturers.

Nolato Medical is one of the largest producers in the world in dipped products for anesthetic systems, especially latex-free breathing bags. The demand for these products grew sharply in 2005.

#### Operations in 2005

2005 was characterized by continued strong expansion. For the second year in a row, sales increased 34 percent to SEK 184 M (137), thus corresponding to 8 percent (6) of total Group sales. Excluding acquisitions, organic growth was 25 percent.

Jasminka Susak and Monika Laszlo, Nolato Medevo



Pia Frisk, Nolato Medevo

Operating income was SEK 42 M (25). The operating margin was very high in 2005 at 22.8 percent (18.2), due largely to a favorable product mix as well as continued good volumes and high capacity utilization.

During the year, the customer offering was further expanded with the start-up of production of medical devices at Nolato Protec in Hungary, as a supplement to production in Sweden. The set-up, which is part of Nolato Medical's strategic investment in Europe, was warmly welcomed and resulted in a number of new customer projects.

An important agreement with Novo Nordisk was reached during the year for the production of the insulin pen InnoLet and represents a significant breakthrough in the market for outsourcing. The project is proceeding as planned and began with the takeover of production during the third quarter of 2005. Production is increasing gradually and will be operating at full speed in the second quarter of 2006. Once full speed is reached, the agreement is expected to result in sales growth for Nolato Medical of 15 percent on an annual basis.

In dipped products such as breathing circuits, Nolato Medical strongly increased production volume and established a very strong position in the world market.

The operations in extrusion which were acquired from Astra Tech in 2004 performed well and also generated interest among existing injection moulding customers. Operations were given greater resources, including a new clean room in Torekov, Sweden.

### Looking forward

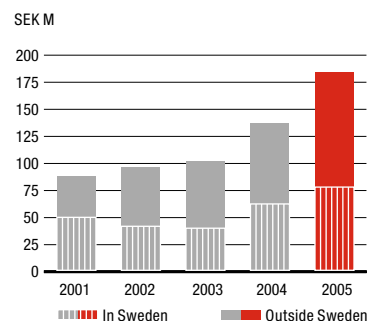
Nolato Medical has a clear focus on continued growth, which will be achieved through increased sales to existing customers in Scandinavia as well as an expansion of the customer base in both Scandinavia and Central Europe.

The customer offering will be further expanded, with the aim of Nolato Medical becoming a complete systems provider and assuming an even greater role in the customer's development work.

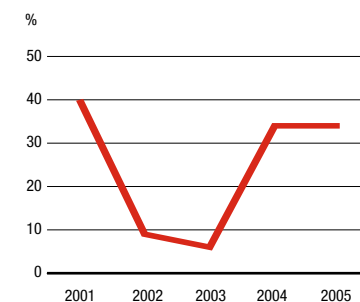
Good growth in sales is expected to continue in 2006 as well. The aim is to achieve increased growth both organically and through the acquisition of companies or operations.

## Nolato Medical, Five-year review

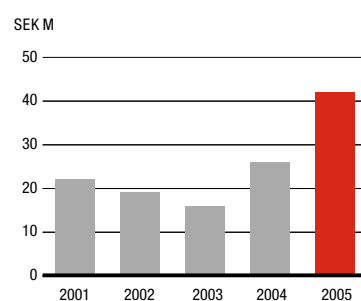
### Net sales



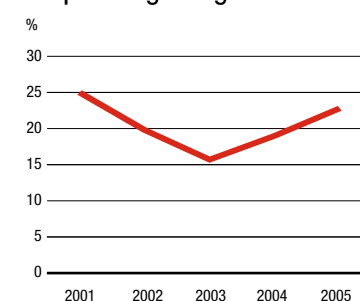
### Growth



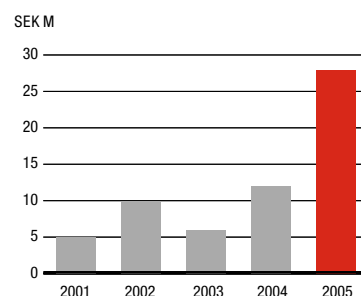
### Operating income



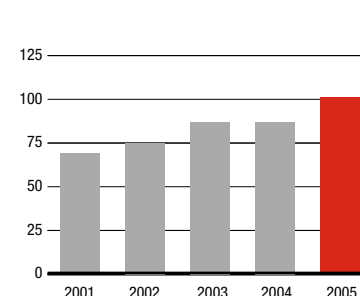
### Operating margin



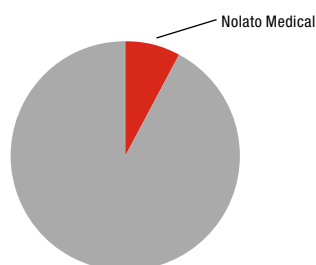
### Investments



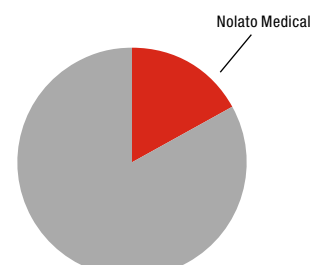
### Average number of employees



### Share of Group's net sales



### Share of Group's operating income



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.



# Nolato Industrial: Stronger market positions in Sweden Successful investment in new market areas in Hungary

## ■ Nolato Industrial in brief

Developer and manufacturer of products and subsystems for customers in the automotive industry, household appliances, gardening/forestry products, the furniture industry and other general 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, Scandia, TI Automotive, Volvo Car, Volvo Truck, Whirlpool and Woco.

Sales: SEK 911 M (936)

Operating income: SEK 71 M (65)

Operating margin: 7.8 % (6.9)

No. of employees (Dec 31): 696 (822)

### Nolato Industrial Sweden

Head of Business Area:

Georg Brunstam

- Nolato Gota, Götene, Sweden  
No. of employees (Dec 31): 114  
Managing Director Anders Wallgren
- Nolato Plastteknik, Gothenburg, Sweden  
No. of employees (Dec 31): 118  
Managing Director Leif Thörneby
- Nolato Polymer, Torekov & Ängelholm, Sweden  
No. of employees (Dec 31): 95  
Managing Director Johan Arvidsson
- Nolato STG, Lönsboda, Sweden  
No. of employees (Dec 31): 42  
Managing Director Håkan Hillqvist
- Nolato Sunne, Sunne, Sweden  
No. of employees (Dec 31): 120  
Managing Director Ulf Hilding

### Nolato Industrial Central Europe

Head of Business Area:

Magnus Nilsson

- Nolato Protec, Mosonmagyaróvár, Hungary  
No. of employees (Dec 31): 205  
Managing Director Magnus Nilsson

Nolato Industrial is a strong development and production partner to leading industrial companies in Scandinavia and Central Europe. Operations are characterized by broad development expertise, extensive knowledge about materials, advanced technological solutions, high efficiency and close collaboration with customers.

Based on its extensive knowledge about polymer materials, construction and manufacturing, Nolato Industrial can help make both products and production more effective by becoming involved early on in the customers' projects.

In Scandinavia, Nolato Industrial is a clear market leader, with an emphasis on development and manufacturing to customers in automotive products, household appliances, gardening/forestry products, furniture and other areas. In Central Europe, Nolato Industrial is a strategic manufacturing and development resource for customers in medical technology/hygiene (in close collaboration with Nolato Medical), the automotive sector and general industry.

Nolato Industrial consists of five compa-

nies 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.

When dealing with customers in the automotive industry, the companies at Nolato Industrial collaborate under the name Nolato Automotive. 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). Nolato Automotive makes deliveries to the major automotive manufacturers as well as to their systems suppliers.

### Market leader in Scandinavia

The Scandinavian market is highly fragmented, with many customers and suppliers. Customers consist of a large number of companies that need development and production of polymer products. These range







Georg Brunstam  
Head of Business Area  
Nolato Industrial  
Sweden



Magnus Nilsson  
Head of Business Area  
Nolato Industrial  
Central Europe  
Managing Director  
Nolato Protec



Anders Wallgren  
Managing Director  
Nolato Gota



Leif Thörneby  
Managing Director  
Nolato Plastteknik



Johan Arvidsson  
Managing Director  
Nolato Polymer



Håkan Hillqvist  
Managing Director  
Nolato STG



Ulf Hilding  
Managing Director  
Nolato Sunne

from small, local companies that wish to produce individual products in small volumes to large, global companies that continually 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 export-oriented customers that have continuous product development and significant production volume.

Major customer areas include components

and subsystems to customers in the automotive industry (interior fittings, fuel system components and engine parts), household appliances (refrigerator interiors and microwave oven components), gardening /forestry products (casings and engine components for lawnmowers and power saws) and other important industrial segments, such as the furniture industry.

By focusing on long-term collaboration, the companies at Nolato Industrial can cost-effectively develop and manufacture subsys-

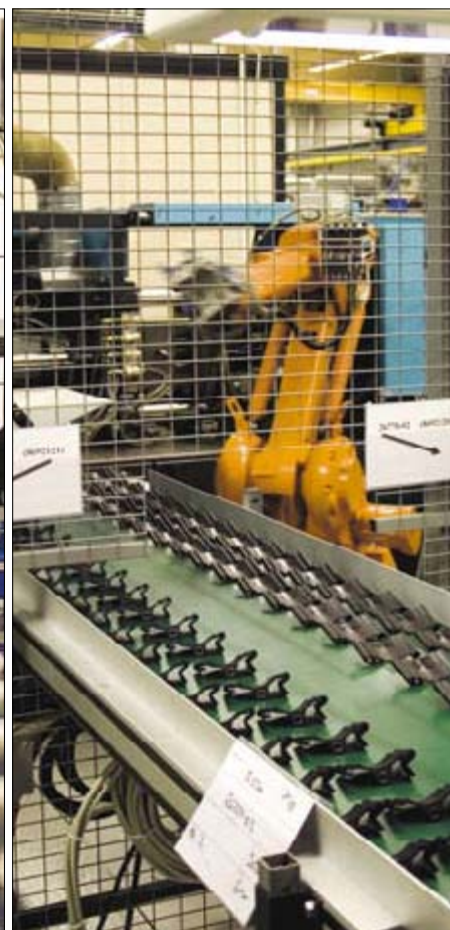
tems and components that work optimally in customer products.

The Swedish operations at Nolato Industrial all share a high level of technology, with companies taking market share as a result of their high degree of automation and efficiency.

The companies all have a flat organization, with every operator contributing to cost-effectiveness by taking considerable personal responsibility, based on their high level of basic skills, continuing education, work



Jan Jacobsson, Nolato Gota





Henrik Frost, Nolato Plastteknik



Mikael Jönsson, Nolato Polymer



Ildikó Kovács, Nolato Protec



Ibolya Kiss, Nolato Protec



Imre Babos, Nolato Protec

in teams based on management by objective, and a decentralized way of working.

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 investment in the automotive sector, within the scope of Nolato Automotive, has been successful and resulted in a large number of new projects in 2005, including for Volvo's new models. Customers include both automotive manufacturers and their systems suppliers.

### Great potential in Central Europe

The Central European market is also fragmented, with a large number of customers and suppliers. The markets for general industry and automotive are growing in countries like the Czech Republic, Slovakia and Hungary, while the market for consumer electronics is declining.

Nolato Industrial's aim in this market is to develop and produce injection-moulded components and subsystems in plastic, satisfying high demands for quality and customer desires for painting, printing and other post-processing. The main focus is customers in the automotive industry, medical technology/hygiene and general industry.

Nolato Protec has a very modern and efficient plant, which is well located in western Hungary and constitutes a strategic development and production resource for Nolato's customers.

### Customers and competitors

Nolato's customers in Sweden include 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's customers in Hungary in the automotive sector include Lear, Elring Klinger, Woco and Philips; in medical/hygiene (together with Nolato Medical) Astra Tech, and Coloplast; and in general manufacturing SCA, Nilfisk and Solectron.

Nolato's competitors are a large number of small and mid-sized companies, often within close proximity to their customer. Major Swedish competitors include Bladhs Plast, Euroform and Konstruktionsbakelit. In Hungary, these include Flextronics Plastics and Nypro.

### Stronger market position in Scandinavia

The Swedish companies at Nolato Industrial performed well in 2005, with notable success in particular in the automotive industry, where a large number of projects were taken on, like for Volvo's new car models. The volumes in general industry were also good.

Nolato Plastteknik (Gothenburg) made strong advances with increased volumes, thus realizing the full benefit of the expansion in production that was carried out in 2004.

Nolato Gota (Göteborg) also performed well, with many new projects for the automotive industry and good volumes in the forestry/gardening segment.

Nolato Sunne (Sunne) continued to invest in product development, which resulted in, among other things, increased exports in products for fuel systems as well as advances in product solutions in a combination of rubber/metal. During the year, investments were made in further automation for greater competitiveness.

Nolato STG (Lönsboda) carried out a successful restructuring to cover the decline in activity as a result of a major customer relocating production abroad. During the year, new projects were taken on, including from IKEA, and volumes gradually increased.

Nolato Polymer (Torekov and Ängelholm) performed well during the year, with a number of new customer projects, including for Kinnarps and SKF. The company made strong advances in productivity and efficiency.

### Successful change in customer base

The overview and streamlining of the production mix that have been carried out at Nolato Protec over the last few years, and which have had a strong focus on profitability in every project, have entailed extensive change in the customer base.

The new strategy means a focus on customers in medical technology, hygiene, automotive vehicles and general industrial production. Intensive marketing efforts have contin-



ued and provided operations with a number of major new customers in these areas along with new projects from existing customers.

During the year, expertise and resources in the production of medical technology were expanded, in close collaboration with Nolato Medical. These investments include rooms with strict hygienic standards and high-speed injection moulds for manufacturing large product volumes with high quality. This effort was warmly welcomed by customers and resulted in a number of new projects.

Manufacturing for customers in consumer electronics and household appliances, which were previously dominant segments, has essentially been discontinued. The majority of Nolato's sales in Hungary come from new market areas.

### Operations in 2005

Nolato Industrial's sales totaled SEK 911 M (936), thus corresponding to 40 percent (39) of total Group sales. Volumes were stable for most customers. The automotive industry showed good growth, except toward the end of the year, while volumes to customers in the household segment declined. Price competition remained strong.

Operating income was SEK 71 M (65). The operating margin improved to 7.8 percent (6.9).

Earnings have gradually improved in the Hungarian operations. This largely explains the improvement in earnings and margins at Nolato Industrial.

### Looking forward

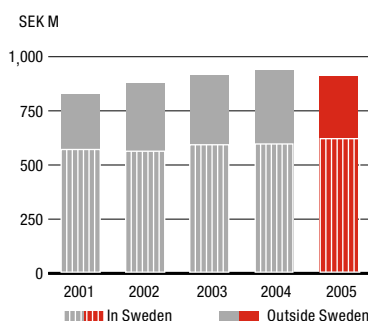
Operations at Nolato Industrial are well equipped for 2006. There are modern, efficient units that are highly competitive as a result of a high level of automation and skilled employees.

The idea of providing customers with a comprehensive solution, from development to delivery of the finished product, together with cost-effective production in both Sweden and Hungary, gives Nolato Industrial a very strong market position.

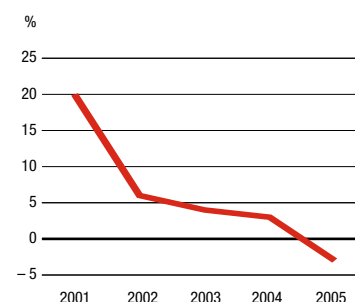
We see opportunities for growth in Central Europe, while growth in Sweden is considered to be more limited. Seen as a whole, Nolato Industrial's sales are expected to be relatively unchanged in 2006 compared to 2005.

## Nolato Industrial, Five-year review

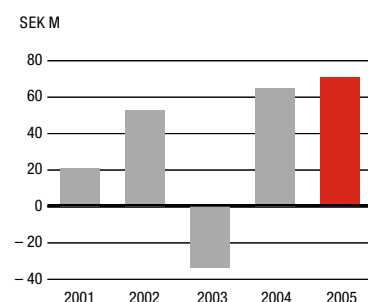
### Net sales



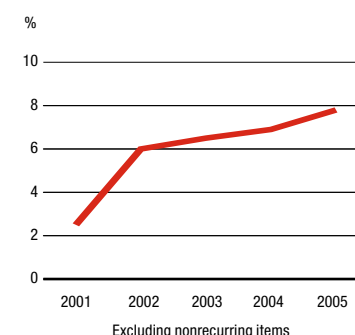
### Growth



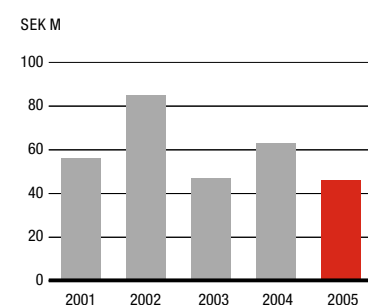
### Operating income



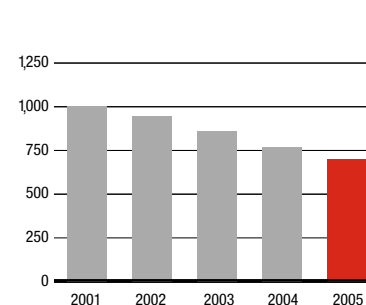
### Operating margin



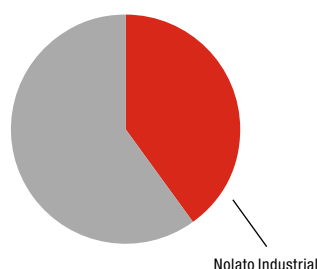
### Investments



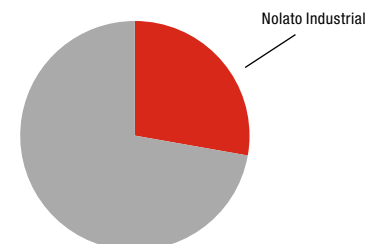
### Average number of employees



### Share of Group's net sales



### Share of Group's operating income



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.

# Corporate Governance Report

## ■ Swedish Code of Corporate Government

Nolato's Board and management work following working procedures, work structures and information disclosure routines that in large part comply with the Swedish Code of Corporate Governance.

However, Nolato has chosen to deviate from the Swedish Code in the essential areas identified below. The deviations are consistent with the rules of the Stockholm Stock Exchange since Nolato is not classified as a major company and is thus not bound to comply with the Code or explain any such deviations.

Those essential areas that Nolato has decided not to comply with in full are:

- the possibility of participating in the Annual Meeting from a distance and a translation of the Annual Meeting from Swedish into English given the low percentage of foreign ownership
- the majority of the Nomination Committee's members are not members of the Board
- submission of an internal auditing report for financial reporting and an auditor's review of the report
- submission of information about the way in which the Board ensures quality in financial reporting.

## ■ Organization and members of the Board

Nolato's Board of Directors consists of seven members elected by the Annual Meeting and three members and three alternates chosen by the unions.

The Board members are elected by the shareholders at the Annual Meeting.

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 members Claes Warnander, Lars-Åke Rydh 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 or customers to Nolato. 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 members of the Board of Directors are presented in the Annual Report on page

68 with their name, position, year of birth, shareholding, year elected to the Board, educational background and other duties. An assessment of the independence of individual Board members is given above.

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

## ■ Working methods of the Board

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 the people who manage and represent Nolato.

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 meetings 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 continually follow and monitor the Group's financial position and development, the President and CEO shall provide the Board with monthly reports on sales, income, capital commitment, cash flow, the balance sheet and fol-





low-up on forecasts and forecast updates. Information about the work of the Board of Directors in 2005 can be found on pages 34 – 35.

## ■ Board committees

### 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) and Henrik Jorlén. The committee held one meeting in 2005.

### Auditors and audit committee

Ernst & Young are Nolato's chosen auditors. 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.

Nolato's Board has elected to let the entire Board constitute the audit committee and carry out these duties.

Nolato's auditors are presented in the Annual Report on page 68 with their name, title, year of birth, shareholding, year appointed, education and experience.

## ■ Remuneration of the Board

For the period starting with the Annual Meeting in 2005 to the Annual Meeting in 2006, remuneration of the Board totaled SEK 730,000 (665,000), apportioned as follows:

Chairman of the Board:	SEK 180,000
Board member:	SEK 110,000

A director's fee is paid only to external members. Employees in the Company, like the President and CEO and employee representatives, receive no director's fee. Payment was made in December 2005. During 2005, the present members of the Board received the following remuneration:

Carl-Gustaf Sondén	SEK 180,000
Henrik Jorlén	SEK 110,000
Gun Boström	SEK 110,000
Claes Warnander	SEK 110,000
Erik Paulsson	SEK 110,000
Lars-Åke Rydh	SEK 110,000
Total	SEK 730,000

## ■ Information policy

Nolato reports to the OMX Nordic Exchange in Stockholm, where the share is quoted on the O-list. 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. Reports, press releases and other information can be downloaded from Nolato's website.

There is also further information on the website about corporate governance concerning Board membership, procedures, work and committees as well as auditors. Also available there are the current Articles of Association and information from the most recent Annual Meeting.

## ■ 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 9 on pages 57 – 58.

# Management Governance

## Group Management

The Group Management consists of Georg Brunstam (CEO of Nolato Group and head of Nolato Industrial Sweden)\*, Per-Ola Holmström (CFO)\*, Tommy Johansson (director of marketing Nolato Telecom), Peter Krikström (managing director of Nolato Medevo), Magnus Nilsson (head of Nolato Industrial Central Europe), Jonas Persson (head of Nolato Telecom)\*, and Christer Wahlquist (head of Nolato Medical)\*.

The people marked with an \* above constitute the Executive Committee, which makes decisions about current operational issues in the Group.

## 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.

For current operating issues, the head of each business area is continuously in touch with the managing directors 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 managing director who is responsible for operations at that company, as specified in the instructions to the managing director issued by the Board of Directors.

Assisting the managing director is a management team, with members from different departments in the company.

# Report of the Directors

Nolato AB (publ) 556080-4592

## ■ Operations and structure

In its external financial information, the Group reports its results in three profit centers: Nolato Telecom, Nolato Medical and Nolato Industrial. 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. 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 phone sector and in telecom infrastructure.

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

Nolato Industrial Sweden works with the development and manufacture of components and subsystems made from polymer materials for customers in the automotive industry, 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 to customers in Central Europe in fields such as automotive components, household appliances, hygiene/medical devices and selected general industrial sectors.

The legal organization structure includes the Parent Company, Nolato AB (publ), with Swedish corporate identity number 556080-4592 and its registered office in Torekov, Sweden as well as its wholly-owned subsidiaries in Sweden, Estonia, Hungary, China and Malaysia. The operations of the Parent Company, Nolato AB, include corporate management, consolidated financial reporting, financial management and IT coordination.

## ■ Important events during 2005

Volumes of products for mobile phones increased in 2005 compared to 2004 as a result of the sharply growing market for

mobile phones. At the same time, the average price and cost levels per unit were lower, which offset the increase in volume at Nolato Telecom in terms of sales.

The expansion of its injection mould and painting capacity in China continued as planned, both through new investments and by shifting Nolato's operations from Europe.

During the year, Nolato Telecom set up a manufacturing unit in Kuala Lumpur, Malaysia. The unit is currently being expanded into a complete production facility, including both injection moulding and painting capacity. The unit will start production in the second quarter of 2006.

At Nolato Telecom, the number of employees in Sweden continued to decline as customers want a larger share of production taking place in Asia. The average number of employees for the year decreased by some 120 people in Sweden.

Nolato Medical increased its sales sharply by 34 percent in 2005 compared to 2004. At the same time, earnings and profitability improved to a very high level, due largely to a favorable product mix and high capacity utilization.

In 2005, Nolato Medical signed an agreement with Novo Nordisk for the production of the insulin pen InnoLet. The project began with the takeover of production at the end of the third quarter, and production has been gradually increasing in order to reach full speed in the second quarter of 2006. Once full speed is reached, the agreement is expected to result in sales growth for Nolato Medical of 15 percent on an annual basis.

For Nolato Industrial, volumes were stable during the year for most customers. The automotive industry showed good growth except toward the end of the year, while volumes for the household customer segment declined.

In the Hungarian operations, the overview of profitability by segment/customer project that started during the second half of 2004 resulted in a concentration of oper-

ations on automotive components, hygiene and selected general industrial segments. The new customer projects that were taken on in 2004 performed well in 2005. Cost reductions were implemented during the year due to the change in the focus of operations.

Earnings gradually improved in the Hungarian operations, thus explaining in large part the improvement in income and margins at Nolato Industrial.

## ■ Events after the end of 2005

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

## ■ The Board's work in 2005

During 2005, 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 8, 2005: The auditor was debriefed by the full Board on his comments for the 2004 audit. The Board decided to propose a dividend of SEK 1.75 per share to the Annual Meeting and adopted a dividend policy in which the Board intends to propose a dividend averaging roughly 35 percent of net income.

■ Torekov, April 27, 2005: The decision was made to open a technology and sales office in Tokyo, Japan.

■ April 27, 2005: The constituent meeting after the Annual Meeting. Board members Carl-Gustaf Sondén, Henrik Jorlén, Gun Boström, Claes Warnander, Erik Paulsson and Georg Brunstam were re-elected at the Annual Meeting and Lars-Åke Rydh was elected as a new member. Krister Jorlén declined re-election. Carl-Gustav Sondén was elected Chairman. At the constituent

meeting after the Annual Meeting, Carl-Gustav Söndén and Henrik Jorlén were elected to the compensation committee and Per-Ola Holmström was elected Board Secretary. 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.

■ Telephone meeting, July 20, 2005: Schedule and program for the Board meetings in 2006 were adopted. A decision was made on investments for the agreement that Nolato Medical signed with Novo Nordisk for the production of insulin products. Another major investment in painting capacity in China was approved. A decision was made to set up a manufacturing unit in Kuala Lumpur, Malaysia, with a logistics and assembly unit as the first step. The auditor reported to the Board on the review of the six-month interim report and summarized planning for the auditing process in 2005.

■ Torekov, October 27, 2005: The Board made a decision to invest in the expansion of operations in Kuala Lumpur, Malaysia, into a complete production unit including both injection moulding and painting capacity.

■ Lomma, Sweden, December 14, 2005: 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 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 2006. The CFO presented a proposal on funding and liquidity, which was approved by the Board. The auditor reported to the Board on the fall review. The Board discussed the Swedish Code of Corporate Governance and how Nolato stood in relation to it. Because Nolato has a market value below three billion Swedish kronor, the Code does not have to be formally complied with, although Nolato is in compliance with most of the Code. On Nolato's website is an account of what aspects Nolato is not currently in compliance with.

## ■ Business 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 for various types of funding, as well as how risks are to be minimized. Comments and an account of financial risk management are given in Note 3 on page 54 and 55.

### Revenue 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 Nolato Telecom profit center, which accounts for roughly 50 percent of the Group's sales, market growth has increased sharply 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 about 40 percent of Group 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 8 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 to date.

At Nolato Telecom, there is greater dependency on a small number of customers. In 2005, two of the largest customers accounted for roughly half of the sales in the profit center. Nolato enjoys very close collaboration with the two customers and was appointed strategic supplier of component systems for 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 usually 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 profit centers.

At Nolato Telecom, with its 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 it 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 sensitivity to changes in material prices.

In 2004, price increases in plastic raw materials were quite sharp from a historical perspective. Raw material prices stabilized

in the first half of 2005. In the third quarter, prices began to rise once again, but stabilized in the fourth quarter at a high level. The price increases did not adversely affect Nolato's margins to any significant degree in 2005.

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 works according to a 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 under fixed-price agreements. The variable portion of the cost of electricity totaled approximately SEK 27 M in 2005, excluding taxes. For 2006, purchases have been made of roughly 50 percent of electricity needs at an average price of 2 percent lower per kWh than the average price for 2005.

#### 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.

## ■ Comments on the financial statements

### Income statements, Five-year review

Sales at the beginning of the five-year period were characterized by the sharp decline in the telecom industry. Nolato was affected more than the industry as a whole both because important customers were hit by setbacks and production was shifted to Asia at a faster rate. The result was declining sales in those years and the divestment or merger of several operations, particularly in the US.

Over the entire five-year period, sales posted average annual growth of -7 percent.

In 2004, compared to 2003, sales were adversely affected by roughly SEK 320 M by a decline in the sale of products with a high value of purchased components.

In 2001 and 2002, profitability was influenced largely by the decline at Nolato Telecom. Margins and yields fell sharply in those years. Particularly in 2002, there were significant restructuring programs to reduce costs to a level that better corresponded to the lower volumes. The average operating margin was 5 percent over the five-year period (excluding nonrecurring items).

### Income statement, 2005

#### Sales

In 2005, Nolato Group sales totaled SEK 2,256 M (2,401).

Sales at Nolato Telecom's totaled SEK 1,172 M (1,342), thus accounting for 52 percent (55) of total Group sales. Compared to 2004, sales were adversely affected by about SEK 75 M as a result of the lower share of products with a high value of purchased components. There was no further component effect as of the start of the third quarter.

Volumes of products for mobile phones increased in 2005 compared to 2004, as a result of a sharply expanding market for mobile phones. At the same time, average price and cost levels per unit were lower, which offset the increase in volume in terms of sales.

Nolato Medical increased sales 34 percent to SEK 184 M (137), thus accounting for 8



percent (6) of total Group sales. Excluding acquisitions, organic growth was 25 percent. Volumes were good and increased for most of Nolato's customers.

Sales at Nolato Industrial totaled SEK 911 M (936), thus accounting for 40 percent (39) of total Group sales. Volumes were stable for most customers. The automotive industry showed good growth except at the end of the year, while volumes in the household customer segment declined.

### Earnings

Consolidated operating income increased in 2005 to SEK 221 M (201).

The operating margin increased to 9.8 percent in 2005, compared to 8.4 percent in 2004. The Group's objective is an operating margin of 7 percent over a business cycle.

Income after financial items increased 12 percent to SEK 208 M (185). Net financial items included SEK -1 M (+8) in effects of currency exchange rate differences in 2005, most of which was related to translation differences for loans in foreign currencies in operations outside Sweden.

Net income increased to SEK 181 M (136). Included in this figure is a one-time effect of SEK 15 M in the form of a lower

tax expense for the fourth quarter. Adjusted for this one-time effect, the effective tax rate in 2005 was 20 percent (26), as a result of a lower tax rate in Chinese operations.

Earnings per share increased to SEK 6.88 (5.15). The positive one-time effect of the lower tax expense in the fourth quarter was SEK 0.57. Adjusted for this effect, earnings per share totaled SEK 6.31.

Return on capital employed increased to 21.0 percent for 2005 (18.9). The Group's target is a return of 15 percent. Return on operating capital increased to 25.5 percent (23.7).

Operating income at Nolato Telecom totaled SEK 137 M (133). The operating margin improved to 11.7 percent (9.9) as a result of a lower share of volume with a high value of purchased components as well as better capacity utilization in Asia and cost reductions implemented in Europe.

Operating income at Nolato Medical totaled SEK 42 M (25). The operating margin was at a very high level in 2005, 22.8 percent (18.2), due largely to a favorable product mix and continued good volumes and high capacity utilization.

Operating income at Nolato Industrial totaled SEK 71 M (65). The operating mar-

## Income statements (SEK M) Information for 2001–2003 is not restated following IFRS accounting principles

	2005	2004	2003	2002	2001
Net sales	2,256	2,401	2,671	2,011	2,359
Cost of goods sold *	-1,851	-2,006	-2,347	-1,744	-2,243
Gross income	405	395	324	267	116
Selling expenses	-46	-56	-46	-56	-89
Administrative expenses **	-135	-134	-172	-156	-188
Other operating expenses ***	-3	-4	-49	-13	-349
Operating income	221	201	57	42	-510
Financial items ****	-13	-16	-51	-6	-54
Income after financial items	208	185	6	36	-564
Tax	-27	-49	-41	24	135
Net income	181	136	-35	60	-429
Scheduled depreciation/amortization included	135	134	156	162	209

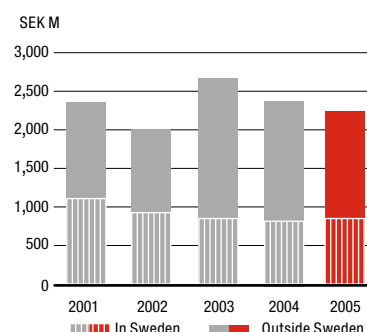
\* In 2003, includes nonrecurring expenses of SEK 52 M due to restructuring of operations in Hungary  
In 2001, includes nonrecurring expenses of SEK 164 M for writedown of fixed assets and restructuring of operations in the US

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

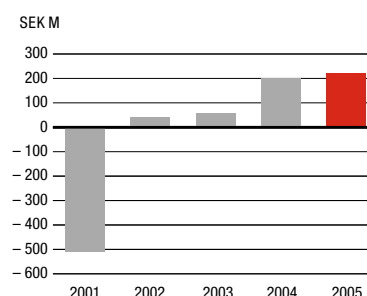
\*\*\* In 2003, includes nonrecurring expenses of SEK 38 M due to writedown of goodwill in Nolato Protec, Hungary  
In 2001, includes nonrecurring expenses of SEK 323 M due to writedown of goodwill in Nolato Shieldmate, US

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

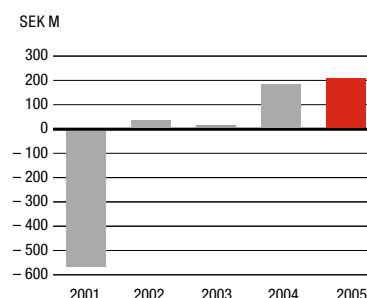
## Net sales



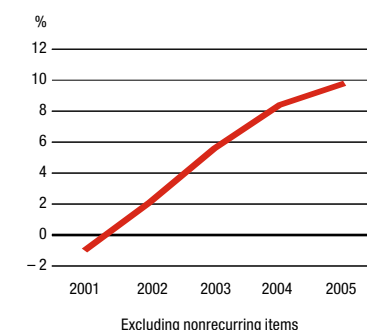
## Operating income



## Income after financial items



## Operating margin



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.

gin improved to 7.8 percent (6.9). Earnings gradually improved in the Hungarian operations in 2005, which explains to a large extent the improvement in the profit center's earnings and margins.

#### Balance sheets, five-year review

At the beginning of the five-year period, total assets were SEK 1,662 M, increasing slightly in 2002 and 2003. After this, they decreased again to SEK 1,668 M at the end of the period.

On average during the five-year period, roughly 41 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.

In connection with the closure of US operations in 2001, production equipment was sold to a great extent, but there were writedowns 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 in 2003, tangible fixed assets decreased during the period.

Goodwill from acquisitions in the US and Hungary was written down to zero. This occurred in 2001 in the case of the US acqui-

sition 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 in 2000.

Shareholders' equity increased gradually during the period. In 2002, a new share issue was carried out, which added a net amount of SEK 246 M to shareholders' equity. Despite improved operating profitability in 2002 and above all 2003, shareholders' equity did not increase, due to non-recurring expenses in Hungary approved in 2003.

The sharp improvement in operating profitability during 2004 and 2005, 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 21 percent in 2001 to 50 percent in 2005. 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. Since 2001, interest-bearing liabilities declined sharply by SEK 536 M. Strong cash flows have enabled Nolato to make principal payments on its borrowings.

#### Balance sheets, 2005

Total assets were SEK 1,668 M (1,604). Fixed assets increased somewhat as a result of the somewhat higher investment rate compared to recent years. Assets in the form of inventories and current receivables increased somewhat as a result of an increase in project inventories for new customer projects, which tied up more capital in both inventories and accounts receivable compared to 2004.

Despite a positive cash flow, cash holdings decreased by a total of SEK 51 M to SEK 163 M (214) as a result of repayments of interest-bearing liabilities.

Shareholders' equity increased as a result of net income.

Interest-bearing liabilities declined sharply as a result of lump-sum principal payments.

#### Cash flow statements, five-year review

##### 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.

## Balance sheets (SEK M) Information for 2001–2003 is not restated following IFRS accounting principles

	2005	2004	2003	2002	2001
Tangible fixed assets	724	664	690	801	855
Intangible fixed assets	51	54	54	102	121
Financial fixed assets	4	—	4	29	6
<b>Total fixed assets</b>	<b>779</b>	<b>718</b>	<b>748</b>	<b>932</b>	<b>982</b>
Inventories	183	170	181	257	160
Current receivables	543	502	588	505	384
Cash and bank balances	163	214	318	201	136
<b>Total current assets</b>	<b>889</b>	<b>886</b>	<b>1,087</b>	<b>963</b>	<b>680</b>
<b>Total assets</b>	<b>1,668</b>	<b>1,604</b>	<b>1,835</b>	<b>1,895</b>	<b>1,662</b>
Shareholders' equity	832	661	569	624	342
Long-term liabilities, interest-bearing	200	230	485	583	645
Long-term liabilities, non-interest-bearing	73	61	70	45	109
Current liabilities, interest-bearing	42	147	140	118	133
Current liabilities, non-interest-bearing	521	505	571	525	433
<b>Total shareholders' equity and liabilities</b>	<b>1,668</b>	<b>1,604</b>	<b>1,835</b>	<b>1,895</b>	<b>1,662</b>

### Changes in working capital

Working capital, measured as current assets (excluding cash items) less current non-interest-bearing liabilities, averaged 8 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 tendency of increasing credit periods over the five-year period also applies to Nolato, but this has been offset by the extension of credit periods that Nolato has been given by its suppliers.

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

### Investments

The level of investment was low for the period of 2001–2004, with the level of write-downs for each year exceeding that year's investment level. The reason for the relatively low level of investment is that equipment from divested operations, mainly the US, could be moved to other, expanding companies in the Group, mainly China.

The expansion carried out by the Group in this period has taken place primarily in China. The expansion there is generally considered less investment-intensive given that production is less automated than a similar expansion in Europe.

There was a minor acquisition made in 2004 at Nolato Medical.

### 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 2001–2005.

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 for these years. Consequently, no dividend was paid in 2001 or 2002.

Payment of dividends was resumed for the 2002 financial year, with SEK 13 M being paid out in 2003. The dividend for 2003 was SEK 0.80 per share, with SEK 21 M being paid out in 2004. For 2004, the dividend was SEK 1.75 per share, with SEK 46 M being paid out in 2005.

The Board proposes a dividend for 2005 of SEK 2.40 per share. Following approval at the Annual Meeting in line with the Board's proposal, SEK 63 M is expected to be paid out in 2006.

### Cash flow statements, 2005

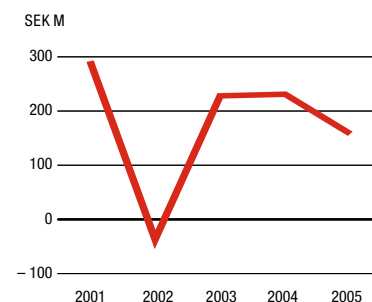
#### Cash flow from operations

Cash flow before investments totaled SEK 307 M (356). This was a result of improved profitability, but a greater need for working

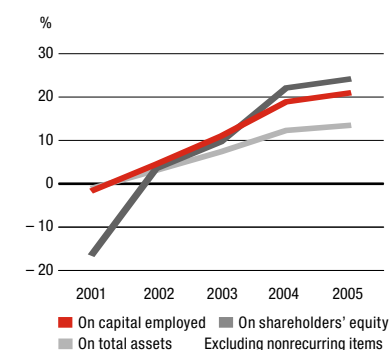
### Cash flow statements (SEK M)

	2005	2004	2003	2002	2001
<b>Cash flow before changes in working capital</b>	<b>373</b>	330	260	166	61
Changes in working capital	–66	26	63	–146	297
<b>Cash flow from operations</b>	<b>307</b>	356	323	20	358
Investment activities	–149	–125	–95	–57	–66
<b>Cash flow after investments</b>	<b>158</b>	231	228	–37	292
Financing activities	–209	–335	–111	102	–233
<b>Decrease/increase in liquid funds</b>	<b>–51</b>	–104	117	65	59
Liquid funds on January 1	214	318	201	136	77
<b>Liquid funds on December 31</b>	<b>163</b>	214	318	201	136

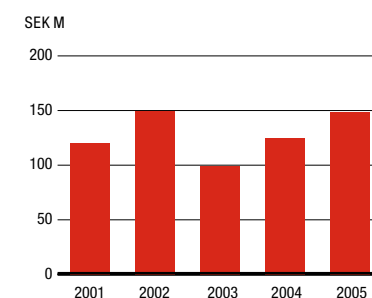
### Cash flow after investments



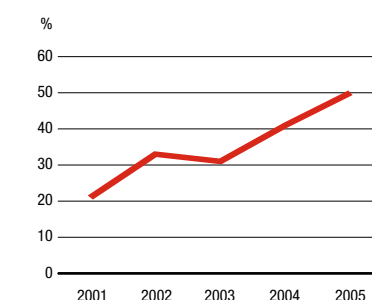
### Return



### Investments



### Equity/assets ratio



In all diagrams, information for 2001–2003 is not restated following IFRS accounting principles.

capital led to a somewhat lower cash flow than in 2004.

#### Investments

Cash flow after investments was SEK 158 M (231). Net investments affecting cash flow totaled SEK 149 M (125). Investments consisted of the following:

SEK M	2005	2004
Capitalized expenditures	—	1
Goodwill	—	3
Buildings and land	6	5
Machinery and equipment	93	91
Construction in progress	50	25
Total investments	149	125

#### Funding

Interest-bearing assets totaled SEK 163 M (214) and interest-bearing liabilities and provisions totaled SEK 242 M (377). The market value of derivatives for interest-bearing liabilities had a further impact of SEK +9 M. Net liabilities thus shrank by SEK 93 M to SEK 70 M (163). Shareholders' equity totaled SEK 832 M (661). The equity/assets ratio was 50 percent (41). Credits from financial institutions, banks and pension funds consisted of the following:

SEK M	2005	2004
Loans	183	321
Provisions for pensions	59	56
Total interest-bearing liabilities	242	377
Unutilized lines of credit	465	347
Total credit available	707	724

#### Personnel

The average number of employees for the year was 2,790 compared to 2,700 in 2004. Most of the increase was attributable to Nolato's expansion in China, while the number of employees fell in Europe.

#### Product development costs

Group expenditures for development work were SEK 247 M (213), of which SEK 0 M (0) was capitalized. This included development of moulds, materials, designs and technology. Costs consisted almost entirely of development expenditures in conjunction

with 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. All Group companies are ISO 14001 certified, apart from the operations recently set up in Malaysia. Further environmental information about the Group can be found on page 17.

#### Future prospects

Volume growth in the mobile phone market is expected to be good in 2006, but price pressure will intensify. Nolato Telecom expects to increase its sales as a result of increased volumes and a higher value per unit delivered. Sales at Nolato Industrial are expected to be relatively unchanged, while Nolato Medical is expected to continue its good growth in sales.

#### Transition to IFRS in 2005

As of January 1, 2005, Nolato applies the International Financial Reporting Standards (IFRS) approved by the EU. Comparative figures have been restated starting January 1, 2004 since the Nolato Group publishes financial information with a comparative year in its Annual Report. The interim report for the first quarter of 2005 was the first financial report for Nolato to be presented in accordance with IFRS.

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

#### Definitions

##### Debt/equity ratio

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

##### Equity/assets ratio

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

##### Interest coverage ratio

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

##### Liquidity

Total current assets divided by total current liabilities.

##### Operating margin

Operating income as a percentage of sales.

##### Percentage of risk-bearing capital

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

##### Profit margin

Income after financial items as a percentage of sales.

##### 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.

##### Return on total assets

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



## ■ Group financial highlights, 2001 – 2005

Information for 2001–2003 is not restated following IFRS accounting principles

		2005	2004	2003	2002	2001
<b>Sales and earnings</b>						
Sales	SEK M	2,256	2,401	2,671	2,011	2,359
Sales growth	%	– 6	– 10	33	– 15	– 29
Percentage outside Sweden	%	61	65	68	53	47
Operating income, including nonrecurring items	SEK M	221	201	57	42	– 510
Operating income, excluding nonrecurring items	SEK M	221	201	150	42	– 23
Financial items	SEK M	– 13	– 16	– 51	– 6	– 54
Income after financial items, including nonrecurring items	SEK M	208	185	6	36	– 564
Income after financial items, excluding nonrecurring items	SEK M	208	185	99	5	– 80
Net income	SEK M	181	136	– 35	60	– 429
Nonrecurring items *	SEK M	—	—	– 93	43	– 484
<b>Financial position</b>						
Total assets	SEK M	1,668	1,604	1,835	1,895	1,662
Shareholders' equity	SEK M	832	661	569	624	342
Interest-bearing assets	SEK M	163	214	318	201	136
Interest-bearing liabilities and provisions	SEK M	233	377	625	701	778
Net liabilities	SEK M	70	163	307	500	642
Equity/assets ratio	%	50	41	31	33	21
Percentage of risk-bearing capital	%	54	44	32	33	21
Liquidity	%	158	136	153	150	120
Debt/equity ratio	Times	0.3	0.6	1.1	1.1	2.3
<b>Cash flow</b>						
Cash flow from operations	SEK M	307	356	323	20	358
Investment activities	SEK M	– 149	– 125	– 95	– 57	– 66
Cash flow before financing activities	SEK M	158	231	228	– 37	292
<b>Profitability **</b>						
Return on total assets before tax	%	13.5	12.3	7.4	3.1	– 1.1
Return on capital employed before tax	%	21.0	18.9	11.0	4.5	– 1.7
Return on operating capital before tax	%	25.5	23.7	15.0	4.0	– 1.8
Return on shareholders' equity after tax	%	24.2	22.1	9.7	3.5	– 16.6
Operating margin	%	9.8	8.4	5.6	2.1	– 1.0
Profit margin	%	9.2	7.7	3.7	0.2	– 3.4
Interest coverage ratio	Times	16	8	4	1	0
<b>Personnel</b>						
Number of employees		2,790	2,700	2,353	1,992	2,218
Sales per employee	SEK K	809	889	1,135	1,010	1,064
Income after financial items per employee **	SEK K	75	69	42	3	– 36

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

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

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

\*\* Calculated excluding nonrecurring items.

## ■ Group income statement

(SEK M)

Note		2005	2004
7	Net sales	2,256	2,401
8	Cost of goods sold	– 1,851	– 2,006
	<b>Gross income</b>	<b>405</b>	<b>395</b>
	Selling expenses	– 46	– 56
10	Administrative expenses	– 135	– 134
11	Other operating expenses	– 3	– 4
		<b>– 184</b>	<b>– 194</b>
9	<b>Operating income</b>	<b>221</b>	<b>201</b>
13,15	Financial income	2	12
13,16	Financial expenses	– 15	– 28
		<b>– 13</b>	<b>– 16</b>
	<b>Income after financial items</b>	<b>208</b>	<b>185</b>
18	Tax	– 27	– 49
	<b>Net income</b>	<b>181</b>	<b>136</b>
	<i>All of net income is attributable to the shareholders of the Parent Company</i>		
12	Scheduled depreciation/amortization included	135	134
	Earnings per share after full tax (SEK) *	6.88	5.15
	Number of shares on December 31 (thousands)	26,307	26,307
	Average number of shares (thousands)	26,307	26,307

\*The Company has no ongoing program with financial instruments that entails any dilution of the number of shares.

## Quarterly data

### Group highlights

		Q1	Q2	Q3	Q4	Full-year
Net sales (SEK M)	<b>2005</b>	<b>543</b>	<b>565</b>	<b>535</b>	<b>613</b>	<b>2,256</b>
	2004	593	611	540	657	2,401
Operating income (SEK M)	<b>2005</b>	<b>40</b>	<b>51</b>	<b>60</b>	<b>70</b>	<b>221</b>
	2004	40	56	52	53	201
Income after financial items (SEK M)	<b>2005</b>	<b>36</b>	<b>47</b>	<b>58</b>	<b>67</b>	<b>208</b>
	2004	37	51	47	50	185
Net income for the period (SEK M)	<b>2005</b>	<b>27</b>	<b>36</b>	<b>47</b>	<b>71</b>	<b>181</b>
	2004	24	36	38	38	136
Cash flow after investments (SEK M)	<b>2005</b>	<b>54</b>	<b>33</b>	<b>9</b>	<b>62</b>	<b>158</b>
	2004	70	15	95	51	231
Earnings per share (SEK)	<b>2005</b>	<b>1.05</b>	<b>1.35</b>	<b>1.78</b>	<b>2.70</b>	<b>6.88</b>
	2004	0.90	1.35	1.45	1.45	5.15
Average number of shares (thousands)	<b>2005</b>	<b>26,307</b>	<b>26,307</b>	<b>26,307</b>	<b>26,307</b>	<b>26,307</b>
	2004	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	<b>2005</b>	<b>275</b>	<b>276</b>	<b>291</b>	<b>330</b>	<b>1,172</b>
	2004	337	339	303	363	1,342
Nolato Industrial	<b>2005</b>	<b>231</b>	<b>244</b>	<b>203</b>	<b>233</b>	<b>911</b>
	2004	228	244	207	257	936
Nolato Medical	<b>2005</b>	<b>39</b>	<b>49</b>	<b>42</b>	<b>54</b>	<b>184</b>
	2004	30	32	35	40	137
Intra-Group adjustments, Parent Company	<b>2005</b>	<b>- 2</b>	<b>- 4</b>	<b>- 1</b>	<b>- 4</b>	<b>- 11</b>
	2004	- 2	- 4	- 5	- 3	- 14
Group total	<b>2005</b>	<b>543</b>	<b>565</b>	<b>535</b>	<b>613</b>	<b>2,256</b>
	2004	593	611	540	657	2,401

### Operating income by profit center (SEK M)

		Q1	Q2	Q3	Q4	Full-year
Nolato Telecom	<b>2005</b>	<b>23</b>	<b>28</b>	<b>37</b>	<b>49</b>	<b>137</b>
	<i>Operating margin</i>	<b>8.4%</b>	<b>10.1%</b>	<b>12.7%</b>	<b>14.8%</b>	<b>11.7%</b>
	2004	25	35	35	38	133
	<i>Operating margin</i>	7.4%	10.3%	11.6%	10.5%	9.9%
Nolato Industrial	<b>2005</b>	<b>16</b>	<b>19</b>	<b>19</b>	<b>17</b>	<b>71</b>
	<i>Operating margin</i>	<b>6.9%</b>	<b>7.8%</b>	<b>9.4%</b>	<b>7.3%</b>	<b>7.8%</b>
	2004	16	19	16	14	65
	<i>Operating margin</i>	7.0%	7.8%	7.7%	5.4%	6.9%
Nolato Medical	<b>2005</b>	<b>8</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>42</b>
	<i>Operating margin</i>	<b>20.5%</b>	<b>24.5%</b>	<b>26.2%</b>	<b>20.4%</b>	<b>22.8%</b>
	2004	5	7	6	7	25
	<i>Operating margin</i>	16.7%	21.9%	17.1%	17.5%	18.2%
Intra-Group adjustments, Parent Company	<b>2005</b>	<b>- 7</b>	<b>- 8</b>	<b>- 7</b>	<b>- 7</b>	<b>- 29</b>
	2004	- 6	- 5	- 5	- 6	- 22
Group total	<b>2005</b>	<b>40</b>	<b>51</b>	<b>60</b>	<b>70</b>	<b>221</b>
	<i>Operating margin</i>	<b>7.4%</b>	<b>9.0%</b>	<b>11.2%</b>	<b>11.4%</b>	<b>9.8%</b>
	2004	40	56	52	53	201
	<i>Operating margin</i>	6.7%	9.2%	9.6%	8.1%	8.4%

## Consolidated balance sheet

(SEK M)

Note

		2005	2004
<b>Assets</b>			
<b>Fixed assets</b>			
20	Tangible fixed assets	724	664
23	Intangible fixed assets	51	54
18	Deferred tax assets	4	—
	<b>Total fixed assets</b>	<b>779</b>	<b>718</b>
<b>Current assets</b>			
26	Inventories	183	170
27	Accounts receivable	473	449
	Current tax receivables	8	4
	Other receivables	42	33
35	Derivative instruments	9	—
	Prepayments and accrued income	11	16
28	Liquid funds	163	214
	<b>Total current assets</b>	<b>889</b>	<b>886</b>
	<b>Total assets</b>	<b>1,668</b>	<b>1,604</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
29	Share capital	132	132
	Other contributed capital	228	228
30	Other reserves	55	35
	Retained earnings	417	266
	<b>Total shareholders' equity</b>	<b>832</b>	<b>661</b>
<b>Long-term liabilities</b>			
31	Loans	141	174
33	Provisions for pensions and similar obligations	59	56
18	Deferred tax liability	73	55
34	Other provisions	—	6
	<b>Total long-term liabilities</b>	<b>273</b>	<b>291</b>
<b>Current liabilities</b>			
	Accounts payable	283	277
31	Loans	—	119
31	Bank overdraft facilities	42	28
	Advances from customers	5	3
	Current tax liabilities	4	1
	Other liabilities	25	22
35	Derivative instruments	11	—
36	Accrued expenses and prepayments	178	181
34	Other provisions	15	21
	<b>Total current liabilities</b>	<b>563</b>	<b>652</b>
	<b>Total liabilities</b>	<b>836</b>	<b>943</b>
	<b>Total liabilities and shareholders' equity</b>	<b>1,668</b>	<b>1,604</b>
38	Collateral pledged	132	159
39	Contingent liabilities	1	1



## ■ Changes in consolidated shareholders' equity

(SEK M) Note	Share capital	Other contributed capital	Other reserves	Retained earnings	Total share- holders' equity
<b>Opening balance on January 1, 2004</b>	<b>132</b>	<b>227</b>	<b>50</b>	<b>160</b>	<b>569</b>
Translation differences	—	—	– 13	—	– 13
Other change	—	1	—	– 11	– 10
Transfer of depreciation buildings and land	—	—	– 2	2	—
Total transactions reported directly against shareholders' equity	—	1	– 15	– 9	– 23
Net income	—	—	—	136	136
Dividend for 2003	—	—	—	– 21	– 21
<b>Closing balance on December 31, 2004</b>	<b>132</b>	<b>228</b>	<b>35</b>	<b>266</b>	<b>661</b>
<b>Opening balance on January 1, 2005</b>	<b>132</b>	<b>228</b>	<b>35</b>	<b>266</b>	<b>661</b>
40 Effect of change in accounting principles to IFRS	—	—	– 1	—	– 1
<b>Opening balance on January 1, 2005, adj. according to new principles</b>	<b>132</b>	<b>228</b>	<b>34</b>	<b>266</b>	<b>660</b>
Translation differences	—	—	28	13	41
Transfer of depreciation buildings and land	—	—	– 3	3	—
Cash flow hedge, after tax	—	—	– 4	—	– 4
Total transactions reported directly against shareholders' equity	—	—	21	16	37
Net income	—	—	—	181	181
Dividend for 2004	—	—	—	– 46	– 46
<b>Closing balance on December 31, 2005</b>	<b>132</b>	<b>228</b>	<b>55</b>	<b>417</b>	<b>832</b>

## Consolidated cash flow statement

(SEK M)

Note	2005	2004
<b>Operations</b>		
Operating income	221	201
Adjustments for items not included in cash flow		
Depreciation/amortization	135	134
Writedowns and provisions	15	24
Translation differences etc.	26	3
	<b>397</b>	<b>362</b>
Interest received	2	5
Interest paid	- 15	- 30
Income tax paid	- 11	- 7
<b>Cash flow from operations before changes in working capital</b>	<b>373</b>	<b>330</b>
Changes in working capital		
Changes in inventories	- 13	11
Changes in accounts receivable	- 24	56
Changes in accounts payable	- 24	- 79
Other changes in working capital	- 5	38
<b>Cash flow from operations</b>	<b>307</b>	<b>356</b>
<b>Investment activities</b>		
Acquisitions of intangible fixed assets	—	- 4
6 Acquisitions of tangible fixed assets	- 149	- 121
<b>Cash flow from investment activities</b>	<b>- 149</b>	<b>- 125</b>
<b>Cash flow before financing activities</b>	<b>158</b>	<b>231</b>
<b>Financing activities</b>		
Borrowings	19	3
Payments of loan principal	- 167	- 257
Change in other long-term liabilities and provisions	- 15	- 60
Dividend paid	- 46	- 21
<b>Cash flow from financing activities</b>	<b>- 209</b>	<b>- 335</b>
<b>Decrease in liquid funds</b>	<b>- 51</b>	<b>- 104</b>
<b>Liquid funds on January 1</b>	<b>214</b>	<b>318</b>
Exchange rate difference in liquid funds	—	—
<b>Liquid funds on December 31</b>	<b>163</b>	<b>214</b>

## ■ Parent Company income statement

(SEK M)

Note		2005	2004
5	Net sales	30	37
	Selling expenses	– 13	– 16
10	Administrative expenses	– 43	– 39
		– 56	– 55
	<b>Operating income</b>	<b>– 26</b>	<b>– 18</b>
14	Income from shares in Group companies	154	– 47
13, 15	Financial income	7	17
13, 16	Financial expenses	– 24	– 22
		137	– 52
	<b>Income after financial items</b>	<b>111</b>	<b>– 70</b>
17	Appropriations	—	11
18	Tax	11	—
	<b>Net income</b>	<b>122</b>	<b>– 59</b>
12	Scheduled depreciation/amortization included	—	—

## ■ Parent Company balance sheet

(SEK M)

Note		2005	2004
<b>Assets</b>			
<b>Financial fixed assets</b>			
24, 25	Shares in Group companies	432	326
	Receivables from Group companies	315	406
18	Deferred tax assets	2	1
	<b>Total fixed assets</b>	<b>749</b>	<b>733</b>
<b>Current assets</b>			
	Receivables from Group companies	44	18
	Other receivables	2	2
	Prepayments and accrued income	1	1
		<b>47</b>	<b>21</b>
	Short-term investments	—	80
	Cash and bank balances	56	40
	<b>Total current assets</b>	<b>103</b>	<b>141</b>
	<b>Total assets</b>	<b>852</b>	<b>874</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Restricted equity			
29	Share capital (26,307,408 shares)	132	132
	Share premium reserve	—	209
	Statutory reserve	228	19
		<b>360</b>	<b>360</b>
Unrestricted equity			
	Retained earnings	198	276
	Net income	122	– 59
		<b>320</b>	<b>217</b>
	<b>Total shareholders' equity</b>	<b>680</b>	<b>577</b>
34	<b>Other provisions</b>	<b>7</b>	<b>4</b>
<b>Long-term liabilities</b>			
31	Liabilities to credit institutions	150	145
31	Liabilities to Group companies	—	36
	<b>Total long-term liabilities</b>	<b>150</b>	<b>181</b>
<b>Current liabilities</b>			
31	Liabilities to credit institutions	—	95
	Accounts payable	1	2
	Liabilities to Group companies	3	5
	Other liabilities	1	1
36	Accrued expenses and prepayments	10	9
	<b>Total current liabilities</b>	<b>15</b>	<b>112</b>
	<b>Total shareholders' equity and liabilities</b>	<b>852</b>	<b>874</b>
38	Collateral pledged	—	—
39	Contingent liabilities	81	129



## ■ Parent Company changes in shareholders' equity

(SEK M)

	Share capital	Share premium reserve	Statutory reserve	Unrestricted shareholders' equity	Total share- holders' equity
<b>Opening balance on January 1, 2004</b>	<b>132</b>	<b>208</b>	<b>19</b>	<b>157</b>	<b>516</b>
Dividend	—	—	—	– 21	– 21
Merger gain	—	—	—	20	20
Other change	—	1	—	– 43	– 42
Group contributions, after tax	—	—	—	163	163
Net income	—	—	—	– 59	– 59
<b>Closing balance on December 31, 2004</b>	<b>132</b>	<b>209</b>	<b>19</b>	<b>217</b>	<b>577</b>
<b>Opening balance on January 1, 2005</b>	<b>132</b>	<b>209</b>	<b>19</b>	<b>217</b>	<b>577</b>
Reclassification	—	– 209	209	—	—
Dividend	—	—	—	– 46	– 46
Group contributions, after tax	—	—	—	27	27
Net income	—	—	—	122	122
<b>Closing balance on December 31, 2005</b>	<b>132</b>	<b>—</b>	<b>228</b>	<b>320</b>	<b>680</b>

## ■ Parent Company cash flow statement

(SEK M)

	2005	2004
<b>Operations</b>		
Operating income	– 26	– 18
Adjustments for items not included in cash flow		
Translation differences etc.	– 11	7
	– 37	– 11
Dividends from subsidiaries	55	—
Interest received	7	12
Interest paid	– 10	– 23
Income tax paid	– 1	—
<b>Cash flow from operations before changes in working capital</b>	<b>14</b>	<b>– 22</b>
<b>Changes in working capital</b>		
Other changes in working capital	– 28	21
<b>Cash flow from operations</b>	<b>– 14</b>	<b>– 1</b>
<b>Investment activities</b>		
Acquisitions of financial fixed assets	– 83	– 95
Liquidation of subsidiaries	76	—
Sale of tangible fixed assets	—	1
<b>Cash flow from investment activities</b>	<b>– 7</b>	<b>– 94</b>
<b>Cash flow before financing activities</b>	<b>– 21</b>	<b>– 95</b>
<b>Financing activities</b>		
Payments of loan principal	– 90	– 190
Change in long-term intra-Group transactions	– 134	– 42
Changes in receivables from Group companies	—	65
Dividend paid	– 46	– 21
Group contribution	227	176
<b>Cash flow from financing activities</b>	<b>– 43</b>	<b>– 12</b>
<b>Decrease in liquid funds</b>	<b>– 64</b>	<b>– 107</b>
<b>Liquid funds on January 1</b>	<b>120</b>	<b>227</b>
<b>Liquid funds on December 31</b>	<b>56</b>	<b>120</b>

## Note 1 General information

Nolato AB and its subsidiaries are a high-tech developer and manufacturer of polymer components and product systems for leading customers in telecommunications, the automotive industry, household appliances, medical technology, hygiene and other selected industrial segments.

Nolato AB is a joint-stock company with its registered office in Torekov, Sweden. The address of its corporate headquarters is SE- 260 93 Torekov, Sweden.

Nolato AB is quoted on the Stockholm Stock Exchange's O-list.

## Note 2 Accounting and valuation principles

### The Group

The accounts of the Nolato Group are prepared in accordance with the International Financial Reporting Standards (IFRS), Annual Accounts Act and recommendation RR 30 of the Swedish Financial Accounting Standards Council. The financial reports are presented in millions of Swedish kronor unless otherwise indicated. They have been prepared based on historical acquisition values.

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

### Basic valuation principles

Preparing reports in conformity with IFRS requires the use of a number of important accounting assumptions. It also requires the Nolato Group to make certain estimates in applying the Company's accounting principles. Those areas that entail a high degree of estimation, that are complex or constitute such areas in which assumptions and estimates are of significant importance to consolidated accounts are described in Note 4.

The Group's financial statements for 2005 are prepared in accordance with IFRS, and information for the comparative year 2004 has been restated. The rules for how the introduction and restatement should be implemented are found in IFRS 1, "First-Time Adoption of International Financial Reporting Standards."

Application of IFRS 3, IAS 36 and IAS 38 resulted in a change in accounting principles for goodwill. The following rules applied until December 31, 2003:

- goodwill was amortized on a straight line basis over 10 years and
- goodwill was assessed as to whether any writedown was needed on the balance sheet date.

In accordance with the provisions in IFRS, the following apply:

- the Group ceased amortization of goodwill as of January 1, 2004
- starting with the 2004 financial year, goodwill is tested every year as to whether any writedown is needed. Such tests are also carried out in shorter intervals if there is any indication a writedown is needed.

IAS 32, "Financial Instruments: Disclosure and Presentation," and IAS 39, "Financial Instruments: Recognition and Measurement," are applied starting in 2005 without restating figures for the comparative year 2004. IAS 39 requires that financial assets and liabilities be classified in different categories in order to then be reported and valued according to the principles that apply for those categories. The application of IAS 32 and IAS 39 means that all financial derivative instruments are reported in the balance sheet at fair value. Any change in value is reported in the income statement, provided the derivative is not a hedge for another transaction as stipulated in the Group's policy. 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 fair value hedges.

Application of IAS 32 and IAS 39 entails an effect of SEK –1 M included in shareholders' equity.

Application of IFRS 2, "Share-Based Payment," resulted in a change in the Group's accounting principles. According to IFRS 2, 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. Under the rules for transition, the new rules apply only to programs entered into after November 7, 2002. Application of IFRS 2 has not entailed any restatement of comparative figures for 2004.

### Application of published standards that have not entered into force

In December 2005, the EU adopted an amendment to IAS 19 which entails among other things that companies are entitled to report actuarial gains and losses directly against shareholders' equity. The standard entered into force on January 1, 2006. At

year-end 2005, Nolato reported actuarial losses of SEK 14 M. Nolato currently has no plans to apply the amendment to IAS 19 but will instead continue to use the corridor method in its reporting.

The effects of the transition to IFRS are presented in Note 40.

### Consolidated accounts

The consolidated financial statements include Nolato AB (publ) ("the Parent Company") and those subsidiaries in which the Parent Company directly or indirectly holds more than 50 percent of the votes or is otherwise entitled to formulate the financial and operating strategies in a way that normally results from a shareholding equivalent to more than half of the voting rights. Acquired and divested companies are included in the Group's income statement during the period they are held.

The consolidated financial statements have been prepared in compliance with IFRS 3, "Business Combinations" and with the application of the purchase method. This method means that shareholders' equity in the Group includes shareholders' equity in the Parent Company and the portion of shareholders' equity in subsidiaries that has accumulated since the acquisition. The difference between the acquisition 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.

Intra-Group transactions and balance sheet items as well as unrealized gains on transactions between Group companies are eliminated. The accounting principles for subsidiaries have in some cases been changed to guarantee the consistent application of consolidated accounting principles.

### Translation of financial statements of foreign subsidiaries

Items included in the financial reports for the different units in the Group are valued in the currency used in the economic environment that the different companies primarily operate in. SEK, which is the Parent Company's functioning currency and reporting currency, is used in consolidated accounts. In the subsidiaries, the local currency of the country in question is used as the reporting currency, which is considered to constitute the functional currency.

Transactions in foreign currencies are translated into the functional currency at the rate in effect on the balance sheet date. Exchange rate gains and losses arising from the payment of such transactions and from the revaluation of monetary assets and liabilities denominated in foreign currencies at the rate on the balance date are reported in the income statement. There is an exception for transactions that constitute hedges which meet the conditions for hedge accounting of the cash flow or net investments, in which case gains/losses are reported in shareholders' equity.

The earnings and financial position of all Group companies are translated into the Group's reporting currency as follows:

- assets and liabilities are translated on the balance sheet date
- revenues and costs are translated at the average rate of exchange for the financial year
- currency differences that arise are reported in a separate section in 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 business area 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.

### Writedowns

Assets that have an undetermined useful life, goodwill, are not written down but are instead tested annually to determine whether any writedown is necessary.

Assets written down are assessed to determine whether there has been a decline in value whenever events or changes in circumstances indicate that the reported value may no longer be recoverable. A writedown is taken in the amount at which the reported value of the asset exceeds its recoverable value. The recoverable value is the higher of an asset's net selling price and its value in use. In assessing the need for

a writedown, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 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 assets 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 related to items that are reported against shareholders' equity are reported against shareholders' equity.

Deferred tax is calculated using the balance sheet method for all temporary differences that arise between reported values of assets and liabilities. The temporary differences are caused primarily by tax-deductible losses and untaxed reserves.

Deferred tax assets attributable to unused loss carryforwards 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 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 in the balance sheet as an intangible asset.

### Tangible fixed assets

Tangible fixed assets are reported at historical acquisition value less accumulated scheduled depreciation and any writedowns. Depreciation is calculated based on estimated useful life. Included in acquisition value are fees that are directly attributable to the purchase of the asset. Transfers from shareholders' equity of gains/losses from cash flow hedges which meet the conditions of hedge accounting may also be included in the acquisition value for the purchase of tangible fixed assets in foreign currencies.

In 2001, there was a revaluation of SEK 99 M for buildings and land. In conjunction with the transition to IFRS, the remaining revaluation after taking depreciation into account, SEK 92 M, was transferred to acquisition value, in accordance with IFRS 1:17.

There was no depreciation of land. Depreciation of other assets is charged on a straight-line basis over their expected useful life, taking into account the estimated residual value, as follows:

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

The residual value and useful life of assets are tested each balance sheet date and adjusted if necessary. The reported value of an asset is immediately written down to its recoverable value if the asset's reported value exceeds its expected recoverable value.

### Intangible assets

#### Goodwill

Goodwill consists of the amount by which the acquisition value exceeds the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the time of the acquisition. Goodwill from the acquisition of subsidiaries is reported as an intangible asset. Goodwill is tested annually to identify whether any writedown is needed and is reported at acquisition value less accumulated writedowns. Any gain or loss from the divestment of a unit includes the remaining reported value of the goodwill associated with the divested unit.

Goodwill is allocated to individual cash-generating units in testing whether a writedown is needed.

#### Capitalized expenditures

Capitalized expenditures are reported at acquisition value. Capitalized expenditures

have a limited useful life and are reported at acquisition value less accumulated depreciation. Straight-line depreciation is used to allocate the cost over the expected period of use, 5 years.

### Inventories

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

### Work in progress

Percentage of completion is applied for all projects where the outcome can be estimated satisfactorily. This means that 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.

### 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. Liquid funds and short-term investments are valued at fair value.

### Leasing

In the consolidated financial statements, leasing is classified either as financial or operating leases. Financial leases exist when the financial risks and benefits associated with 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 remuneration

#### Employee benefits

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 33.

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 Alecta. 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 2005 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 Alecta, is thus reported as a defined contribution plan. Charges for the year for



pension policies insured at Alecta totaled SEK 5,393 K (5,810).

Alecta's surplus can be allocated to insurers and/or insureds. At year-end 2005, Alecta's surplus, in the form of a collective funding ratio, totaled 128.5 percent (128.0). The collective funding ratio is determined by the market value of Alecta's assets as a percent of the pension liability using Alecta's own actuarial calculation assumptions, which do not comply with IAS 19.

#### *Share-based benefits*

The Group has a share-based remuneration plan in which payment is made in cash. The Group values the benefit at fair value every balance sheet date and reports this as a liability in the balance sheet. The change for the year is included in the income statement under personnel costs.

#### *Severance pay*

Severance pay is given when an employee's position is terminated prior to the normal retirement date or when an employee accepts voluntary redundancy in exchange for such payment. The Group reports the severance pay when it is demonstrably obliged to either terminate the employee according to a detailed formal plan without the chance of rehire or to give remuneration upon termination as a result of an offer that was made to encourage employees to resign voluntarily. Benefits that fall due after more than 12 months from the balance sheet date are discounted to present value.

#### *Bonus plans*

The Group reports a liability and expense for bonuses based on its established bonus policy. The Group reports a liability when there is a legal obligation or an informal obligation based on previous practice.

#### **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 IAS 23, 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 the obligation is to be met.

#### **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**

The Group classifies its financial instruments into one of the following categories: financial assets valued at fair value via the income statement, loan receivables and customer receivables, financial instruments that are held until maturity and financial assets that can be sold. The classification depends on what purpose the instrument was purchased for. The classification of instruments is determined at the first reporting date and is retested every reporting date.

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.

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.

#### **Reporting of derivative instruments and hedging**

Financial derivative instruments are reported in the balance sheet on the contract date and are valued at fair value, both initially and upon subsequent valuation. The

method for reporting the gain or loss that arises in revaluation depends on whether the derivative is identified as a hedging instrument and, if such is the case, the nature of the item that is hedged.

The Group identifies certain derivatives as either fair value hedges or hedges on forecast transactions that are very likely to take place (cash flow hedges).

When a transaction is effected, the Group documents the relation between the hedging instrument and the item hedged, as well as the objective of the risk management.

#### **Fair value hedging**

Changes in the fair value of derivatives that have been identified as fair value hedges are reported together with the changes in fair value of the asset or liability that gave rise to the hedged item.

#### **Cash flow hedging**

The effective portion of changes in the fair value of derivative instruments that have been identified as cash flow hedges and which meet the conditions for hedge accounting are reported in shareholders' equity. Accumulated amounts in shareholders' equity are reversed in the income statement in those periods the hedge item affects earnings (for instance, when the forecast sale took place). When a hedge instrument expires or is sold or when the hedge no longer meets the conditions of hedge accounting and there are accumulated gains or losses from hedging in shareholders' equity, those gains/losses remain in shareholders' equity and are entered in the income statement at the same time the forecast transaction is finally reported in the income statement. When a forecast transaction is no longer expected to take place, the accumulated profit or loss reported in shareholders' equity is immediately transferred to the income statement.

#### **Calculation of fair value**

The fair value of financial instruments that are traded in an active market is based on market prices quoted on the balance sheet date. The quoted market price that is used for the Group's financial assets is the purchase price at that time; the quoted market price for financial liabilities is the sale price at that time.

### **The Parent Company**

The accounting and valuation principles of the Parent Company comply with the Swedish Annual Accounts Act as well as with recommendation RR 32 of the Swedish Financial Accounting Standards Council.

The Parent Company's financial reports are presented in millions of Swedish kronor unless otherwise indicated. They have been prepared based on historical acquisition values. Fixed assets and long-term liabilities consist in all significant respects only of amounts that are expected to be recovered or paid in more than 12 months after the balance sheet date. Current assets and current liabilities consist in all significant respects only of amounts that are expected to be recovered or paid within 12 months of the balance sheet date. Offsetting of receivables and liabilities and of revenues and costs is made only if this is required or expressly permitted.

The accounting principles of the Parent Company are in compliance with the consolidated accounting principles, which are described on page 51, with the following exceptions:

#### **Reporting of income tax**

In the Parent Company, untaxed reserves are reported gross as a liability in the balance sheet. Appropriations are reported as gross amounts in the income statement.

#### **Leasing**

The Parent Company only has leasing agreements for the leasing of office space and certain other rental contracts. All leasing agreements are reported as operating leases.

#### **Remuneration to employees**

The Parent Company has employees who are included in both defined contribution and defined benefit pension plans. According to RR 32, all pension plans are classified and reported as defined contribution. This means that premiums paid are charged to the income statement.

Defined benefit pension plans are insured through a policy at Alecta. Charges for the year to Alecta totaled SEK 51 K (0).

#### **Financial instruments**

The Parent Company has chosen to apply IAS 39 as of January 1, 2006. This means that the Parent Company does not report derivative instruments in the balance sheet

on December 31, 2005. Outstanding derivative instruments on December 31, 2005, are described in Note 37.

#### Tangible and intangible fixed assets

Fixed assets are reported at historical acquisition value less accumulated scheduled depreciation/amortization. Depreciation/amortization has been calculated based on estimated useful life as follows

#### The following depreciation/amortization periods have been used:

Capitalized expenditures	5 years
IT	3 years
Other tools, fixtures and fittings	5 years

## Note 3 Financial risk management

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.

Nolato's business risks are described on pages 35 – 36.

### 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. However, there has been no hedging of the net flow in USD for the Chinese operations.

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.

#### Translation exposure

Translation exposure is the effect produced when the income statement and balance sheet of a foreign subsidiary are translated into Swedish kronor in the consolidated income statement and balance sheet. Translation is a reporting effect calculated at 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, is not hedged. Nolato's current exposure can be seen in the sensitivity analysis.

### 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 one-year agreement. Current liquid reserves are detailed in Note 31 on page 62 and in the analysis of interest-bearing net liabilities.

### 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 is to 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.

### 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.

### Transaction exposure and sensitivity analyses

#### Net exposure of sales and purchases in foreign currencies

SEK M	12 mo estimated net flows	Total hedging	Percentage	Average exchange rate
USD	186	147	78%	7.40
EUR	96	73	76%	9.15
DKK	38	25	66%	1.25
JPY	29	21	72%	6.78
<b>Total</b>	<b>349</b>	<b>266</b>	<b>76%</b>	

Unhedged currency flows USD	153	—
-----------------------------	-----	---

Nolato's Swedish and Estonian operations have a net exposure largely in EUR, USD, JPY and DKK, whereas Hungarian operations have only limited net flows in foreign currency. Chinese operations have a forecast net inflow of SEK 153 M, which is not hedged. At the beginning of 2006, 76 percent of the future forecast net flow was hedged via forward contracts.

#### Interest-bearing net liabilities on December 31, 2005

	Outstanding amount (SEK M)	Term outstanding (mo)	Remaining fixed-interest period (mo)	Average interest rate (%)
<b>Interest-bearing net liabilities</b>				
Bank loans, SEK *	132	34	5	2.7
Bank loans, USD	18	24	0	4.5
Bank loans, EUR	22	5	1	3.5
Overdraft facilities, HUF	2	5	1	7.1
Pension liability	59	12	0	4.3
	233	25	3	3.4

#### Interest-bearing assets

Liquid funds	– 163	0	0	1.0
--------------	-------	---	---	-----

#### Total net liabilities

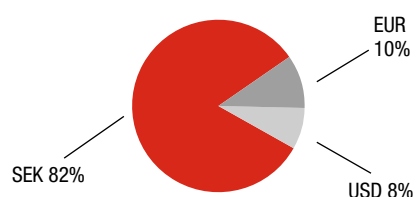
	<b>70</b>			
--	-----------	--	--	--

\* Including the effect of currency swaps

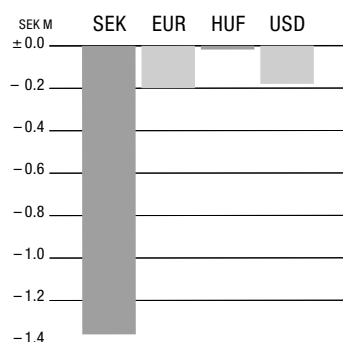
#### Translation exposure of net assets on December 31, 2005

SEK M	Net assets	Swedish krona 1% stronger
Nolato Beijing, CNY	235	– 2
Nolato Protec, HUF	46	– 1
Nolato Jasz, HUF	26	0
Nolato REH, HUF	19	0
Nolato Kuala Lumpur, MYR	7	0
Nolato Tallinn, EEK	6	0
<b>Total</b>	<b>339</b>	<b>– 3</b>

The Group had SEK 339 M (225) in foreign net assets, and a one-percent strengthening of the Swedish krona would have a SEK -3 M effect on net assets.

**Breakdown of interest-bearing liabilities by currency**

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

**Interest rate effect**

The effect on interest expense of a 1 percent rise in interest rates, including derivatives, calculated on interest-bearing liabilities on December 31, 2005. A one-percent rise in interest rates would have a negative effect on the Group of SEK 2 M.

**Transaction exposure on December 31, 2005**

	Unhedged forecast net flows, 12 months (SEK M)	Change in currency	Effect on earnings (SEK M)
USD	39	+/- 1%	1
EUR	23	+/- 1%	0
DKK	13	+/- 1%	0
JPY	8	+/- 1%	0
<b>Total</b>	<b>83</b>		<b>1</b>

The Group has SEK 83 M in unhedged net flows, including effects from currency hedges. A change in the value of the Swedish krona of +/- 1 % would have a SEK 1 M effect on net income. The table does not include the effects of the unhedged net flow in the Chinese operations.

**Note 4 Important assumptions**

Estimates and assumptions are continually assessed and based on historical experience, including expectations about future events that are considered reasonable under prevailing circumstances.

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that arise as a result of these, by definition, seldom correspond to actual outcome. The estimates and assumptions that involve a significant risk of substantial adjustments in the reported value of assets and liabilities in the coming financial year are discussed below.

**Useful life of machinery, tools, fixtures and fittings**

The Group Management determines the expected useful life and thus the relevant depreciation for the Group's machinery, tools, fixtures and fittings. This calculation is based on the expected use of the asset and when the asset will become technically or commercial outdated as a result of changes in production.

**Pension benefits**

The present value of pension obligations depends on a number of factors determined on an actuarial basis using a number of assumptions. Included in the assumptions used in determining the present value of such obligations are the discount rate and salary increases. Every change in these assumptions will affect the reported value of pension obligations.

The Group determines an appropriate discount rate at the end of every year. This is the rate used to determine the present value of expected future payments which are assumed will be paid for the pension obligations. In determining the appropriate discount rate, the Group takes into consideration interest rates for government bonds denominated in the currency in which the payments will be made and which have a maturity that corresponds to the estimates for the present pension obligation.

**Income tax**

The Group is required to pay income tax in many countries. Numerous estimates are needed to determine the total provision for income tax. There are many transactions and calculations where the final tax is uncertain at the time the transaction and calculations are made. The Group reports a liability based on known rules at year-end. In cases where the final tax differs from that first reported, such differences will affect the provisions for current and deferred tax for the period that these were determined.

**Goodwill impairment testing**

Each year, the Group investigates whether there is any need to write down goodwill, in accordance with the accounting principle described in Note 2. The recoverable value of cash-generating units has been determined by calculating the value in use. Certain assumptions must be made (Note 23) to arrive at these calculations.

After performing a sensitivity analysis, it can be stated that even if the retested gross margin had been 10 percent lower than the management's estimate or the discount rate had been 10 percent higher than the management's estimate, it would not have resulted in any writedown of the reported value.

**Obsolescence in inventories**

Each balance sheet date, the Group makes an assessment of the risk of obsolescence in its inventories. This assessment is based on forecasts and plans that have been received from the Group's customers but is also based on historical deliveries.

Because Nolato delivers products to projects with a short life cycle, there are considerable fluctuations in volumes. Therefore, the Group always runs the risk that customers will phase out a product in which it has unique components in its inventory.

To mitigate the risk of obsolescence, inventory is reported at net realizable value.

**Note 5 Intra-Group purchases and sales**

	Parent Company	
	2005	2004
Purchases from Group companies total	—	—
Sales to Group companies total	30	37

**Note 6 Acquisitions of companies**

During 2005, Nolato acquired all shares in the company that owns the property Nolato Jasz previously operated in, Nolato REH Kft.

The property was previously leased by Nolato Jasz. The leasing agreement has been reported as a financial lease.

The purchase price for the shares in Nolato REH Kft was SEK 3 M. The amount increased the Group's reported value of buildings by SEK 3 M.

In 2005, Nolato acquired all shares in Nolato Gejde as part of its internal restructuring of the Group.

## ■ Note 7 Information about profit centers and geographic regions, 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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenues</b>										
External sales	1,171	1,337	901	927	184	137	—	—	2,256	2,401
Intra-Group sales	1	5	10	9	—	—	– 11	– 14	—	—
Total revenues	1,172	1,342	911	936	184	137	– 11	– 14	2,256	2,401
<b>Earnings</b>										
Earnings by profit center	137	133	71	65	42	25	—	—	250	223
Expenses not allocated									– 29	– 22
Operating income									221	201
Financial expenses									2	12
Financial income									– 15	– 28
Tax expenses for the year									– 27	– 49
Net income									181	136
<b>Other information</b>										
Assets	704	607	686	715	99	73	3	– 5	1,492	1,390
Assets not allocated									176	214
Total assets									1,668	1,604
Liabilities	306	301	174	201	40	27	1	– 18	521	511
Liabilities not allocated									315	432
Total liabilities									836	943
Investments	101	53	46	63	28	12	4	– 3	179	125
Depreciation/amortization	63	62	63	63	9	9	—	—	135	134
Significant expenses, other than depreciation/amortization with no offsetting payments, writedowns and provisions	24	28	8	2	7	—				

### Information about geographic regions

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 and Nolato Medical profit cent-

ers 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 etc.		Asia		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External net sales	992	1,032	670	780	57	111	537	478	2,256	2,401
Assets	1,055	1,021	191	285	—	—	422	292	1,668	1,604
Average number of employees	934	1,058	429	554	—	—	1,427	1,088	2,790	2,700
Investments	73	56	30	25	—	—	76	44	179	125



## Note 8 Research and development, Group

	2005	2004
Expensed customer project development expenditures	247	213
<b>Total</b>	<b>247</b>	<b>213</b>

## Note 9 Personnel

### Average number of employees

	2005		2004	
	No. of empl.	Of whom men	No. of empl.	Of whom men
<b>Parent Company</b>				
Nolato AB, Torekov	5	100%	5	100%
<b>Subsidiaries</b>				
Nolato Alpha AB, Kristianstad	197	86%	291	83%
Nolato Beijing, Kina	1,424	22%	1,088	18%
Nolato Gota AB, Götene	114	75%	112	76%
Nolato Kuala Lumpur, Malaysia	3	50%	—	—
Nolato Lövepac AB, Skånes Fagerhult	69	50%	66	68%
Nolato Medevo AB, Torekov	101	61%	87	62%
Nolato Plastteknik AB, Gothenburg	117	54%	118	54%
Nolato Polymer AB, Torekov	91	75%	96	73%
Nolato Protec, Hungary	233	53%	292	42%
Nolato Silikonteknik AB, Hallsberg	100	54%	134	60%
Nolato STG AB, Lönsboda	34	74%	39	74%
Nolato Sunne AB, Sunne	108	85%	110	85%
Nolato Tallin AS, Estonia	194	31%	262	20%
<b>Group total</b>	<b>2,790</b>	<b>41%</b>	<b>2,700</b>	<b>42%</b>

### Salaries, other remuneration and employer payroll fees

	2005		2004	
	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	12	9	11	5
		(5)*		(3)*
Subsidiaries	385	159	422	177
		(31)		(35)
<b>Group total</b>	<b>397</b>	<b>168</b>	<b>433</b>	<b>182</b>
		(36)**		(38)**

\* Of the Parent Company's non-statutory pension expenses, SEK 1,566 K (814) pertained to the President and SEK 0 (0) to the Board of Directors.

\*\* Of the Group's non-statutory pension expenses, SEK 5,891 K (5,069) pertained to the category of Board of Directors and President.

Salaries and other remun. by country	2005		2004	
	Board and President	Other employees	Board and President	Other employees
Parent Company	6	6	6	5
Subsidiaries in Sweden	11	292	11	339
Subsidiaries outside Sweden				
Estonia	1	14	1	16
China	2	38	2	25
Hungary	2	25	2	26
<b>Total subsidiaries</b>	<b>16</b>	<b>369</b>	<b>16</b>	<b>406</b>
<b>Group total</b>	<b>22</b>	<b>375</b>	<b>22</b>	<b>411</b>

### Remuneration to senior executives

#### Principles

A director's fee is paid to the Chairman and members of the Board as decided by the Annual Meeting. No director's fee is paid to employees of the Group or to employee representatives. Remuneration 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 Management. During 2005, 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 2005

SEK K	Base salary/ Director's fee	Variable remun.*	Other benef.**	Pension premiums	Other remun.***	Total
Chairman of the Board	180	—	—	—	1	181
Other Board members	550	—	—	—	—	550
President	3,072	1,229	176	1,260	33	5,770
Other senior executives (6)	8,273	2,298	361	2,027	203	13,162
<b>Total</b>	<b>12,075</b>	<b>3,527</b>	<b>537</b>	<b>3,287</b>	<b>237</b>	<b>19,663</b>

#### Remuneration and other benefits during 2004

SEK K	Base salary/ 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
<b>Total</b>	<b>11,292</b>	<b>2,989</b>	<b>492</b>	<b>2,485</b>	<b>392</b>	<b>17,650</b>

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

\*\* "Other benefits" pertains to company cars.

\*\*\* "Other remuneration" refers to the Chairman of the Board's travel allowance 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 for the President is 40 percent of base salary and for other senior executives 30 percent of base salary. At the same time, all profit centers must report positive earnings excluding nonrecurring items. In 2005, the outcome for the President was 40 percent of base salary (30) and for other senior executives an average of 28 percent of base salary (27). 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 gross salary in the form of regular monthly salary that the President has received during the period. On December 31, 2005, SEK 4,500 K (2,700) was reserved for this remuneration and SEK 1,470 K for employee payroll fees.

#### 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 and follows a defined contribution plan. Variable remuneration does not qualify as pensionable income. For 2005, the average pension premium was 40 percent of base salary (25). Four 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 2005, the average pension premium was 24 percent (23). 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 base salary and other benefits during the notice period. There is no remuneration after the notice period.

**Gender distribution of senior executives, 2005**

	Group		Parent Company	
	Men	Women	Men	Women
Presidents	13	—	1	—
Board members	56	4	9	1
Other senior executives in subsidiaries/Parent Company	58	8	6	—
<b>Total</b>	<b>127</b>	<b>12</b>	<b>16</b>	<b>1</b>

**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	—
<b>Total</b>	<b>132</b>	<b>12</b>	<b>16</b>	<b>1</b>

**Employee stock option program**

In 2000, Nolato's Board of Directors decided to allocate employee stock options to some 30 senior executives in the Nolato Group. Originally, the program encompassed 200,000 employee stock options and ran 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 the Nolato share during the period September 15–19, 2000. The options were granted without requiring compensation.

October 3, 2005, was the end date for Nolato's employee stock option program from 2000 and the program expired without any options being exercised. There were a total of 67,000 options outstanding with a fair value less than SEK 0.1 M at the end of 2004.

According to the accounting recommendations for stock option programs from 2000, no expenses for the estimated market value were reported in the income statement. Because the Company did not intend to issue new shares in case of such delivery, the options were considered to have no dilution effect.

**Note 10 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	
	2005	2004	2005	2004
Ernst & Young	1,596	1,959	400	400
<b>Total</b>	<b>1,596</b>	<b>1,959</b>	<b>400</b>	<b>400</b>

For independent consulting, assistance, etc.

SEK K	Group		Parent Company	
	2005	2004	2005	2004
Ernst & Young	520	1,207	227	898
<b>Total</b>	<b>520</b>	<b>1,207</b>	<b>227</b>	<b>898</b>

**Note 11 Other operating expenses**

	Group	
	2005	2004
Amortization of capitalized expenditures	– 3	– 4
<b>Total</b>	<b>– 3</b>	<b>– 4</b>

**Note 12 Depreciation/amortization**

Depreciation/amortization was included in operating expenses as follows:

	Group		Parent Company	
	2005	2004	2005	2004
Capitalized expenditures	3	4	—	—
Buildings and land	15	14	—	—
Machinery and other technical facilities	104	103	—	—
Equipment, tools, fixtures and fittings	13	13	—	—
<b>Total</b>	<b>135</b>	<b>134</b>	<b>—</b>	<b>—</b>

Depreciation/amortization was distributed according to utilization as follows:

	Group		Parent Company	
	2005	2004	2005	2004
Cost of goods sold	126	124	—	—
Selling expenses	2	1	—	—
Administrative expenses	4	5	—	—
Other operating expenses	3	4	—	—
<b>Total</b>	<b>135</b>	<b>134</b>	<b>—</b>	<b>—</b>

**Note 13 Exchange rate differences**

	Group		Parent Company	
	2005	2004	2005	2004
Exchange rate diff., operating income, net	– 14	—	—	—
Exchange rate diff., financial items, net	– 1	8	– 14	5
<b>Total</b>	<b>– 15</b>	<b>8</b>	<b>– 14</b>	<b>5</b>

**Note 14 Income from shares in Group companies**

	Parent Company	
	2005	2004
Dividends from subsidiaries	55	—
Income from liquidation of subsidiaries	75	—
Reversal of writedown of shares in subsidiaries	52	—
Writedown of shares in subsidiaries	– 28	– 47
<b>Total</b>	<b>154</b>	<b>– 47</b>

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

## Note 15 Financial income

	Group		Parent Company	
	2005	2004	2005	2004
Interest income, Group companies	—	—	6	8
Interest income, other	2	4	1	4
Exchange rate differences	—	8	—	5
<b>Total</b>	<b>2</b>	<b>12</b>	<b>7</b>	<b>17</b>

## Note 16 Financial expense

	Group		Parent Company	
	2005	2004	2005	2004
Interest expense, Group companies	—	—	— 2	— 1
Interest expense, other	— 13	— 26	— 7	— 20
Other financial expenses	— 1	— 2	— 1	— 1
Exchange rate differences	— 1	—	— 14	—
<b>Total</b>	<b>— 15</b>	<b>— 28</b>	<b>— 24</b>	<b>— 22</b>

## Note 17 Appropriations

	Parent Company	
	2005	2004
Reversal of tax allocation reserve	—	11
<b>Total</b>	<b>—</b>	<b>11</b>

## Note 18 Tax

	Group		Parent Company	
	2005	2004	2005	2004
Current tax	— 13	— 4	10	63
Deferred tax	— 14	— 45	1	— 63
<b>Total</b>	<b>— 27</b>	<b>— 49</b>	<b>11</b>	<b>—</b>

### Deferred tax revenue/expense for the year

	Group		Parent Company	
	2005	2004	2005	2004
Tax revenue for temp. diff.	24	—	1	—
Tax expense for temp. diff.	— 38	— 45	—	— 63
<b>Total</b>	<b>— 14</b>	<b>— 45</b>	<b>1</b>	<b>— 63</b>

### Difference between the Group's tax and tax based on applicable tax rate

	Group		Parent Company	
	2005	2004	2005	2004
Reported income before tax	208	185	111	— 59
Tax according to applicable tax rate	— 58	— 52	— 31	17
Tax effect of non-deductible expenses	— 1	— 1	—	—
Dividends from subsidiaries	—	—	15	—
Income from liquidation of subsidiaries	—	—	21	—
Non-deductible writedowns of shares in subs.	—	—	— 8	— 13
Tax-exempt reversal of writed. of shares in subs.	—	—	15	—
Adjustment for taxes in prior years	19	— 3	—	— 3
Loss carryforwards not utilized	— 3	— 9	—	—
Effect of foreign tax rates	16	15	—	—
Other	—	1	— 1	— 1
<b>Total</b>	<b>— 27</b>	<b>— 49</b>	<b>11</b>	<b>—</b>

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

### Taxes related to items reported directly against shareholders' equity

	Group		Parent Company	
	2005	2004	2005	2004
Deferred tax attributable to equity swap	—	— 12	—	—
Hedge accounting	— 1	—	—	—
Current tax related to Group contributions	—	—	— 11	— 63
<b>Total</b>	<b>— 1</b>	<b>— 12</b>	<b>— 11</b>	<b>— 63</b>

### Deferred tax liabilities

	Group		Parent Company	
	2005	2004	2005	2004
Untaxed reserves	35	10	—	—
Revaluation of real estate	24	25	—	—
Surplus values, cons. financial statements	4	4	—	—
Earnings from foreign subsidiaries	20	26	—	—
Other	3	4	—	—
<b>Total deferred tax liabilities</b>	<b>86</b>	<b>69</b>	<b>—</b>	<b>—</b>

### Deferred tax assets

	Group		Parent Company	
	2005	2004	2005	2004
Loss carryforwards	—	1	—	1
Provisions for pension obligations	2	2	—	—
Derivative instruments	3	—	—	—
Other	12	11	2	—
<b>Total deferred tax assets</b>	<b>17</b>	<b>14</b>	<b>2</b>	<b>1</b>
<b>Net deferred taxes</b>	<b>— 69</b>	<b>— 55</b>	<b>2</b>	<b>1</b>

Offsetting of deferred tax assets and deferred tax liabilities occurs where a legal right of offset applies. Thus SEK 4 M (0) was reported as deferred tax assets and SEK 73 M (55) as deferred tax liabilities.

The Group's unutilized loss carryforwards amounted to SEK 172 M (168) 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 19 Costs allocated by type of cost

	Group		Parent Company	
	2005	2004	2005	2004
Raw materials and supplies	— 1,035	— 1,137	—	—
Changes in inventories of finished goods and work in progress	— 6	2	—	—
Costs for remuneration to employees	— 565	— 615	— 21	— 16
Energy costs	— 38	— 35	—	—
Other costs	— 256	— 281	— 35	— 39
Depreciation	— 135	— 134	—	—
<b>Total costs</b>	<b>— 2,035</b>	<b>— 2,200</b>	<b>— 56</b>	<b>— 55</b>

## ■ Note 20 Tangible fixed assets, Group

	Build- ings and land	Machinery and other technical facilities	Equip- ment, tools, fixtures and fittings	Construc- tion in progress and advan- ces	Total
<b>On January 1, 2004</b>					
Acquisition value	439	1,129	115	15	1,698
Accumulated depreciation	- 159	- 758	- 91	—	- 1,008
Reported value	280	371	24	15	690

**January 1 – December 31, 2004**

Reported value on January 1	280	371	24	15	690
Acquisitions	5	85	6	25	121
Reclassifications	—	- 10	9	- 13	- 14
Divestments and disposals	—	- 1	- 1	—	- 2
Depreciation	- 14	- 106	- 13	—	- 133
Translation differences	2	- 1	1	—	2
Reported value	273	338	26	27	664

**On December 31, 2004**

Acquisition value	444	1,145	126	27	1,742
Accumulated depreciation	- 171	- 807	- 100	—	- 1,078
Reported value	273	338	26	27	664

**January 1 – December 31, 2005**

Reported value on January 1	273	338	26	27	664
Acquisitions	6	101	15	57	179
Reclassifications	4	18	5	- 27	—
Divestments and disposals	—	- 2	—	—	- 2
Depreciation	- 15	- 104	- 13	—	- 132
Translation differences	1	13	—	1	15
Reported value	269	364	33	58	724

**On December 31, 2005**

Acquisition value	455	1,198	152	58	1,863
Accumulated depreciation	- 186	- 834	- 119	—	- 1,139
Reported value	269	364	33	58	724

<b>Tax assessment values and reported values</b>	<b>2005</b>	<b>2004</b>
Tax assessment values, buildings in Sweden	92	92
Reported values, buildings in Sweden	180	192
Tax assessment values, land in Sweden	19	19
Reported values, land in Sweden	32	32

## ■ Note 21 Leasing

	<b>Group</b>	
<b>Financial leases</b>	<b>2005</b>	<b>2004</b>
Acquisition value, buildings and machinery	17	49
Accumulated depreciation, buildings and machinery	- 12	- 12
Accumulated writedowns, buildings and machinery	—	- 31
<b>Reported value</b>	<b>5</b>	<b>6</b>

In 2005, the Group acquired the production facility previously reported as a financial lease (see Note 6).

## Future payment obligations, December 31, 2005, Group

	<b>Financial leases</b>	<b>Operating leases</b>
Lease payment for the year	1	18
2006	0	16
2007	0	11
2008	0	10
2009	0	1
2010	0	1

Operational leases consist mainly of rental contracts for production premises.

The Parent Company has no significant leasing agreements.

## ■ Note 22 Tangible fixed assets, Parent Company

<b>Tools, fixtures and fittings</b>	<b>2005</b>	<b>2004</b>
Acquisition value on January 1	2	3
Sales/disposals	—	- 1
Accumulated acquisition value on December 31	2	2
Depreciation on January 1	2	2
Accumulated depreciation on December 31	2	2
Reported value on December 31	—	—

## ■ Note 23 Intangible fixed assets, Group

	<b>Capitalized expenditures</b>	<b>Goodwill</b>	<b>Total</b>
<b>On January 1, 2004</b>			
Acquisition value	18	179	197
Accumulated depreciation	- 4	- 139	- 143
Reported value	14	40	54
<b>January 1 – December 31, 2004</b>			
Reported value on January 1	14	40	54
Acquisitions	1	3	4
Depreciation	- 4	—	- 4
Reported value	11	43	54

**On December 31, 2004**

Acquisition value	19	182	201
Accumulated depreciation, writedowns	- 8	- 139	- 147
Reported value	11	43	54

**January 1 – December 31, 2005**

Reported value on January 1	11	43	54
Depreciation	- 3	—	- 3
Reported value	8	43	51

**On December 31, 2005**

Acquisition value	17	182	199
Accumulated depreciation, writedowns	- 9	- 139	- 148
Reported value	8	43	51



**Goodwill impairment testing**

Goodwill is allocated to the Group's cash-generating unit identified by business area operations.

	2005	2004
Nolato Industrial	40	40
Nolato Medical	3	3
<b>Total</b>	<b>43</b>	<b>43</b>

Recoverable amounts for a cash-generating unit are determined using calculations of useful life. These calculations are determined by estimated future cash flow based on strategic plans which are approved by the Group Management and run for three years. Cash flow beyond the three-year period is extrapolated using the forecast rate of growth as detailed below.

Important assumptions used in calculating values in use:

%	Nolato Industrial	Nolato Medical
Gross margin <sup>1)</sup>	20.7	28.7
Growth <sup>2)</sup>	2.0	2.0
Discount rate <sup>3)</sup>	10.1	10.1

<sup>1)</sup> Budgeted gross margin

<sup>2)</sup> Average rate of growth used to extrapolate cash flow beyond the budget period

<sup>3)</sup> Discount rate before tax applied to future cash flow.

The value in use calculated above exceeds reported value, which is why no write-down is considered necessary.

**Note 24 Shares in Group companies**

	<b>Parent Company</b>	
	2005	2004
Acquisition value on January 1	598	511
New share issue/additions	83	95
Liquidation	– 1	—
Merger effect	—	– 8
Accumulated acquisition value on December 31	680	598
Accumulated writedowns on January 1	272	203
Writedowns for the year	28	69
Reversed writedowns	– 52	—
Accumulated writedowns on December 31	248	272
<b>Reported value on December 31</b>	<b>432</b>	<b>326</b>

**Note 25 Shares in Group companies, Parent Company**

<b>The Parent Company's holdings</b>	% of equity	% of votes	Book value
Nolato Alpha AB, Kristianstad, Sweden	100%	100%	12
Nolato Beijing Ltd, China	100%	100%	58
Nolato Gejde AB, Lomma, Sweden	100%	100%	1
Nolato Gota AB, Götene, Sweden	100%	100%	116
Nolato Jász Kft, Hungary	100%	100%	26
Nolato Kuala Lumpur, Malaysia	100%	100%	9
Nolato Lövepac AB, Sk. Fagerhult, Sweden	100%	100%	10
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%	46
Nolato REH Kft, Hungary	96%	96%	17
Nolato Silikonteknik AB, Hallsberg, Sweden	100%	100%	12
Nolato STG AB, Lönsboda, Sweden	100%	100%	4
Nolato Sunne AB, Sunne, Sweden	100%	100%	35
Nolato Tallinn Polymer AS, Estonia	100%	100%	1
Nolato Torekov AB, Sweden	100%	100%	12
<b>Total book value</b>			<b>432</b>

<b>Subsidiaries' holdings</b>	% of equity	% of votes	Book value
Nolato REH Kft, Hungary	4%	4%	—

**Information on corporate identity numbers and registered offices:**

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

**Note 26 Inventories**

	<b>Group</b>	
	2005	2004
Raw materials and supplies	71	89
Products being manufactured	22	23
Finished goods and goods for resale	50	55
Work in progress	40	3
	<b>183</b>	<b>170</b>

The cost of inventories charged to income is included under "Cost of goods sold" and totaled SEK 1,041 M (1,135).

During the year, the Group wrote down SEK 14 M (22) in inventories. Write-downs for the year are included in "Cost of goods sold" in the income statement. During the year, reversed writedowns totaled SEK 0 (0).

## Note 27 Accounts receivable and other receivables

	Group	
	2005	2004
Accounts receivable	477	454
Deduction: Provision for decline in value of receivables	- 4	- 5
Accounts receivable net	473	449

During the year, the Group reversed SEK 1 M (0) in doubtful receivables as of January 1. The amount has been included in "Selling expenses" in the income statement. During the year, writedowns totaled SEK 2 M (5).

Fair value of accounts receivable and other receivables is as follows:

	2005	2004
Accounts receivable	473	449
Other receivables	50	37
Accrued income and prepayments	11	16
	534	502

## Note 28 Liquid funds

	Group	
	2005	2004
Cash and bank balances	163	134
Short-term bank investments	—	80
	163	214

## Note 29 Share capital

The share capital of Nolato AB totals SEK 132 M, divided into 26,307,408 shares. Of these, 2,759,400 are Class A shares and 23,548,008 are Class B shares. Class A shares entitle the holder to ten votes each and Class B shares one share each. All shares have equal rights to the assets and earnings of the Company.

	Number of shares	Share capital SEK K
Share capital, December 31, 2003	26,307,408	131,537
Share capital, December 31, 2004	26,307,408	131,537
Share capital, December 31, 2005	26,307,408	131,537

## Note 30 Other reserves, Group

	Revaluation build. & land	Hedging reserve	Transl. reserve	Total
<b>Balance on January 1, 2004</b>	<b>66</b>	<b>—</b>	<b>- 16</b>	<b>50</b>
Transfer of depreciation – gross	- 3	—	—	- 3
Transfer of depreciation – tax	1	—	—	1
Translation differences	—	—	- 13	- 13
<b>Balance on December 31, 2004</b>	<b>64</b>	<b>—</b>	<b>- 29</b>	<b>35</b>

<b>Balance on January 1, 2005</b>	<b>64</b>	<b>—</b>	<b>- 29</b>	<b>35</b>
Effect of change to IFRS acc principles	—	- 1	—	- 1

<b>Balance on Jan 1, 2005 acc to new princ.</b>	<b>64</b>	<b>- 1</b>	<b>- 29</b>	<b>34</b>
Transfer of depreciation – gross	- 4	—	—	- 4
Transfer of depreciation – tax	1	—	—	1
Translation differences	—	—	28	28

Cash flow hedges:

Fair value losses during the year	—	- 7	—	- 7
Tax on fair value losses	—	2	—	2
Transfers to the income statement	—	2	—	2
Tax on transfers to the income statement	—	- 1	—	- 1
<b>Balance on December 31, 2005</b>	<b>61</b>	<b>- 5</b>	<b>- 1</b>	<b>55</b>

## Note 31 Borrowings

	Group		Parent Company	
	2005	2004	2005	2004
<b>Long-term</b>				
Bank loans	141	174	150	145
Liabilities to Group companies	—	—	—	36
	141	174	150	181
<b>Short-term</b>				
Bank loans	—	119	—	95
Overdraft facilities	42	28	—	—
	42	147	—	95
<b>Total borrowings</b>	<b>183</b>	<b>321</b>	<b>150</b>	<b>276</b>

Maturity dates for bank loan are as follows:

	2005	2004	2005	2004
Within 1 year	42	147	18	144
Between 2 and 5 years	141	4	132	—
More than 5 years	—	170	—	132
	183	321	150	276

Total credit lines granted in the Group totaled SEK 648 M (668).

Amounts reported, by currency, are as follows:

	2005	2004	2005	2004
EUR	163*	189	132	132
SEK	—	95	—	131
USD	18	13	18	13
HUF	2	—	—	—
CNY	—	24	—	—
	183	321	150	276

\* The Group has hedged liabilities of EUR 15 M through currency swaps at a rate of 8.79. The market value of the currency swap is SEK 9 M.

### Interest-bearing liabilities and interest rate swaps

At the end of the year, the Group's interest-bearing liabilities amounted to SEK 183 M (321). The average interest rate, including effects of interest rate swap contracts, was 3.4 percent (3.8). The average fixed-interest term is 3 months (5).

	Group		Parent Company	
	2005	2004	2005	2004
Liabilities with fixed interest rates	—	25	—	67
Liabilities with floating interest rates	183	296	150	209
Total liabilities	183	321	150	276

At the end of 2005, the following fixed interest rate swaps were also entered into:

Maturity date	Amount	Market value
Dec 29, 2006	40	– 1

### Note 32 Net liabilities, Group

	2005	2004
Short-term investments	—	80
Cash and bank balances	163	134
Loans, long-term	– 141	– 174
Provisions for pensions and similar obligations	– 59	– 56
Loans, short-term	—	– 119
Overdraft facilities	– 42	– 28
Derivative instruments, see Note 35	9	—
Total	– 70	– 163

### Note 33 Provisions for pensions and similar obligations

	Group	
SEK K	2005	2004
Defined benefit pension plans	52,628	50,675
Other pension plans	6,113	5,700
Total	58,741	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	2005	2004
Present value of unfunded obligations	66,147	53,533
Unreported actuarial losses	– 13,519	– 2,858
Net liability in the balance sheet	52,628	50,675

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

SEK K	2005	2004
Expenses related to service during the financial year	387	275
Interest expense	2,670	2,614
Severance pay	—	– 921
Total expense for defined benefit pension plans	3,057	1,968
Expense for defined contribution pension plans	28,088	28,934
Expense for special salary tax and yield tax	7,888	7,415
Total pension expense	39,033	38,317

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

SEK K	2005	2004
Cost of goods sold	152	– 674
Selling expenses	110	– 107
Administrative expenses	125	135
Financial expenses	2,670	2,614
Total	3,057	1,968

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

SEK K	2005	2004
Net liability on January 1 according to balance sheet adopted	50,675	50,404
Effect of change in accounting principle	—	– 888
Net liability on Dec. 31 adjusted in acc. to new acc. principle	50,675	49,516
Net expense reported in income statement	3,057	1,968
Payment of pensions and similar obligations	– 1,104	– 809
Net liability on December 31	52,628	50,675

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

%	2005	2004
Discount rate	3.95	5.00
Future annual salary increases	3.20	3.20
Future annual pension increases	3.20	3.20
Employee turnover	5.00	5.00

#### 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 2005 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 5 M (6). Alecta's surplus can be allocated to insurers and/or insureds. On December 31, 2005, Alecta's surplus, in the form of the collective funding ratio, amounted to 128.5 percent (128.0). 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 IAS 19.

### Note 34 Other provisions

Group	Share bonus	Provision to restructuring reserve	Total
Amount on January 1	4	23	27
Provisions for the year	3	2	5
Reclassification	—	– 4	– 4
Provisions utilized	—	– 13	– 13
Amount on December 31	7	8	15

Provisions to restructuring reserve for the year consist mainly of personnel costs relating to personnel reductions in Kristianstad, Sweden. Payment of this provision will take place mainly in 2006. The provision for share-based bonuses is expected to be paid out in 2006 and is described in Note 9.

Parent Company	Share bonus
Amount on January 1	4
Provisions for the year	3
Amount on December 31	7

## Note 35 Derivative instruments, Group

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Currency forward contract, cash flow hedges	—	—10	—	—
Currency forward contracts, fair value hedges	9	—	—	—
Interest rate swaps, cash flow hedges	—	—1	—	—
	9	—11	—	—

### Currency forward contracts

Currency forward contracts entered into but unrealized are detailed in the table below. At year-end 2005, the market value of these was SEK –10 M. The market value of contracts that were identified as cash flow hedges and meet the requirements for hedge accounting totaled SEK –4 M. This amount was reported in shareholders' equity. The remaining portion of the market value, SEK –6 M, was reported in the income statement.

Currency	Nominal value in contract (SEK M)	Average rate	Market value (SEK)	Realized gains/losses	Unrealized gains/losses
EUR/SEK	71	9.15	–2	–1	–1
USD/SEK	123	7.41	–7	–4	–3
DKK/SEK	25	1.25	0	0	0
JPY/SEK	17	6.78	0	0	0
EEK/USD	14	12.18	–1	–1	0
<b>Total</b>			–10	–6	–4

Gains and losses in shareholders' equity on currency forward contracts on December 31, 2005, will be transferred to the income statement at various dates within one year of the balance sheet date.

### Currency forward contracts, fair value hedges

Maturity date	Amount	Rate	Currency	Market value
Nov 6, 2008	15,000	8.79	EUR	9

The currency swap pertains to the hedging of long-term liabilities in EUR.

### Interest rate swap

Maturity date	Rate	Currency	Amount	Market value
Dec 29, 2006	3.75%	SEK	40	–1

## Note 36 Accrued expenses and prepayments

	Group		Parent Company	
	2005	2004	2005	2004
Salary liabilities	63	70	5	4
Employer payroll fees	31	38	3	2
Other items	84	73	2	3
<b>Total</b>	178	181	10	9

## Note 37 Financial instruments, Parent Company

According to the Parent Company's accounting principles, derivatives are not reported in the balance sheet. On December 31, 2005, the market value of unrealized derivatives was SEK –11 M.

### Currency forward contracts, cash flow hedges

Currency	Nominal value in contract (SEK M)	Average rate	Market value (SEK M)
EUR/SEK	71	9.15	–2
USD/SEK	123	7.41	–7
DKK/SEK	25	1.25	0
JPY/SEK	17	6.78	0
EEK/USD	14	12.18	–1
<b>Total</b>			–10

### Interest rate swap

Maturity date	Rate	Currency	Amount	Market value
Dec 29, 2006	3.75%	SEK	40	–1

## Note 38 Collateral pledged for own liabilities and provisions

	Group		Parent Company	
	2005	2004	2005	2004
Chattel mortgages	88	118	—	—
Real estate mortgages	44	41	—	—
<b>Total</b>	132	159	—	—

## Note 39 Contingent liabilities

	Group		Parent Company	
	2005	2004	2005	2004
Guarantees on behalf of subsidiaries	—	—	81	129
Other contingent liabilities	1	1	—	—
<b>Total</b>	1	1	81	129



## Note 40 Transition to IFRS

Starting January 1, 2005, Nolato applies the International Financial Reporting Standards approved by the EU.

### 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 most 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.

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 fixed assets into components with separate periods of useful life. Nolato believes that the Company already applies the component approach for depreciation with separate depreciation periods which are relevant to Nolato's operations. This means that the introduction of IAS 16 entails no material effect on its accounts.

### Compilation of effects from the transition to IFRS

SEK M	Note	Amount
<b>Net income according to Swedish accounting principles, 2004</b>		<b>130</b>
Purchase price allocation for acquisitions, 2004	1	- 1
Goodwill amortization	1	7
<b>Total change IFRS</b>		<b>6</b>
<b>Net income according to IFRS, 2004</b>		<b>136</b>

SEK M	Note	Amount
<b>Shareholders' equity acc. to Swe. account. princ., Jan. 1, 2004</b>		<b>569</b>
<b>Shareholders' equity according to IFRS, Jan. 1, 2004</b>		<b>569</b>

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

### 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
<b>Group total</b>		<b>195</b>	<b>6</b>	<b>201</b>

**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.

**Not 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 remuneration to the President and CEO, which is described in Note 9.

**Note 3** IAS 32, "Financial Instruments: Disclosure and Presentation," and IAS 39, "Financial Instruments: Recognition and Measurement," are applied as of 2005 without restating figures for the comparative year 2004.

Application of IAS 32 had no impact in shareholders' equity when it was introduced 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 effected, 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 effected.

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 further description of financial policies, see Note 3.

**Note 4** There was a revaluation for buildings and land in 2001 of SEK 99 M. In conjunction with the transition to IFRS, the remaining revaluation after taking depreciation into account, SEK 92 M, was transferred to acquisition value, in accordance with IFRS 1:17.

## Proposed distribution of earnings

### Nolato AB (publ)

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

Retained earnings	198
Net income	122
<b>Total</b>	<b>320</b>

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

Dividend of SEK 2.40 per share to the shareholders	63
To be carried forward	257
<b>Total</b>	<b>320</b>

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

The Board of Directors and the President hereby ensure that, to the best of our knowledge:

- the Annual Report is prepared in accordance with generally accepted accounting principles for stock market companies,
- the information submitted corresponds to actual conditions,
- nothing of material importance has been omitted that would affect the picture of the company presented in the Annual Report.

Torekov, Sweden, March 2, 2006

Carl-Gustaf Sondén  
*Chairman*

Gun Boström

Henrik Jorlén

Erik Paulsson

Lars-Åke Rydh

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 for the financial year 2005. These accounts and the administration of the Company and the application of the Annual Accounts Act when preparing the Parent Company accounts, as well as the application of IFRS international standards as adopted by the EU and the Annual Accounts Act when preparing the 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 high, but not absolute, 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 accounts have been prepared in accordance with the Annual Accounts Act, thus providing a true and fair view of the Company's earnings and financial position in accordance with generally accepted accounting standards in Sweden. The consolidated accounts have been prepared in accordance with IFRS international accounting standards as adopted by the EU and the Annual Accounts Act, thus providing a true and fair view of the Group's earnings and financial position. 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, 2006

Ernst & Young  
 Ingvar Ganestam  
 Authorized Public Accountant, Chief Auditor

## Board of Directors and auditors



**Carl-Gustaf Sondén**, chairman  
Member since 2003. Shareholding in Nolato 12,000 B. Other directorships: Chairman of Skåne Marin AB, member of Lindab AB, Airsonett AB and NP Nilssons Trävaru AB. Born 1945. Education engineer.



**Gun Boström**  
Member since 1971. Shareholding in Nolato 417,750 A and 485,800 B. Born 1942. Education engineer.



**Erik Paulsson**  
President Fabege AB. Member since 2003. Shareholding in Nolato (incl. family and companies) 544,200 A and 746,575 B. Other directorships: Chairman of SkiStar AB and Wihlborgs Fastigheter AB. Born 1942. Education elementary school.



**Claes Warnander**  
Senior Executive Director China, Haldex AB. Shareholding in Nolato 1,960 B. Member since 1999. Other directorships: Velux A/S, ABA Holding AB and Emotron AB. Born 1943. Education LLB, MBA, MS.



**Henrik Jorlén**  
Member since 1974. Shareholding in Nolato 294,000 A and 48,200 B. Born 1948. Education commercial school.



**Lars-Åke Rydh**  
President of Nefab AB. Member since 2005. Shareholding in Nolato 2,000 B. Other directorships: Board member Nefab AB, Handelsbanken Region East, OEM International AB. Born 1953. Education MS in engineering.



**Georg Brunstam**  
President and CEO of Nolato AB. Member since 2003. Shareholding in Nolato 80,000 B. Other directorships: Board member Nibe Industrier AB, DIAB International AB. Born 1957. Education MS in engineering.

### Deputy members

**Ewa Norrman** employee representative LO since 1997, Nolato Plastteknik AB. Shareholding in Nolato 0. Born 1951. Education nurse.

**Ingegerd Andersson** employee representative LO since 2004, Nolato Plastteknik AB. Shareholding in Nolato 0. Born 1951. Education upper secondary school.

**Bo Eliasson** employee representative LO since 2004, Nolato Polymer AB. Shareholding in Nolato 0. Born 1947. Education lower school certificate.

### Auditors

#### Ernst & Young AB

Chief auditor:  
Ingvar Ganestam, born 1949.  
Authorized public accountant. Auditor at Nolato since 2000. Shareholding in Nolato 0. Education MBA. Elected auditors at companies including Alfa Laval AB, Strålfors AB and the IKEA Group.

### Nomination committee

The nomination committee prior to the 2006 Annual Meeting consists of Henrik Jorlén, Gun Boström, Erik Paulsson and Erik Sjöström (Skandia).

Nolato's Corporate Governance Report can be found on pages 32 – 33.



**Magnus Bergqvist**  
Employee representative LO since 1990. Nolato Sunne AB. Shareholding in Nolato 0. Born 1955. Education upper secondary school.



**Björn Jacobsson**  
Employee representative LO since 2000. Nolato Gota AB. Shareholding in Nolato 0. Born 1971. Education upper secondary school.



**Mats Engvie**  
Employee representative PTK since 1997. Nolato Alpha AB. Shareholding in Nolato 840 B. Born 1964. Education engineer in polymer technology.



# Group Management


**Georg Brunstam \***

President and CEO of Nolato  
and head of Nolato Industrial Sweden  
since 2003  
Employed at Nolato since 2003  
Education MS in engineering  
Born 1957  
Shareholding incl. family 80,000


**Per-Ola Holmström \***

Chief financial officer since 1995  
Employed at Nolato since 1995  
Education MBA  
Born 1964  
Shareholding incl. family 1,442


**Jonas Persson \***

Head of Nolato Telecom since 2006  
Employed at Nolato since 1999  
Education MS in engineering  
Born 1969  
Shareholding incl. family 0


**Christer Wahlquist \***

Head of Nolato Medical since 2005  
Employed at Nolato since 1996  
Education MS in engineering, MBA  
Born 1971  
Shareholding incl. family 1,500


**Tommy Johansson**

Director of Marketing & Sales  
Nolato Telecom since 2006  
Employed at Nolato since 1989  
Education engineer  
Born 1947  
Shareholding incl. family 8,400


**Peter Krikström**

Managing Director Nolato Medevo  
since 2003  
Employed at Nolato since 1997  
Education engineer, marketing econo-  
mist  
Born 1949  
Shareholding incl. family 2,000


**Magnus Nilsson**

Head of Nolato Industrial Central  
Europe since 2002  
Employed at Nolato since 1998  
Education MBA  
Born 1966  
Shareholding incl. family 30

\* Georg Brunstam, Per-Ola Holmström, Jonas Persson and Christer Wahlquist constitute the Group's Executive Committee.

Information about the Group Management can be found on page 33.

## Annual Meeting and 2006 financial calendar

### ■ Annual Meeting

Shareholders are welcome to attend Nolato's Annual Meeting at 2:00 p.m. on Thursday, April 27, 2006 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 Friday, April 21, 2006.

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

When registering, shareholders should state their name, address, telephone number, personal ID number or corpo-

rate 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 21, 2006 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 21, 2006, shareholders must request re-registration 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](http://www.nolato.com), as soon as it is published.

During 2006, financial information will be released as follows:

- Three-month interim report 2006:  
April 27, 2006
- Annual Meeting:  
April 27, 2006
- Six-month interim report 2006:  
July 20, 2006
- Nine-month interim report 2006:  
October 25, 2006

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](mailto:per-ola.holmstrom@nolato.se)



*The Nolato Annual Report is produced by Strategisk Information AB, Malmö.  
Translation Susan Long. Printed in Sweden by JMS Mediabus, March, 2006.  
Photos: Lasse Davidsson, Jan Engsmar, Quentin Shih, Tiit Veermäe and others.*



**Nolato AB**

SE-260 93 Torekov, Sweden  
Street address: Nolatovägen  
Telephone: +46 431 44 22 90  
Fax: +46 431 44 22 91  
Internet: www.nolato.com  
E-mail: info@nolato.com

**Nolato Alpha**

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

**Nolato Beijing**

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

**Nolato Gota**

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

**Nolato Japan**

Spacea Ebisu, Room 610  
6-22 Higashi 3-chome Shibuya-ku  
Tokyo, Japan 150-0011  
Telephone/fax: +81 3 3407 8513  
E-mail: japan@nolato.com

**Nolato Kuala Lumpur**

2 Jalan U1/20, Section U1  
Hicom-Glenmarie Industrial Park,  
40150 Shah Alam  
Selangor D. E., Malaysia  
Telephone: +60 3 5569 3743  
Fax: +60 3 5569 3744  
E-mail: kualalumpur@nolato.com

**Nolato Lövepac**

Ringvägen 5,  
SE-280 40 Skånes Fagerhult, Sweden  
Telephone: +46 433 323 00  
Fax: +46 433-323 02  
E-mail: loevpac@nolato.se  
Beijing:  
Xingsheng Industrial Park  
No.7 Tongji Road  
Beijing Development Area  
Beijing 100176, P.R. China  
Telephone: +86 10 6780 5580  
Fax: +86 10 6787 4404

**Nolato Medevo**

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

**Nolato Plastteknik**

Box 4123, SE-422 04 Hisings Backa  
Sweden  
Street address: Exportgatan 59  
Telephone: +46 31 58 84 00  
Fax: +46 31 58 84 01  
E-mail: plastteknik@nolato.se

**Nolato Polymer**

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

**Nolato Protec**

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

**Nolato Silikonteknik**

Bergsmansvägen 4, SE-694 91 Hallsberg  
Sweden  
Telephone: +46 582 889 00  
Fax: +46 582 889 99  
E-mail: silikonteknik@nolato.se  
Tallinn:  
Peeterburi tee 81,  
EE-11 415 Tallinn, Estonia  
Telephone: +372 606 39 00  
Fax: +372 606 39 01

**Nolato STG**

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

**Nolato Sunne**

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

**Nolato Tallinn**

Peeterburi tee 81,  
EE-11 415 Tallinn, Estonia  
Telephone: +372 606 39 00  
Fax: +372 606 39 79  
E-mail: tallinn@nolato.com