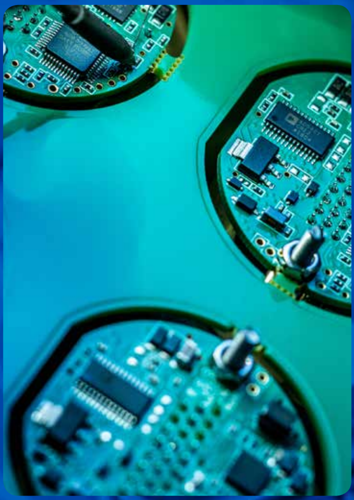
Annual Report



2018

NOTE

YOUR MANUFACTURING PARTNER

Contents

Shareholders’ information

Annual General Meeting
The AGM (Annual General Meeting) will be held at 2:00 p.m. on Thursday, 25 April at Spårvagnshallarna, Birger Jarlsgatan 57 A, Stockholm, Sweden. Information on the notification procedure for the Meeting will be uploaded to the website jointly with the invitation by no later than four weeks prior to the Meeting.

Notification
Shareholders intending to participate in the AGM must be recorded in the share register maintained by Euroclear Sweden AB by 17 April, and notify NOTE of their intention to participate by no later than 17 April.

Business
Information on the agenda of the AGM is published in the Swedish Official Gazette and will be available on NOTE’s website.

Documentation is also available from NOTE coincident with notification of intention to participate at the Meeting.

Dividend
The Board of Directors is proposing that dividend of SEK 0.70 (1.00) per share is paid to shareholders for the financial year 2018.

Nomination Committee
The Nomination Committee has the following members:

Johan Hagberg, personal holdings

Martin Nilsson, Catella Fondförvaltning

Malin Björkmo, Handelsbanken fonder

Thomas Tang, Mediuminvest A/S

Financial information

Calendar

Interim Report, Jan–Mar	25 Apr 2019
Interim Report, Jan–Jun	15 Jul 2019
Interim Report, Jan–Sep	22 Oct 2019

Investor relations contacts
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Ordering financial information
Financial and other relevant information can be ordered from NOTE. Out of consideration for the environment, a subscription service is readily available from NOTE’s website.
Website: www.note.eu
E-mail: info@note.eu
Tel: +46 (0)8 568 99000
Address: NOTE AB (publ),
Box 1285, 164 29 Kista, Sweden

This is NOTE

NOTE is one of the leading EMS (electronics manufacturing services) partners in northern Europe. NOTE manufactures high end electronics on assignment from customers at eight state-of-the-art plants across Europe and Asia.

NOTE produces PCBAs, subassemblies, and increasingly, box build products. NOTE's products are embedded in complex systems used in applications including electronic control, surveillance and security.

Most of NOTE's customers are active in medtech, defence, manufacturing, communication and high end consumer electronics. Primarily, NOTE's customer base consists of large corporations operating on the global market, but also businesses whose main sales are in northern Europe.

NOTE's business model is based on delivering value-added consulting services and manufacture, as well as tailored logistics solutions for the best total cost. NOTE's customer offering covers complete product lifecycles, from design to after-sales.

In Western Europe, NOTE has plants located in geographical regions with high industrial activity and innovation capabilities. At these plants, NOTE provides sophisticated production technology services in close partnership with customers, such as component selection, developing test equipment, prototyping and batch production.

NOTE's plants in Estonia and China are close to major final markets, and in regions with strong traditions of production and high skills levels. Over and above development-oriented services, NOTE also provides cost-efficient batch production of PCBAs and box build products.

Key facts

- **History:** Founded in 1999.
- **Employee headcount on 31 December 2018:** 1,077.
- **Manufacturing units in** Sweden, Finland, the UK, Estonia and China.
- **Share:** NOTE's initial public offering was in 2004. The share is quoted on Nasdaq Stockholm (Small Cap/ Industrial Goods & Services).

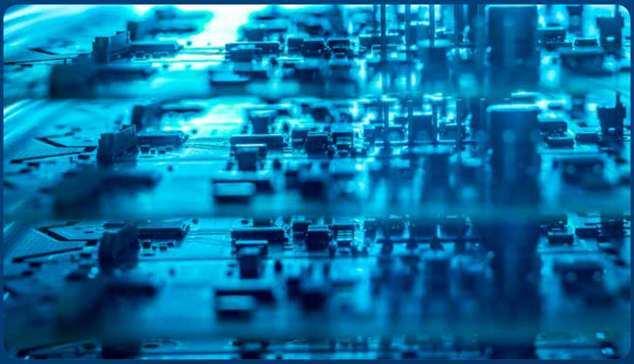
Overview, SEK million	2018	2017	Delta
Net revenue	1,378.6	1,175.7	202.9
Operating profit	83.9	93.4	-9.5
Operating margin, %	6.1	7.9	-1.8
Profit before tax	78.8	88.8	-10.0
Profit for the year	64.2	72.1	-7.9
Cash flow after investments and acquisition	-76.0	69.7	-145.7

Earnings per share

SEK **2.22**

Cash flow per share, after investments and acquisition

SEK **–2.63**



CEO's statement

2018 was a good year for NOTE. We increased sales by 17%, and by year-end, our order book was at record levels. As recently appointed CEO, I'm delighted to say that NOTE is a strong company with skilled professionals and interesting customers worldwide.

Another good year for NOTE
2018 was another good year for NOTE. Our stated growth target is to increase market shares and achieve minimum stable organic yearly growth of 10%, and we increased sales by 17% to SEK 1,378.6 million. We achieved organic growth of 15%, topping this off in the final two months of the year with extra sales from our new acquisition Speedboard Assembly Services of the UK. Pro forma including Speedboard, our sales were over SEK 1.5 billion in 2018.

We successfully advanced our market positioning, and secured new business, on new accounts and through extended collaborations in our already-strong customer base. We experienced high demand across all domestic markets. Our order books kept expanding in the fourth quarter of the year, and in like-for-like terms, were just over 25% larger than in 2017, indicating continued positive progress in the near term. We're maintaining the pace needed to be one of the fastest-growing companies in our sector.

Our business model is based on long-term customer relationships and partnerships. Our customer base is diverse, and we already partner with several of the leading corporations in the Nordics across a broad spectrum of industries. We still see good growth potential through intensified partnerships with our existing customers in the industrial, communication, medtech, defence and high end communication sectors. For example, we're ready to start large-scale shipments in the defence segment in 2019.

We've also continued to win a lot of new customers, within traditional industries as well as new, high-growth application segments, with examples of the latter being the partnerships we previously reported with CellMark, active in medtech, Plejd in smart lighting, and Charge Amps, which develops electric vehicle charging solutions. Expanding digitalisation across industry and in our everyday lives is driving the demand for electronics. This is creating attractive business opportunities for us, and we're working methodically and successfully to realise them.

In earnings terms, we progressed strongly, and essentially as planned. Reported operating profit was SEK 83.9 (93.4) million. In this context, it is important to note that in 2017, we experienced positive non-recurring effects of nearly SEK 16 million, mainly associated with the capital gain from the property sale in Lund, Sweden, while this year's operating profit was negatively impacted by SEK 7.0 million due to our change of CEO in September. Adjusted for these items, our underlying operating profit improved by 17% to SEK 90.9 (77.7) million. The earnings increase has several causes, including increased sales, cost rationalisations implemented and brisk progress by our Western European operation. Computed in the same way, i.e. adjusted for non-recurring items, our operating margin was 6.6%, unchanged year on year. Although our ambitions are higher, progress was slowed somewhat by unfavourable currency translations compared to 2017. Additionally, we prepared and built up for continued growth in the year, both organisationally and in terms of business processes, as well as through performance-enhancing investments in equipment.

The effective management of our working capital is a success factor for our future growth. The global market for electronic components remained under strain, with extended lead-times and challenges in terms of availability. Combined with our growth, and multiple new customer projects starting up, our working capital, not least inventories, is increasing, which is putting cash flow under pressure. Cash flow was strong in 2017, positively impacted by factors including the property sale in Lund. Including the acquisition of Speedboard, cash flow after investments for the year was SEK –76.0 (69.7) million.

In 2018, we improved our underlying operating profit by 17%.

NOTE is well prepared financially for its future. Including this year's acquisition of Speedboard, and the recently executed repurchase programme of 1 million treasury shares, our liquidity situation remains favourable, and our equity to assets ratio is nearly 40%.

Future

Working in my new role as CEO, and after having previously monitored the company's progress on the Board of Directors, I'm impressed by the work the company has done so far. But our development potential remains substantial. Even if global economic uncertainty has increased in several contexts, the demand for our services is high, and we see good potential to increase market shares. We have a lot of customers and projects where we're expecting batch shipments to gather momentum. We're also working hard for our new acquisition Speedboard to realise its full potential, and intend to remain active on the acquisition side. Going forward, our guiding principles will be profitability, growth and customer satisfaction.

Johannes Lind-Widestam

Vision, business concept, strategy and targets

Digitalisation and the need to be constantly connected is growing, as is the usage of electronics in products that used to be mechanical. NOTE is playing an active role in this process. Its goal is to be the best collaborative partner in the sector, adding value by bringing leading quality and high delivery precision for a competitive cost.

Vision

NOTE—the customer's obvious EMS partner.

NOTE will be the best collaborative partner in the sector, and add value for customers by bringing sector-leading quality and high delivery precision for a competitive cost. NOTE takes on daily responsibility for function-critical products, which are often embedded in customers' larger systems. Customers should feel secure with NOTE as a supplier, and that production, shipments and sourcing are managed so their core business can progress.

In-house, NOTE adopts the view that its customers should not have any reason to choose a different partner.
"We make it work."

Business concept

NOTE is a leading northern European EMS partner with an international platform for manufacturing electronics-based products that require high technology competence and flexibility.

A clear growth agenda with three main lines:

- Increase our current business while expanding our services portfolio.
- Attract new customers with minimum revenue potential of SEK 10 million in the segments where we are already strong: medtech, defence, industrial and communication.
- Execute carefully selected acquisitions and production takeovers.

To succeed, we need:

- To retain sector-leading quality and delivery precision.
- Flexibility and responsiveness to customer needs.
- To offer competitive component pricing.
- To optimise capacity utilisation and manufacture where conditions are optimal.
- A strong financial position.

Financial targets

Growth target
NOTE will increase its market shares organically and through acquisitions.

Profitability target
NOTE will grow with profitability. Its target is for a minimum return on operating capital of 20%. For the long term and over a business cycle, profitability will also exceed the average of other mid-sized international and comparable competitors.

Capital structure target
The minimum equity ratio should be 30%.

Dividend policy
NOTE's dividend should be adapted to average profit levels over a business cycle, and for the long term, be 30–50% of profit after tax. Dividends should also be available for modifying its capital structure.

Values

- **Committed**
  We are solution oriented and offer a stimulating working environment, internally and for our customers, locally and globally.
- **Proactive**
  We communicate early and endeavour to do good business on a professional, clear and appropriate basis.
- **Quality focused**
  "Get it right from the start." There's a quality focus in everything we do. High quality leads to customer satisfaction, loyalty and profitability.
- **Flexible**
  We are always looking for the most cost-efficient way to satisfy customer demand optimally, adjusting setups as required.


NOTE

Business model

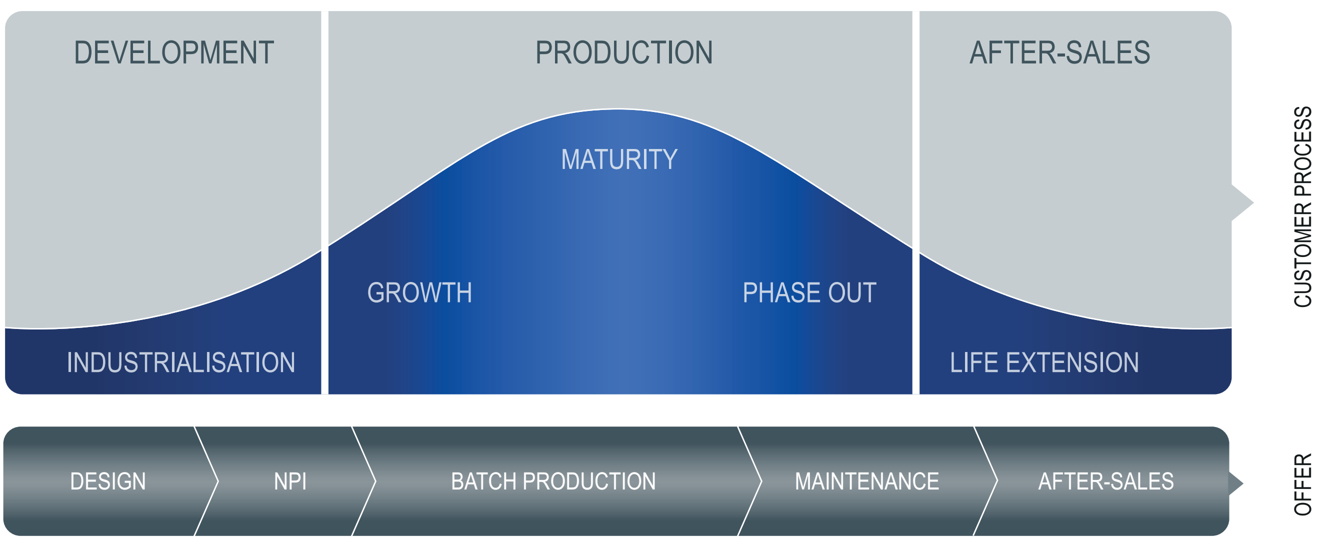
NOTE manufactures electronics and box build products on assignment from customers. Maintaining high quality and flexibility, NOTE manufactures products for industrial use that need to cope in demanding environmental conditions such as extreme cold, heat, humidity, desert and tropical rainstorms.

A partner with a strong, complete offering
NOTE manufactures PCBAs, subassemblies and, increasingly, box build products. Manufacture is at eight state-of-the-art, flexible plants across Europe and Asia, which offer solutions right through product lifecycles—from design to aftersales, in long or short batches.

Its customer offering especially addresses the high mix segment, which applies stringent standards of flexibility and technological competence in manufacture, because products in this segment often have to adapt to satisfy specific customer needs over time. These needs may change for different reasons, commercial or technological, such as dependency on lead-times, predictability and testing requirements. Products are often embedded in customers' end-products, such as control systems, sophisticated communication equipment and various types of measuring instrument. NOTE's customers are mainly in the industrial, communication, medtech, defence and high end consumer electronics sectors. Industrialisation services including prototyping, as well as tailored logistics solutions and after sales services are components of NOTE's customer offering.

Because materials often make up the majority of total cost, NOTE offers competitive pricing of electronic components and other production materials. NOTE provides this to all customers through a structured, quality-assured process and effective interplay between its central sourcing function and local sourcing departments at each plant. NOTE operates an established partnering model, which brings skills to segments such as mechanical engineering, plastics, cabling and displays, to ensure competitiveness in box build manufacture.

Getting things right from the start creates value-added
A close, early-phase dialogue with customers brings NOTE complete



NPI = New Product Introduction. NOTE has a highly developed business process for customers about to launch a new product on the market. NOTE increases customer profitability by actively contributing experience and know-how in selecting materials, sourcing, testing, production, quality and logistics.

understanding of the product and its lifecycle. In combination with highly developed sourcing competence, this offers great potential to manage production and the supply chain so that total cost is favourable. NOTE creates value-added for both parties by avoiding costly mistakes and re-thinks.

Customer needs determine the location of batch production. Decisive factors may be the customer's geographical final market, cost structure, volume and currency risks.

The closeness that NOTE provides customers is critical when projects require continuous contact and the exchange of best practice between the partners. Dialogue back in the design and industrialisation phases on materials selection, sustainability classification, production techniques and functional testing, enables the development of the best product possible, optimised for batch production. NOTE helps to shorten lead-times from when a product reaches final markets, reducing capital tied up, and conferring competitive edges on the market for the customer.

Focused rationalisation work

With the aim of further sharpening competitiveness and creating the potential for profitable sales growth, NOTE has been managing methodical improvement work at all plants for several years. This work is conducted locally at each plant, and through a variety of group-wide projects. Over and above initiatives to expand and improve its customer offering, NOTE focuses on actions that improve delivery precision and quality levels, performance, and rationalisation in the cost and working capital segments.

NOTE creates competitiveness by delivering the right quality at the right time for a favourable total cost. NOTE's services are in continuous evolution and improvement, with the aim of satisfying customers' current standards and expectations. In recent years, NOTE has achieved sector leadership in quality and delivery precision.

ISO 9000 is a family of international standards that are the foundation of NOTE's quality work. All NOTE plants hold ISO 9001 certification. Half of NOTE's plants also hold the ISO 13485 medtech standard. While ISO-certified management systems are the foundation of quality work, NOTE's people make the real improvements through their focus, attitude, consistent follow-up and methodical work.

Sustainability

Sustainability issues are an important and integrated component of business activities. Back in 2011, NOTE was one of the first companies in its sector to join the Global Compact, started on a UN initiative. Several NOTE functions help limit the negative environmental impact associated with manufacture and transportation, and ensure compliance with policies and directives in the sustainability segment.

Certifications

	NOTE TORSBY AB	NOTE NORRTELJE AB	NOTE LUND AB	NOTE HYVINKÄÄ OY	NOTE UK LTD	NOTE PÄRNU OÜ	NOTE ELECTRONICS (DONGGUAN) CO LTD	SPEEDBOARD ASSEMBLY SERVICES LTD
ISO 9001	•	•	•	•	•	•	•	•
ISO 13485	•	•	•				•	
ISO 14001	•	•	•	•	•	•	•	
OHSAS 18001				•		•	•	
	Sweden	Sweden	Sweden	Finland	UK	Estonia	China	UK

ISO 9001: A standard for management system.
ISO 13485: Standard for medtech.
ISO 14001: Standard for environmental management.
OHSAS 18001: Standard for work environment.

Value-creating partnerships with customers

NOTE is a flexible company that wants to create value through cost-efficient solutions for technologically sophisticated products in partnership with its customers. Meet CellMark, Charge Amps and Trimble–just three of NOTE's 300-plus customers.

CellMark—insuring optimal utilisation of care provider resources
CellMark AB is a Swedish company that has been a NOTE customer since 2018. CellMark is active in segments including medtech, where it partners with Finnish company HealthInvest, which has produced My+Care, a wristband produced mainly for healthcare. The device creates a unique IoT (Internet of Things) ecosystem, providing patient positioning and health status in real time, offering care providers the potential to capture patient health information in time.

The device helps older patients deal with daily difficulties, enabling them to interact directly with care providers via two-way, GSM-based communication. This streamlines hospital and retirement home resources and planning, thus limiting unnecessary input. Manufacture is at NOTE's plant at Pärnu, Estonia. NOTE executes the complete manufacturing process for CellMark–from NPI, through industrialisation to batch production of box build products.

"CellMark views NOTE as a long-term development and manufacturing partner for medtech devices. They take complete responsibility for testing, sourcing and manufacturing life-saving solutions, and this complements CellMark's business model as a global platform for medtech entrepreneurs," comments Niclas Möttus-Olsson, President of CellMark Medical.

Charge Amps develops and markets high end systems and charging stations for electric vehicles
The market for electric vehicles is in rapid growth. Sales are to Swedish and foreign customers.

The Swedish company has been a customer of NOTE Norrtelje since 2018, with a partnership covering the manufacture of current product families and upcoming product generations. NOTE produces box build systems for delivery direct to end-customers, with products shipped from its plant in Norrtälje to customers across the EU.

"We selected NOTE as our production partner as a step in consolidating our delivery capability. With NOTE and our other production partners, we're ready for the expansive phase that lies ahead. We view NOTE as a long-term partner that takes complete responsibility end to end in the logistics chain, including sourcing, manufacture, testing, packaging, inventory and customer shipments. NOTE enables us to maintain production in Sweden, while also offering us the opportunity for localised production on attractive markets," says Jonas Åkesson, COO of Charge Amps.

Trimble—one of NOTE's oldest customers
This US company has been outsourcing PCBA manufacture to NOTE since 2002. This productive collaboration started at the Norrtälje plant, and has continued to evolve since, all the way to NOTE's plant in China.

Trimble markets high-quality opto-electronics positioning instruments, which operate in several segments where precise measurement of angles/distances and scanning are a must. Final assembly and the related testing are at Trimble's facility at Danderyd, Sweden.

The production process begins with joint projects to launch new products on the market, which includes prototyping and feedback on design, with the consistent aim of creating the best potential for effective batch production.

"Our partnership with NOTE brings us access to local and global support, and enables close partnerships in the development phase as well as low-cost, high-quality production," reports Johannes Linder, Commodity Manager at Trimble.

CellMark

Charge Amps

Trimble

Market and competitors

NOTE is active on the market for outsourced EMS, which is evolving rapidly due to more widespread usage of electronics in society.

Background

Europe is unique in the global market for manufacturing services. Compared to the rest of the world, there is no other continent that has as many high-cost countries close to those with far lower cost levels. This has influenced the structure and evolution of the European market.

The majority of market participants in Europe are domestic, smaller enterprises. They are often linked to one or a few customers.

The global players that have started up in Europe primarily locate their operations in Eastern European countries. Several of them are significantly larger than NOTE, and operate in different segments, such as volume manufacture in sectors like automotive and consumer goods.

Generally, the value players located in Western Europe add for their customers can be regarded as more specialised services. The value created by providers in Eastern Europe is primarily cost driven. The market for outsourced electronics production has emerged and evolved as a consequence of customers' increasing focus on core business, more electronics content in various types of products, the growing demand for manufactured products and a desire to cut costs and capital tied-up.

The market in 2018

The market for outsourced EMS progressed positively, notably in Europe. Progress was brisk on several of NOTE's domestic markets including Sweden, Finland and the UK. Continued high demand for EMS was apparent at the Estonian plant. The Chinese market remained at a high level.

Market trends, customer needs and future prospects

Globalisation and intensifying competition mean a growing focus on core business, which generally benefits businesses active in outsourcing. In recent years, the outsourcing market has undergone a major transformation.

The primary drivers have been price pressure on components, more outsourcing, the relocation of production from high-cost to low-cost countries, demands for shorter lead-times from idea to finished product, and robust economic progress in growth regions, with the resulting emergence of new end-user markets. Going forward, it's likely that important factors will remain the search for cost-efficient production, rationalisation, as well as continued production migration. Where previously, migration was mainly from West to East, in recent years, NOTE is witnessing growing interest in production close to end-customer markets, for reasons of sustainability and total cost. Like many of its customers, NOTE closely monitors the progress of how potential trade barriers will impact the location of manufacture. The customer satisfaction surveys conducted in the year reveal that flexibility and closeness in partnering are important to NOTE's customers. Customer satisfaction surveys also indicate the demand for more sophisticated technology to reduce lead-times from idea to finished product. The demand for tailored logistics solutions is rising, to improve flexibility and reduce capital tied-up.

The European market for electronics production is forecast to grow by 3 to 4% per year in the period 2019–2022. Meanwhile, NOTE is witnessing growing interest from customers to locate manufacture in Europe, which benefits NOTE, because most of its capacity is in this region.

Competitors

A few of NOTE's competitors active on the Nordic market are Enics, Kitron, OrbitOne and Scanfil. There is also a range of regional and local players, often niche oriented, who address one or several of NOTE's markets.

Risk management

OPERATIONAL RISKS

RISK	EXPOSURE AND MANAGEMENT
Customers The risk that a customer leaves NOTE or does not fulfil its commitments.	NOTE has a large number of active accounts, the 15 largest in sales terms represented 53% of its sales in 2018. In most cases, NOTE manufactures a range of products for each customer. Usually, customers choose to place all their production of each product with the same supplier, so they can achieve economies of scale and limit material commitments and risks. Accordingly, NOTE's production volumes are closely linked to which products are manufactured, and the lifecycle phase of customer's products. So sales variations can be significant for individual customers. Usually, materials risk is regulated through agreements with customers. NOTE follows up on material risks continuously by applying tried-and-tested processes.
Capacity risk The risk of not having sufficient production capacity.	Overall, NOTE has good production capacity. Production is of a similar nature in several of the group's plants and NOTE can transfer production from one plant to another. However, sudden fluctuations in demand can cause capacity challenges in the group's plants.
Materials Price and access to materials.	The price and access to electronic components and other production materials vary significantly depending on market conditions. NOTE has a central organisation to deal with group-wide sourcing issues.
Inventories The risk of components and production materials not being consumed, and thus losing value.	NOTE has inventories corresponding to some 25% of sales. Sourcing on its customers' behalf is normally formalised through agreements with customers. Considering the complexity of EMS and variation in demand, NOTE collaborates closely with customers to limit the risk of obsolescence in inventories. Obsolescence risk is monitored continuously.
Cyclical and seasonal variations	The market for outsourced EMS is usually considered fairly cyclical. However, one important factor is that in principle, NOTE never conducts manufacture for capacity reasons to supplement customers' own production. Deterioration of the global economy, or a reduction in demand on NOTE's major markets would risk impacting NOTE's sales growth and earnings negatively. The business model is intended to achieve profitable growth combined with low investment and overheads.
Production downtime Downtime in production affecting deliveries to customers and causing extra costs.	Because NOTE conducts high end manufacture of electronics, it is subject to high demands on efficient processes and state-of-the-art production equipment. The risk of production downtime is limited by production being of a similar nature across several of the group's plants. Accordingly, NOTE can transfer production from one plant to another, and have its units interact on production, which limits its risks from long-term production downtime. NOTE has extensive insurance cover, including cover to minimise the loss of contributions caused by production downtime.
Competence The risk of not possessing sufficient competence in all parts of the business.	NOTE provides sophisticated EMS which require high technical competence across several segments. NOTE endeavours for staff to achieve continuous skills development.
IT NOTE's operations require IT systems that work well. IT-related disruptions can cause production downtime, loss of invoicing and/or reduced efficiency in administration and sales.	NOTE's operations require highly functional IT systems. NOTE has a selection of local applications and operating environments with varying functionality and capacity. Following a far-reaching, group-wide project, a common business specific ERP system has been introduced at all NOTE plants in Sweden, Estonia and Finland. This is a key step in realising the ambition of further harmonising internal processes and systems support group wide.
Sustainability risks Risk of shortcomings in occupational health and safety, as well as corruption.	Certain materials are manufactured by suppliers or sub-contractors in countries where there are risks of shortcomings in occupational health and safety, as well as corruption. Accordingly, NOTE works actively on concentrating its sourcing of materials on suppliers with sustainable and responsible standpoints on these issues. NOTE communicates its Code of Conduct to suppliers continuously through audits, agreements and business-related meetings.
Environmental risks The risk that operations harm the environment, and costs for complying with new, more stringent environmental directives.	Unlike many other sectors such as the heavy engineering and raw materials industries, NOTE's business has a fairly limited environmental impact. To comply with applicable environmental legislation, NOTE has essentially transferred to lead-free production.
Liability Risks in addition to the above sustainability and environmental risks where NOTE may be liable for claims due to commitments in its business.	NOTE's role includes it being a collaborative partner to its customers, but not a product owner. This means that materials selection and production are in accordance with the customer's specification. Usually, the standards applying to NOTE's documentation of services rendered are extensive and can be considered complex. Quality monitoring of NOTE's production and strategic suppliers is a continuous process. NOTE's insurance cover is assessed to be reasonable and is adapted to operational risks. Where possible and financially viable, there is insurance cover for issues including specific costs that may arise as a result of production faults.

FINANCIAL RISKS

RISK	EXPOSURE AND MANAGEMENT
Currency The risk that a fluctuation in exchange rates affects the group's profit, cash flow or Balance Sheet negatively.	Against the background of an increasing share of value-added being generated in foreign plants and the purchasing of electronic components and other production materials being largely in foreign currencies (EUR/USD), NOTE has fairly extensive currency management. With the aim of limiting currency risks, NOTE trades in currency forwards and similar instruments.
Financing The risk that refinancing loans is more difficult or costly, and that accordingly, NOTE's solvency is negatively affected.	NOTE needs external finance, primarily linked to the working capital of operations. Different sources of finance are continuously evaluated in close collaboration with NOTE's lenders. Funding costs and NOTE's prospects of re-financing are closely linked to market conditions and NOTE's profitability and cash flow.
Customer credit The risk that a customer is unable to pay its debt to NOTE.	Overall, NOTE has a diversified customer base where no single customer represents more than 10% of sales. In terms of NOTE's business setup, there are some individual customers that do create fairly high exposure in accounts receivable–trade and inventories, including outstanding purchase orders. Were these customers' solvency to deteriorate, this could have an adverse impact on NOTE's earnings. NOTE evaluates and credit checks new and existing customers. Ongoing financial reporting includes close monitoring of accounts receivable–trade and inventories, including outstanding purchase orders.

Sustainability

A sustainable business operation is the key to long-term success. NOTE works continuously on issues affecting the environment, social conditions and its human resources, human rights and anti corruption. This work is conducted with the aid of applicable legislation, standards and other regulations.

NOTE's connection to UN Global Sustainable Development Goals, page references in the Annual Report

3 GOOD HEALTH AND WELL-BEING	Social conditions and human resources, page 16. UN Global Compact, Principle 1, page 17.
5 GENDER EQUALITY	Social conditions and human resources, page 16. UN Global Compact, Principle 6, page 18. Human resources, page 20–21.
8 DECENT WORK AND ECONOMIC GROWTH	Social conditions and human resources, page 16. UN Global Compact, Principles 1–6 and 10, page 17–19. Share data and owners, page 24–25.
10 REDUCED INEQUALITIES	UN Global Compact, Principle 6, page 18. Human resources, page 20–21.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Environmental policy and working methods, page 15. UN Global Compact, Principles 7–9, page 18–19.
17 PARTNERSHIPS FOR THE GOALS	UN Global Compact, Principles 1–10, page 17–19. Human resources, page 20–21. Customer satisfaction survey, page 12.

Timeline of NOTE's sustainability work

1997
The plant in Norrtälje, Sweden, ISO 14001 certification.

2002
The plant in Torsby, Sweden, ISO 14001 certification.

2004
The plant in Lund, Sweden, ISO 14001 certification.

2006
Code of conduct produced.

2010
The plants in UK and China ISO 14001 certification.

2011
NOTE joins UN Global Compact.

Global Sustainable Development Goals
Global heads of state and governments adopted 17 Global Sustainable Development Goals at the UN summit on 25 September 2015. The links between these goals and NOTE's activities, targets and strategies are reported on the pages stated in the contents to the left.

Sustainable production through close partnerships
Working on an integrated footing on various sustainability issues is critical to the effectiveness of overall performance, and NOTE's sustainability work involves all group companies. These issues cover everything from appropriate conduct towards the company's stakeholders and helping customers choose components with good environmental and quality performance, to locating manufacture close to final markets, and limiting the environmental impact of transportation as far as possible.

Sustainability questions have been included in the annual survey sent to customers to identify the segments they think are important to focus on. In tandem with reducing its impact on the environment and wider society, NOTE endeavours to achieve responsible conduct on the markets where it operates.

NOTE's sustainability objective
The objective is to contribute to, and improve, the societies where NOTE operates, by developing sustainable initiatives in our business. The group's shared values and policies are intended to lead, influence and direct the group's activities. NOTE complies with international standards and directives in the sustainability segment.

Environmental policy and working methods
NOTE endeavours to achieve long-term, sustainable development by manufacturing with the minimum possible environmental impact. NOTE endeavours to comply with, or exceed, applicable environmental legislation, and pursues continuous improvement in the environmental segment.

NOTE's environmental work complies with international ISO guidelines, under the ISO 14000 family of standards.

The group's manufacturing units hold ISO 14001 environmental certification and are audited by internal and external resources. In the fourth quarter 2018, NOTE acquired a plant in Windsor, UK, which had already been working on environmental issues pursuant to ISO 14000 for many years, and is scheduled for certification in 2019. NOTE was one of the earliest companies in the sector to receive ISO 14000 environmental certification, back in 1997.

Despite differences in environmental legislation between countries, NOTE has the constant ambition of all its plants following a consistent line of environmental work. Its manufacturing units exchange best practice, best-in-class actions and proposals for improvement.

Manufacturing units sort the waste from consumables at source, and monitor energy consumption continuously. NOTE also applies environmental consideration

2012
The plant in Finland ISO 14001 certification.
The plant in Estonia receives sustainability award from the Estonian Chamber of Commerce & Industry.

2013
The plant in Estonia ISO 14001 certification.
OHSAS 18001 implemented at the plants in Estonia and China.
Human rights and Anti corruption policies produced.

2014
For the fifth consecutive year, the plant in Estonia is awarded the Silver Sustainable Business Index Award by the Responsible Business Forum.

2015
The plant in Finland OHSAS 18001 certification.

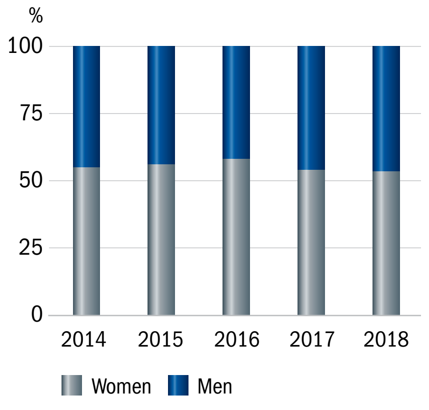
2017
Equality policy produced.
The plant in Norrtälje, Sweden, nominated for Samhall's Visa vägen ('Show the Way') award.

2018
Privacy policy produced in order to handle personal data in accordance with GDPR.

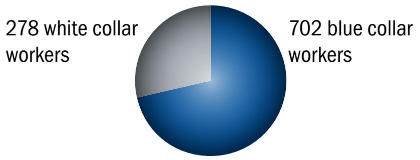
in other parts of its business, through channels including discussions with its customers on sourcing materials and production setups.

Electronic scrap, glass and paper are recycled. NOTE conducts improvement projects to reduce waste, energy consumption and CO_2 emissions. Corrugated board and combustible waste are compacted to minimise the amount of waste transports, which affect the environment.

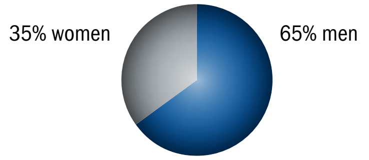
Gender division group



Division between blue collar and white collar workers



Gender division managers



In its transport, NOTE also coordinates its freight agreements to optimise transportation, and thus limit energy consumption and CO_2 emissions.

NOTE conducts regular environmental audits of strategic suppliers.

Social conditions and human resources

NOTE endeavours to be an employer offering everyone equal opportunities to work and develop. The group's collective competence is based on diversity, which helps bring dynamic and different perspectives to work.

NOTE is opposed to all forms of discrimination. One tool for working on this and other issues is its whistleblower function, which was improved in the year. NOTE implemented a Privacy policy in 2018, which regulates the management of personal data. This policy was prepared pursuant to the EU GDPR (General Data Protection Regulation).

All NOTE employees are entitled to collective bargaining agreements, and to form and join trade unions. Collective bargaining agreements are in place at most NOTE plants. Three plants also use OHSAS 18001 to guide their work. This far-reaching, global and verifiable standard in occupational health and safety involves with external auditing and certification.

NOTE conducts an annual employee satisfaction survey, and in 2018, the response frequency was 82% (75% in 2017).

Respect for human rights and anti corruption

NOTE respects human rights and its conduct prevents them being infringed. In addition to responsibility for its own operations, this also implies a responsibility for respecting human rights in business relations with the company's stakeholders. NOTE's Human Rights policy has principles and standpoints that apply in labour law and equal opportunities for example.

NOTE's Code of Conduct formalises how the company expects its suppliers to conduct themselves within human rights, labour law, child labour, corruption and the environment. This is conveyed through the supply chain, and monitored in supplier audits.

NOTE's Anti Corruption policy includes principles stating the group's standpoint on corruption. The policy also reviews segregation of duties, how internal controls are conducted, and stipulates a whistleblower procedure.

Consistent with previous years, and within the auspices of its internal controls, NOTE has a documented process for evaluating risk and compliance with policies. In 2019, NOTE intends to continue policy work and encourage positive social progress in the locations where NOTE has a presence.

Full versions of NOTE's Code of Conduct, Human Rights, Equality and Anti Corruption policies are available at www.note.eu.

For more information on NOTE's business model and risk management, see the operational review on pages 8 and 13.

UN Global Compact

In 2011, NOTE joined the Global Compact, which was started on a UN initiative.

Global Compacts ten principles

The Global Compact has formulated ten principles affecting human rights, labour law, the environment and anti corruption. Member companies have undertaken to comply with these principles.

Each year, NOTE reports its COP (Communication on Progress) to the UN. This is a framework that defines how sustainability work is conducted within the group, and towards external stakeholders. The COP reviews its actions, approach and goals. In 2018, NOTE upgraded its involvement to Global Compact Participant.

NOTE's Code of Conduct is based on the Global Compact's ten principles and the full version is available on its website. A summary of NOTE plants' executed and forward-looking work on Global Compact principles follows.

HUMAN RIGHTS

PRINCIPLE 1: BUSINESSES SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006. NOTE endeavours to develop business with companies that have the corresponding ethical rules on accountability.

RESULT 2018

NOTE works actively and continuously to ensure compliance with its Code of Conduct.

In the year, NOTE encouraged existing and new customers and suppliers to join, or support, the UN Global Compact by communicating the significance of these issues. NOTE signed agreements with another three strategic or contracted suppliers (four in 2017), who accepted NOTE's Code of Conduct or have their own, equivalent code.

NOTE conducted follow-up audits on 35 suppliers (39 in 2017) that had previously accepted NOTE's Code of Conduct and the ten principles of the UN Global Compact. The form used for supplier audits included questions regarding human rights.

The share of sourcing from strategic and contracted suppliers is approximately 55% (49 to 55% in 2017). NOTE supported UNICEF, which operates in 190 countries, in activities to save the lives of children, defend their rights, and help them realise their potential, from early childhood through their teenage years.

GOALS 2019

Influence suppliers to accept NOTE's Code of Conduct and encourage customers and suppliers to join the UN Global Compact, or support its ten principles.

Continuously follow up on NOTE's Code of Conduct and the ten principles of the UN Global Compact in supplier audits.

Increase the share of sourcing from strategic and contracted suppliers by two percentage points.

Work to help children and uphold their rights, by supporting development organisations.

PRINCIPLE 2: BUSINESSES SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES

APPROACH

NOTE has been applying its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE's Human Rights policy has been implemented in all plants' business systems.

RESULT 2018

NOTE works actively and continuously to ensure compliance with its Code of Conduct internally. Internal audits were conducted to ensure compliance with relevant policies, laws and ordinances.

In the year, NOTE experienced greater demand for materials analysis, and continued its work on reducing the usage of conflict minerals by helping customers select materials, to avoid this type of material.

GOALS 2019

Continue to promote human rights internally and towards the company's stakeholders.

LABOUR LAW

PRINCIPLE 3: BUSINESSES SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHTS TO COLLECTIVE BARGAINING

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

All NOTE employees are entitled to collective bargaining and to form, and join, trade unions. Collective bargaining agreements are in place in most NOTE plants. NOTE's Human Rights policy states the group's internal standpoints on this principle.

Three plants also use OHSAS 18001 as a guidance for their work. This is a far-reaching, global and verifiable standard in occupational health and safety, with external auditing and certification.

RESULT 2018

NOTE works actively and continuously to ensure compliance with its Code of Conduct.

In the year, NOTE encouraged existing and new customers and suppliers to join, or support, the UN Global Compact by communicating the importance of these issues.

NOTE signed agreements with another three strategic or contracted suppliers (four in 2017), who accepted NOTE's Code of Conduct or have their own, equivalent code.

NOTE conducted follow-up audits on 35 suppliers (39 in 2017) that had previously accepted NOTE's Code of Conduct and the ten principles of the UN Global Compact. The results of audits indicate that suppliers are complying with relevant laws and regulations.

The share of sourcing from strategic and contracted suppliers is approximately 55% (49 to 55% in 2017).

In the year, NOTE continued its work on reducing the usage of conflict minerals.

GOALS 2019

Influence suppliers to accept NOTE's Code of Conduct, and encourage customers and suppliers to join the UN Global Compact, or support its ten principles.

Continuously follow up on NOTE's Code of Conduct and the ten principles of the UN Global Compact in supplier audits.

Increase the share of sourcing from strategic and contracted suppliers by two percentage points.

PRINCIPLE 4: BUSINESSES SHOULD UPHOLD THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

As part of its business principles, NOTE and its customers' and suppliers' employees should enter employment and contracts of their own free will.

Three plants also use OHSAS 18001 as a guidance for their work. This is a far-reaching, global and verifiable standard in occupational health and safety, with external auditing and certification.

NOTE's Human Rights policy stipulates that employment with the company should always be voluntary. Additionally, work should always be conducted without compulsion or harassment, either physical or psychological.

RESULT 2018 AND GOALS 2019

See principle 3.

PRINCIPLE 5: BUSINESSES SHOULD UPHOLD THE EFFECTIVE PROHIBITION OF CHILD LABOUR

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE complies with relevant laws and ordnances on child labour. NOTE does not employ children and does not collaborate with companies that use children as part of their workforce.

Three plants also use OHSAS 18001 as a guidance for their work. This is a far-reaching, global and verifiable standard in occupational health and safety, with external auditing and certification.

The group's standpoints on this principle are stated in NOTE's Human Rights policy.

RESULT 2018 AND GOALS 2019

See principle 3.

PRINCIPLE 6: BUSINESSES SHOULD UPHOLD THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE believes in a workplace where all employees have equal opportunities to work and progress. NOTE sees and benefits from all employees' specific competence and developmental opportunities, regardless of sex, ethnicity, sexual orientation, disability, age and social background.

NOTE's Equality policy states the company's principles governing equal opportunities and diversity, which are encouraged in all parts of its business. The company endeavours to achieve equal opportunities in terms of employment and working conditions, as well as developmental opportunities. The company pursues diversity on recruitment. Its working climate should feature respect and tolerance. If any instances of harassment or bullying are reported, the group will take action immediately.

Three plants also use OHSAS 18001 as a guidance for their work. This is a far-reaching, global and verifiable standard in occupational health and safety, with external auditing and certification.

RESULT 2018

NOTE conducted a group-wide employee satisfaction survey in the year, whose results are utilised in NOTE's forward planning and development work.

NOTE enhanced its Whistleblower policy and procedures in the year, and produced a Privacy policy compliant with the EU GDPR.

NOTE works continuously to ensure compliance with its Code of Conduct.

In the year, NOTE encouraged existing and new customers and suppliers to join, or support, the UN Global Compact by communicating the significance of these issues.

NOTE signed agreements with another three strategic or contracted suppliers (four in 2017), who accepted NOTE's Code of Conduct or have their own, equivalent code.

Follow-up audits were conducted on 35 suppliers (39 in 2017) that had previously accepted NOTE's Code of Conduct and the ten principles of the UN Global Compact. The results of these audits indicate that suppliers are complying with relevant laws and regulations.

The share of sourcing from strategic and contracted suppliers is approximately 55% (49 to 55% in 2017).

GOALS 2019

Conduct a group-wide employee satisfaction survey and use its results in business processes.

Influence suppliers to accept NOTE's Code of Conduct and encourage customers and suppliers to join the UN Global Compact, or support its ten principles.

Continuously follow up on NOTE's Code of Conduct and the ten principles of the UN Global Compact in supplier audits.

Increase the share of sourcing from strategic and contracted suppliers by two percentage points.

ENVIRONMENT

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

17 PARTNERSHIPS FOR THE GOALS

PRINCIPLE 7: BUSINESSES SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE's manufacturing units hold ISO 14001 certification and undergo internal and external audits.

NOTE's plants run improvement projects in the environmental segment, and measure a series of environmental factors such as electronic scrap, energy consumption and transport. All plants have environmental targets, which are monitored regularly.

NOTE is endeavouring to increase the share of sourcing from strategic and contracted suppliers. NOTE has a good understanding of these suppliers' environmental work, and can help them to develop and improve in this segment.

RESULT 2018

NOTE works actively and continuously to ensure compliance with its Code of Conduct.

NOTE's plants work on the basis of individual targets and circumstances in the environmental segment. A variety of initiatives are ongoing, including work lights that have been wholly or partly replaced with LED equivalents at manufacturing units to save energy. Timers have been installed at certain plants to ensure lighting is not used unnecessarily.

Several selective soldering machines have been installed, reducing tin slag, and enabling a more environmentally friendly process than previously.

In the fourth quarter 2018, NOTE acquired a plant in Windsor, UK, which had already been working on environmental issues pursuant to ISO 14001 for many years, and is scheduled for certification in 2019.

NOTE's complete REACH-EU Regulation policy, stipulating how NOTE works to comply with this EU regulation for handling chemicals, is available at its website.

NOTE encouraged existing and new customers and suppliers to join, or support, the UN Global Compact by communicating the significance of these issues.

NOTE signed agreements with another three strategic or contracted suppliers (four in 2017), who accepted NOTE's Code of Conduct or have their own, equivalent code.

Follow-up audits were conducted on 35 suppliers (39 in 2017) that had previously accepted NOTE's Code of Conduct and the ten principles of the UN Global Compact. The results of these audits demonstrate that suppliers are complying with relevant laws and ordinances.

The share of purchasing from strategic and contracted suppliers is approximately 55% (49 to 55% in 2017).

GOALS 2019

Continued progress towards still more environmentally friendly production and environmental transportation. Continue to reduce waste volumes.

ISO 14001 certification of the Windsor plant.

Influence suppliers to accept NOTE's Code of Conduct and encourage customers and suppliers to join the UN Global Compact, or support its ten principles.

Continuously follow up on NOTE's Code of Conduct and the ten principles of the UN Global Compact in supplier audits.

Increase the share of sourcing from strategic and contracted suppliers by two percentage points.

PRINCIPLE 8: UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

APPROACH

NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE's plants hold ISO 14001 certification and undergo internal and external audits.

The group works actively on developing guidelines and methodologies designed to minimise the group's negative environmental impact. Employees are encouraged to participate in this process.

NOTE is endeavouring to increase the share of sourcing from strategic and contracted suppliers. NOTE has a good understanding of these suppliers' environmental work and can help them to develop and improve in this segment.

RESULT 2018 AND GOALS 2019

See principle 7.

PRINCIPLE 9: ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGY

APPROACH
NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE's plants hold ISO 14001 certification.

NOTE takes a positive view of developing environmental technology and actively supports new manufacturing methods and components that are more environmentally friendly. NOTE conducts environmental audits when introducing new equipment, technology and logistics solutions. Experience is shared between the group's plants.

An environmental perspective is considered jointly with customers when tailoring product manufacture. A database for identifying RoHS, Reach and conflict minerals in components is being used.

NOTE is endeavouring to increase the share of sourcing from strategic and contracted suppliers. NOTE has a good understanding of these suppliers' environmental work,and can help them to develop and improve in this segment.

RESULT 2018 AND GOALS 2019
See principle 7.

ANTI CORRUPTION

8 DECENT WORK AND ECONOMIC GROWTH

17 PARTNERSHIPS FOR THE GOALS

PRINCIPLE 10: BUSINESSES SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

APPROACH
NOTE has been using its Code of Conduct, which supports the ten principles of the UN Global Compact, since 2006.

NOTE has an Anti Corruption policy, as well as a Whistleblower policy and Procedure, which has been implemented in all plants' business systems.

NOTE encourages employees to resolutely counter all forms of corruption, extortion and bribery. Simultaneously, NOTE expects the corresponding attitudes from its customers and suppliers. NOTE does not accept any gifts, whether to customers or from suppliers, other than items of lesser value.

NOTE's Purchasing policy prohibits of bribery and corruption, with sourcing managed according to ethical rules.

NOTE has group-wide and local authorisation procedures expedient for its business.

RESULT 2018
NOTE works actively and continuously to ensure compliance with its Code of Conduct.

NOTE continued to enhance its internal control processes in the year. NOTE conducted internal follow-ups and audits of its Anti Corruption policy, and verified that its authorisation procedures are functional. No observations were made in these audits.

No instances of suspected corruption were reported through the whistleblower procedure.

In the year, NOTE encouraged existing and new customers and suppliers to join, or support, the UN Global Compact by communicating the significance of these issues.

NOTE signed agreements with another three strategic or contracted suppliers (four in 2017), who accepted NOTE's Code of Conduct or have their own, equivalent code.

Follow-up audits were conducted on 35 suppliers (39 in 2017) that had previously accepted NOTE's Code of Conduct and the ten principles of the UN Global Compact. The results of these audits demonstrate that suppliers are complying with relevant anti corruption laws and ordinances.

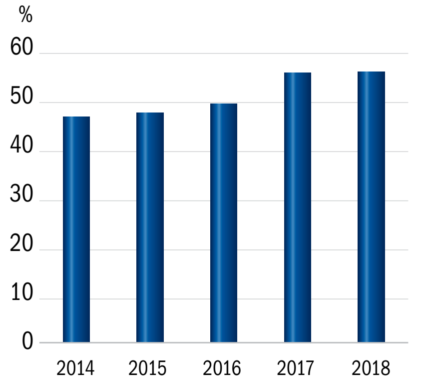
The share of purchasing from strategic and contracted suppliers was approximately 55% (49 to 55% in 2017).

GOALS 2019
Influence suppliers to accept NOTE's Code of Conduct and encourage customers and suppliers to join the UN Global Compact, or support its ten principles.

Continuously follow up on NOTE's Code of Conduct and the ten principles of the UN Global Compact in supplier audits.

Increase the share of sourcing from strategic and contracted suppliers by two percentage points.

SHARE OF SOURCING FROM STRATEGIC SUPPLIERS



THE GLOBAL COMPACT
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

> *Our customers show a big interest in the environment. We're proud of our work with the UN Global Compact, and endeavouring to help improve the world around us.*

Johannes Lind-Widestam, CEO and President

Human resources

NOTE's business is built on solving customers' complex problems every day. Apart from robust, industrial processes, it's our people—with their ingenuity, commitment and drive to help customers—who create the strength of operations.

NOTE possesses a global organisation with operations in Sweden, Finland, the UK, Estonia and China. One of its key missions is to develop the interaction between plants. This work is done through channels including a number of functional forums, in segments including quality, sourcing, accounting and sales. NOTE works continuously on harmonising its working methods and monitoring tools, as well as clarifying guidelines. Its improvement and development processes involve many employees group wide. NOTE continuously monitors business-related key performance indicators such as ongoing central and local improvement projects.

The workforce was upsized and downsized in the year to cope with demand fluctuations and to implement rationalisation. Overall, the workforce was 1,077 people at year-end. Staff turnover was 17% in the group overall, of which 8% was in the European plants.

Training

To assure quality and competence in the electronics assembly process, several NOTE plants maintain long-term collaborations with external partners in soldering and electronics assembly training. Usually, these programmes involve practical work and the certification of qualified electronic assemblers.

Several NOTE plants offer opportunities for University and college students to write their masters' dissertations. Partnerships in the year included, for example, the University of Gävle and Örebro University School of Business.

Employee of the Month

Achieving the goal of being the best collaboration partner in the sector, with leading delivery precision and quality for a competitive overall cost, demands a lot from everyone involved. To recognise the people that have contributed something

Morgan Bergkvist

Production Leader, Torsby, Sweden

Morgan thinks that NOTE offers good developmental opportunities, and his 14 years with the company have increased his thirst for knowledge.

"NOTE is a good employer, because it's a stimulating workplace that's always moving forward," says Morgan.

Apart from being a Production Leader in Surface Mounting, he's also Warehouse Manager. This means that staff responsibility is a big part of Morgan's working day. What he likes most about his job are the challenges.

"Although I work in a process that's basically constant, our unique products always present challenges. So I feel the drive for improvement work, which is a part of these processes," he says.

Jon Liu

QA Engineer, China

NOTE helps its employees to grow by offering opportunities for further training and good career development. Jon thinks this is what makes NOTE a good employer. His work as a QA Engineer focuses on process and quality development, and helping customers get their needs satisfied.

In his eight years with the company, he has served in different roles, making progress in different segments, one example being when he started working at the QA function, and took IPC training. Jon emphasises the importance of improving his skills, which he achieves by studying and finding new knowledge.

"What I like most about my job is that I can learn new things from a good manager, while also improving my English skills," he explains.

Cay Chong Sieu

Production leader, Lund, Sweden

The Production Leader's role is very varied. Cay works in final assembly, which includes some testing and servicing.

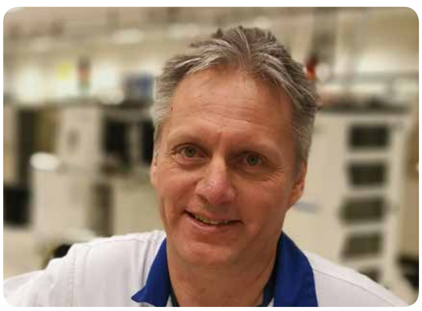
"Working independently, taking sole responsibility and solving challenges creatively are what I like most about my job. I like to give 100%, hope I can be a good resource for the company, and be proud of what I've done in future," says Cay.

Skills from the electronics sector and experience from previous education programmes and jobs have helped Cay progress in his professional role and as a manager in his four years at NOTE.

"NOTE is a good employer, because it's innovative, ready to invest and move forward. The company invests in its people, helping them take new training programmes in technology and electronics. This will enable the company to move forward, and become a large, growing business in the future," concludes Cay.

really special, NOTE has an Employee of the Month award. This might be someone who has ‘gone the extra mile,’ or been a great ambassador for NOTE. Another ambition of this award is to make an extra contribution to a stronger feeling of solidarity within the group and share real examples of how our employees conduct themselves when they perform at their best, for customers or colleagues.

A winner is selected each year, and in 2018, the Employee of the Year was Niklas Lithander from Norrtälje. Meet Niklas, and some of the other monthly winners, below.



Niklas Lithander

Technical project manager, Norrtälje, Sweden

Despite working for NOTE for 17 years, Niklas is still learning at work.

“There are so many processes, and the customers and people I encounter are so different, which means there’s a lot to learn,” he says.

His professional role involves a lot of customer contact, which he’s learned a lot from. Niklas helps take products from prototyping to batch production. His broad technology skills and ability to always match and exceed customer needs are one of the reasons he is our Employee of the Year—with his key qualities in his position as Technical Project Manager.

“I learn so much about customer needs, and these needs mean my duties really vary,” he explains.

The variation of his work is something he really appreciates, as well as the feeling of having helped customers achieve better products.

The good atmosphere at work, and the wealth of knowledge within the company thanks to the variety of its assignments are what Niklas thinks make NOTE a good employer.

As in previous years, an employee satisfaction survey was distributed to the group’s staff, who responded. It’s important that every employee feels that they can deliver value-added to customers, understand how to achieve this, and why. Plans of activities, with a schedule for execution, based on responses was created. The results are also utilised for NOTE’s future planning and development work.

For more information on human resources, refer to page 40 of the formal annual accounts.

Siiri Habicht

Sourcing Specialist, Estonia

“What I like most about my job is that it’s challenging and never boring. My colleagues are also important to me,” Siiri says.

In 14 years with NOTE, she’s tried a lot of different positions, and is an ambassador for NOTE’s values, because being proactive is one of her strengths.

“What makes NOTE a good employer is that we’re offered so many opportunities to develop,” she continues.

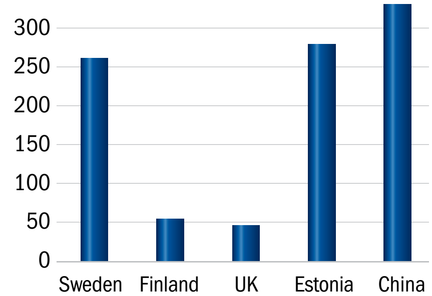
Siiri’s duties include sourcing materials and optimising materials pricing for new and current business accounts. Her work involves a lot of supplier communication and satisfying customer expectations, which is something that Siiri has really improved during her time with NOTE.

“Every customer’s unique, they all have different expectations and standards, which means you need to be flexible and adapt accordingly,” she explains,*” I knew nothing about electronics, or strategic sourcing, before I started at NOTE. I’ve learned to adapt.”*

Average number of employees

980

Average number of employees by country



Tracey Wright

Key Account Manager, Stonehouse, UK

Tracey started in sourcing, and her role has evolved in her ten years with NOTE. She’s now a Key Account Manager, a varied role covering a broad spectrum of duties.

“I don’t just deal with tenders or sourcing material for customers, I’m also involved in the day-to-day management of key accounts,” she explains.

The best thing about her job is her colleagues, because of the support they offer each other.

Although the team at Stonehouse is compact, Tracey knows they get help from other parts of the NOTE group if necessary.

In combination with flexibility, and encouragement to think for yourself and make your own decisions on projects, this is what makes NOTE a good employer.

“NOTE has been really flexible with my working-hours over the years, and I’ve been able to work from home regularly,” she concludes.

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in NOTE AB (publ)
Corporate identity number 556408-8770

Engagement and responsibility
It is the board of directors who is responsible for the statutory sustainability report for the year 2018 on pages 14–21 and that it has been prepared in accordance with the Annual Accounts Act.

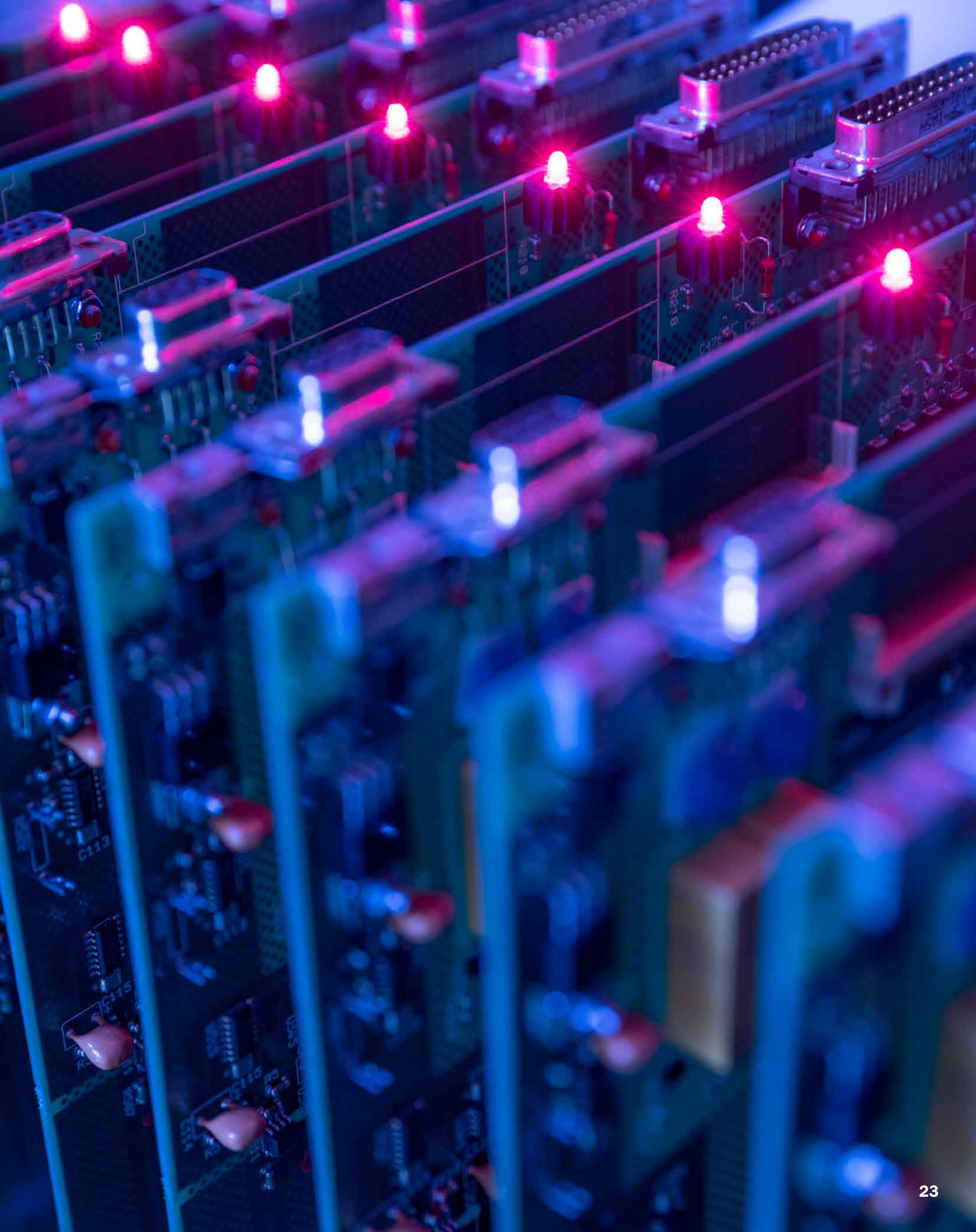
The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an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

Opinion
A statutory sustainability report has been prepared.

Discrepancies between reports
Swedish and English-language versions of this report have been produced. In the event of any discrepancy between the two, the Swedish version shall apply.

Niklas Renström
Authorised Public Accountant
Öhrlings PricewaterhouseCoopers AB

Stockholm, Sweden, 28 March 2019



Share data and shareholders

NOTE's share price was SEK 21.35 per share at year-end, and NOTE had 3,770 shareholders.

Share price performance

NOTE's share price was SEK 21.35 (24.30) per share at year-end. The high in the year was SEK 29.45, on 11 January. The low of the year of SEK 20.00 was on 6 July. The stock exchange OMX Stockholm Small Cap PI index fell by about 1% in the year.

At the end of the year, NOTE's market capitalisation was SEK 616 (702) million. The number of shareholders decreased by 14%, to 3,770 (4,379) at year-end.

Turnover

21,608,452 NOTE shares were traded on the Stockholm Stock Exchange in 2018, corresponding to a rate of turnover of 75%. An average of 86,434 shares were traded per day.

Dividend policy

The dividend should be adapted to average profit levels over a business cycle, and for the long term, comprise 30–50% of profit after tax. Dividends should also be usable to adapt the capital structure.

The Board of Directors is proposing a dividend of SEK 0.70 per share, corresponding to SEK 20.2 million, is paid to shareholders for the financial year 2018.

Trading

Listing:	Nasdaq Stockholm
Segment:	Small Cap
Sector:	Industrial Goods & Services
Ticker symbol:	NOTE
ISIN code:	SE0001161654
No. of shares as of 31 December 2018:	28,872,600

10 largest shareholders as of 31 December 2018, by holding

Name	No. of shares	Proportion of capital/votes, %
Johan Hagberg	5,818,099	20.15
Catella Fondförvaltning	2,426,842	8.41
Handelsbanken fonder	1,700,000	5.89
Mediuminvest A/S	1,440,000	4.99
Tredje AP-Fonden	1,365,000	4.73
Kjell-Åke Andersson with family	1,003,500	3.48
NOTE AB (publ)	1,000,000	3.46
Per-Olof Andersson	722,000	2.50
Claes Mellgren	722,000	2.50
Myggenäs Gård AB	659,659	2.28
Total	**16,857,100**	**58.38**

Division by size, holdings by shareholder as of 31 December 2018

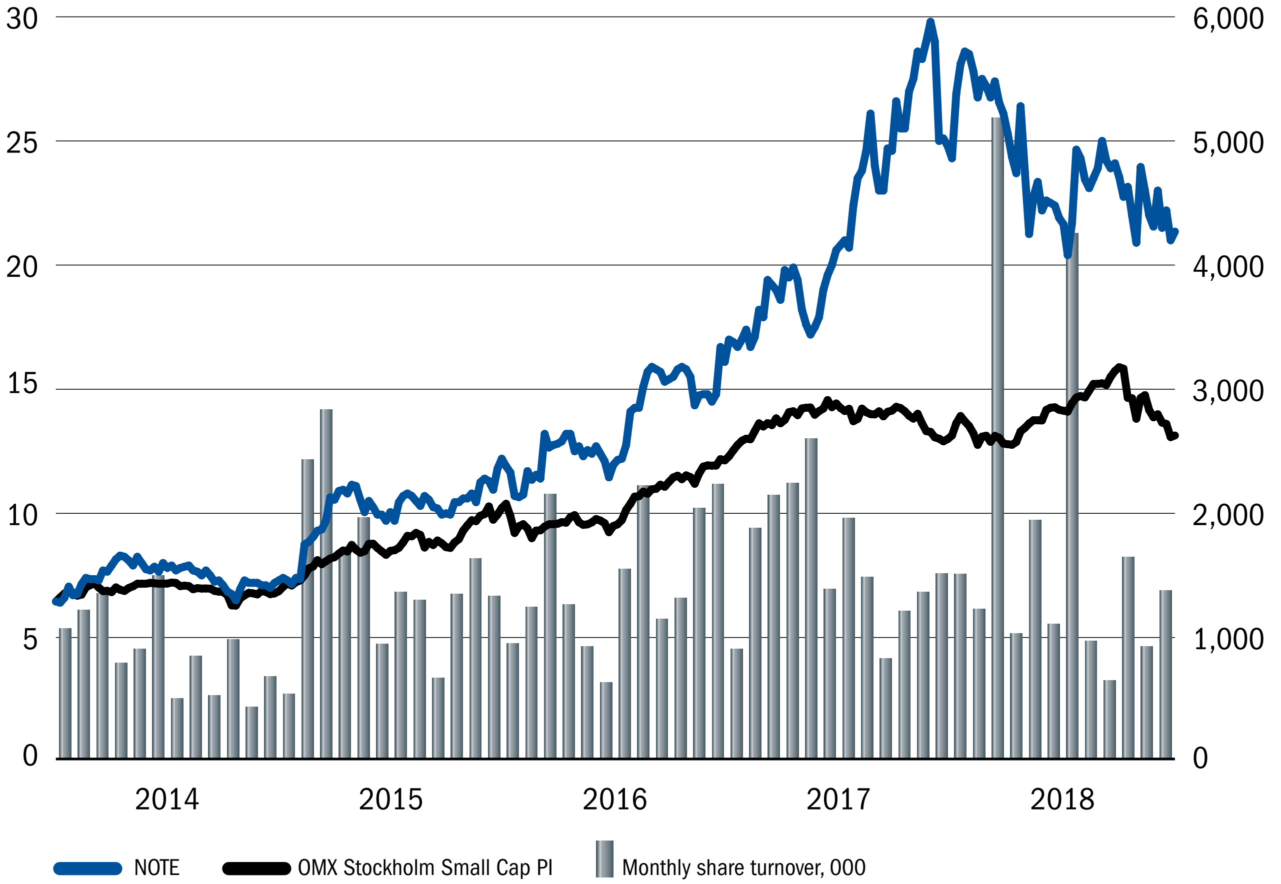
Size of holding	No. of shareholders	No. of shares	Proportion of capital/votes, %
1–500	2,239	352,047	1.22
501–2,000	915	1,057,380	3.66
2,001–5,000	298	1,018,195	3.53
5,001–20,000	217	2,093,772	7.25
20,001–50,000	51	1,616,369	5.60
50,001–500,000	38	5,144,425	17.82
500,001–5,000,000	11	11,772,313	40.77
5,000,000 –	1	5,818,099	20.15
Total	**3,770**	**28,872,600**	**100.00**

Incentive programmes

The Annual General Meeting (AGM) in April resolved on a long-term (three-year) incentive programme for senior managers and other key individuals. A total of 380,000 share warrants were acquired, in accordance with the principles resolved by the AGM. Pricing was on market terms, and the exercise price is SEK 29.00 per share. Including the three-year incentive programme of 600,000 share warrants that commenced in 2017, full exercise of share warrants would result in up to 980,000 shares being issued.
This corresponds to just over 3% of the total number of outstanding shares and votes.

An EGM in January 2019 resolved on a three-year incentive programme based on 400,000 share warrants for the company's CEO and President. Pricing was on market terms and the exercise price is SEK 29.20 per share.

Share price 2014–2018



Share capital history

Year	Transaction	Increase in no. of shares	Increase in share capital (SEK)	Total no. of shares	Total share capital (SEK)	Quotient value (SEK)
1999	Incorporation	3,000	300,000	3,000	300,000	100.00
2000	Bonus issue	27,000	2,700,000	30,000	3,000,000	100.00
2000	Split 10:1	270,000	–	300,000	3,000,000	10.00
2002	New share issue	84,000	840,000	384,000	3,840,000	10.00
2003	New share issue	15,000	150,000	399,000	3,990,000	10.00
2004	Split 20:1	7,581,000	–	7,980,000	3,990,000	0.50
2004	Option exercise	310,200	155,100	8,290,200	4,145,100	0.50
2004	New share issue	1,334,000	667,000	9,624,200	4,812,100	0.50
2010	New share issue	19,248,400	9,624,200	28,872,600	14,436,300	0.50

Corporate Governance Report

Introduction

The regulatory structure for governing and controlling NOTE primarily consists of the Swedish Companies Act, applicable regulations for listed companies, the Swedish Code of Corporate Governance (the Code), International Financial Reporting Standards (IFRS), as well as internal guidelines.

Articles of Association

The Articles of Association are approved by the Annual General Meeting (AGM) and include a number of mandatory duties of a more fundamental nature in accordance with applicable legislation. The Articles of Association stipulate items including the company's registered office, operations, the amount of share capital, the number of shares and how the AGM is convened. The Articles of Association also stipulate that the Board of Directors should consist of a minimum of three and a maximum of ten ordinary members. The Board members are elected annually at the AGM for the period until the end of the following AGM.

Resolutions on amending the Articles of Association are taken at Annual or Extraordinary General Meetings. Invitations to shareholders' meetings that are to deal with amendments of the Articles of Association should be issued at the earliest six and the latest four weeks prior to such meetings.

Shareholders

At the end of 2018, NOTE had one shareholder, Johan Hagberg, representing more than 10% of the shares of the company. Johan Hagberg represented 20.2%.

For more information on the share and shareholders, see the NOTE share on pages 24–25.

Shareholders' meetings

Shareholders' meetings are the company's chief decision-making body, where shareholders exercise their voting rights. All shareholders recorded in the share register on the record date, and that have duly notified the company of their participation, are entitled to participate in the Meeting and vote for their total holdings of shares, personally or by proxy. Each share corresponds to one vote. Individual shareholders that wish to have a matter considered at the Meeting can request this with NOTE's Board of Directors at the address published on the company's website, in good time prior to the Meeting.

Resolutions of the Meeting are published after the Meeting in a Press Release and the minutes of the Meeting are published on the website. NOTE's AGM will be held in Stockholm, Sweden.

The Annual General Meeting should be held within six months of the end of the financial year. The AGM considers matters relating to items including dividend to shareholders, adopting the Income Statement and Balance Sheet, discharging the Directors and CEO from liability, electing Directors, the Chairman of the Board and Auditors, and approving the guidelines for remunerating senior management and fees for the Board of Directors and Auditors.

Annual General Meeting 2018

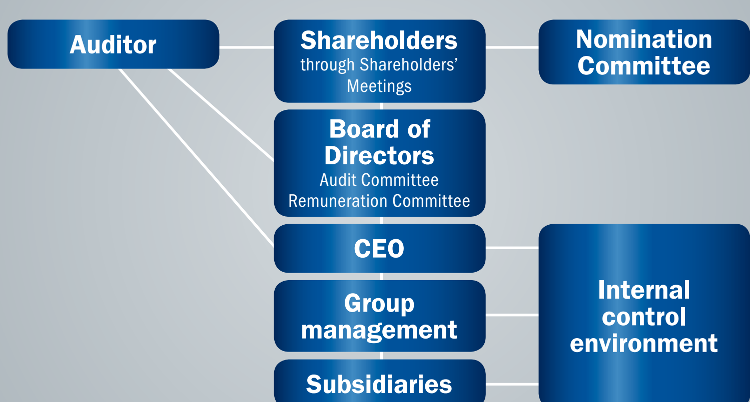
NOTE's AGM was held on 26 April 2018 at Spårvagnshallarna in Stockholm, Sweden. Shareholders representing a total of 47.7% of the capital and votes attended the Meeting. The Meeting resolved on matters including re-electing Kjell-Åke Andersson, Johan Hagberg, John Hedberg and Bahare Hederstierna

Laws and practice

More information on the laws and practice formalising Swedish corporate governance are available at sites including:

- The Swedish Corporate Governance Board, www.bolagsstyrning.se, where the Swedish Code of Corporate Governance is stated.
- NASDAQ Stockholm, www.nasdaqomx.com, which states the rules for issuers.
- The Swedish Financial Supervisory Authority, www.fi.se, which states Authority's statutes and information on insiders.

NOTE's overall governance



as Board members for the period until the next Annual General Meeting is held. Johannes Lind-Widestam was elected as a Board member. Per Ovrén and Mikael Norin left the Board. John Hedberg was elected Chairman. The AGM also approved fees in accordance with the Nomination Committee's proposal.

The Meeting also resolved to introduce an incentive programme for group management and key individuals. The programme consists of a private placement of a maximum of 380,000 share warrants, and runs until May 2021.

The Meeting approved the Board's proposal of a dividend to shareholders of SEK 1.00 per share and authorised the Board to decide on the purchase and transfer of treasury shares.

Extraordinary General Meeting 2019

An EGM on 21 January 2019 elected Anna Belfrage, Kaj Falkenlund, Claes Mellgren and Charlotte Stjerngren as Board members. Johannes Lind-Widestam simultaneously left the Board, which then has seven Board members elected by shareholders' meetings, with Johan Hagberg serving as Chairman. The meeting also resolved on a three-year incentive programme based on 400,000 share warrants for the company's CEO and President.

Nomination Committee

The AGM resolves on how the Nomination Committee is appointed. The AGM 2018 resolved that the Nomination Committee for the forthcoming AGM shall be formed by the four largest shareholders that wish to participate, each appointing a representative at least six months prior to the AGM, with the Chairman of the company's Board of Directors serving as convener. If one or more of the shareholders waives its right when Nomination Committee members are to be appointed, the next largest shareholder is then offered the corresponding opportunity.

The duty of the Nomination Committee is to consult on, and submit proposals to, the AGM regarding:

- Election of a Chairman of the Meeting.
- Election of the Chairman of the Board and Board members.
- Directors' fees for the Chairman, other Board members and remuneration for Committee work.
- Election and remuneration of the external Auditor.
- Resolution on principles of composition of the Nomination Committee for the next AGM.

As part of its work, for the AGM 2019, the Nomination Committee has considered the appraisal of the work of the Board in the year. Proposals for new Board members have been prepared, which also consider NOTE's Diversity policy.

The Nomination Committee's proposed Board members, Directors' fees and election of Auditors will be presented in the convening notice for the AGM. A report on the work of the Nomination Committee will be presented at the AGM 2019.

No special remuneration was paid to the members of the Nomination Committee.

Nomination Committee members for the AGM 2019

Committee member	Share of capital/votes, % 31 Dec 2018
Johan Hagberg, personal holdings	20.15
Martin Nilsson, Catella Fondförvaltning	8.41
Malin Björkmo, Handelsbanken fonder	5.89
Thomas Tang, Mediuminvest A/S	4.99

Diversity policy

NOTE's Diversity policy is adopted by the Board of Directors. The Chairman of the Board is responsible for communicating the policy to the Nomination Committee, which applies it for appointing Board members. The overall purpose is to identify Board members with the right competence and experience to manage NOTE's strategy work responsibly and successfully. Diversity in terms of age, gender, geographical origin, education and professional background are also considered.

No Board member should be subject to discrimination based on ethnic background, religion, physical or psychological disability, age, gender, sexual orientation or for any other reason.

Board of Directors

The duty of the Board of Directors is to manage the company's affairs on behalf of the shareholders. The Board of Directors judges the group's financial situation on an ongoing basis, determines budgets and annual financial statements. The Board of Directors is also responsible for formulating and monitoring the company's strategies through plans and objectives, decisions on acquisitions and divestments of operations, major investments, appointments and remuneration of the CEO and senior management, as well as ongoing monitoring of operations in the year.

Each year, the Board of Directors adopts an approvals list, finance policy, instructions for financial reporting and for the Board of Directors, and rules of procedure, which formalise matters including the division of responsibilities between the Board of Directors and the CEO, alongside the Instructions for the CEO.

The Chairman of the Board leads the Board of Directors' work and ensures

Board of Directors 2018

Board member	Position	Attendance statistics: Board meetings	Remuneration Committee	Audit Committee
Johan Hagberg (since 31 July 2018)	Chairman	8/8	2/2	–
John Hedberg (left 31 July 2018)	Chairman	4/8	2/2	2/3
Kjell-Åke Andersson	Member	8/8	2/2	3/3
Bahare Hederstierna	Member	7/8	2/2	–
Johannes Lind-Widestam (since 26 April 2018)	Member	6/8	2/2	1/3
Mikael Norin (left 26 April 2018)	Member	2/8	2/2	–
Per Ovrén (left 26 April 2018)	Member	2/8	2/2	–
Christoffer Skogh	Employee representative, member	8/8	2/2	–

that it is conducted in accordance with the Swedish Companies Act, applicable regulations for listed companies, including the Code and other laws and ordinances. The Chairman is also responsible for maintaining ongoing contact with the group management, and for ensuring that the Board's decisions are implemented appropriately.

The Chairman is also responsible for the yearly appraisal of the work of the Board, which is conducted through a survey provided to all Board members. The results are compiled and discussed by the Board. The Chairman is also responsible for providing the Nomination Committee with access to the appraisal.

The AGM in April elected Johannes Lind-Widestam as a Board member. Per Ovrén and Mikael Norin left the Board. Changes to NOTE's ownership caused changes to the Board after the AGM. John Hedberg left as Chairman during the summer, and was replaced by Johan Hagberg. An EGM in January 2019 elected four Board members. Johannes Lind-Widestam left. After these changes, the Board has seven Board members elected by shareholders' meetings and two employee representatives, one being a deputy.

The Board of Directors has an all-round composition of sector knowledge and competence from Board work and management of listed companies as well as financing, accounting, structural change and sales, and strategic sourcing.

The work of the Board in 2018

Each scheduled Board meeting conducts a review of operations, results of operations and financial position of the group and outlook for the remainder of the year. In addition, the Board takes a standpoint on over-arching issues such as the company's strategy, sales and marketing, financing, budget and long-term operational planning.

The Board of Directors endeavours for NOTE to be an employer where all staff get an equal opportunity to work and develop. Employees' specific competences should also be valued, regardless of gender, ethnicity, sexual orientation, disability, age or social background. The Board of Directors encourages the integration of equal opportunities and diversity into all aspects of operations.

The Board of Directors held eight meetings where minutes were taken in the year. Employees of the company participated in Board meetings to submit reports. The company's Auditor attended one Board meeting in the year. The company's CFO served as secretary.

Audit Committee

The members of the Audit Committee are appointed at the Board meeting following election for one year at a time. The main duty of the Audit Committee is to consult on matters for the Board of Directors' decision. The Audit Committee is not authorised to reach decisions independently. Reporting to the Board on issues considered at Audit Committee meetings is either in writing or orally at the following Board meeting.

In the financial year, the Audit Committee members were John Hedberg and Kjell-Åke Andersson. John Hedberg was replaced by Johannes Lind-Widestam after the summer, and in January 2019, Johannes Lind-Widestam was succeeded by Anna Belfrage.

The duties of the Audit Committee are to:

- → Work on quality-assuring financial reporting.
- → Discuss the audit and the view of the company's risks with the Auditor.
- → Follow up on external Auditors' reviews and appraise their work.
- → Set guidelines for services in addition to auditing that the company may purchase from the Auditor.

- Support the Nomination Committee in preparing proposals for Auditors and their remuneration.
- Ensure that the company has systems for internal control.

The Audit Committee maintains close and regular collaboration with the group's finance function on internal and external reporting of financial information.

There is also a developed collaboration on matters of internal control, selection and appraisal of auditing principles and models.

In the financial year 2018, the Audit Committee monitored compliance with the adopted guidelines and held three meetings with the company's Auditors, to discuss audit issues and internal controls. The Auditors' written reports were distributed to the Board of Directors after review and comments from the company. The following main issues were considered:

- Following up on the Auditor's reporting on the financial statement and ongoing reviews.
- Appraisal of the Auditor's measures during the year.
- Following up on the internal audit function's review in the year. The focus has been on valuations of inventories, accounts receivable–trade and goodwill, and auditing foreign subsidiaries.

Remuneration Committee

The members of the Remuneration Committee are appointed at the Board meeting following election for one year at a time. The Remuneration Committee consisted of the Board of Directors in 2018.

The duties of the Remuneration Committee are to:

- Consult on matters regarding remuneration principles, remuneration and other employment terms for group management.
- Monitor and evaluate programmes for performance-related pay for group management, subsidiary Presidents and other key individuals.
- Monitor and evaluate application of the guidelines for remuneration to senior management that the AGM has resolved on and applicable remuneration structures and remuneration levels in the company.

In the financial year, the Board of Directors discussed remuneration issues and monitored compliance with adopted guidelines.

The following main issues were considered:

- Evaluation and approval of remuneration structures for group management.
- Specifying the profitability-based, variable remuneration programme for group management, subsidiary Presidents and other key individuals, which ran during 2018.

After an evaluation, the Remuneration Committee concluded that:

- NOTE is following the guidelines for remunerating senior management that the AGM 2018 approved.
- Applicable remuneration structures and levels are reasonable against the background of the company's operations.
- Compensation from the profitability-based, variable remuneration programme that ran during 2018 for group management, subsidiary Presidents and other key individuals amounted to SEK 2.7 million excluding social security contributions.

Guidelines for remuneration and other benefits for senior management

For information on these guidelines, refer to the formal annual accounts on page 39. For information on remuneration and other benefits, see Note 8, Employees, personnel expenses and remuneration to senior management, on page 52.

Auditors

The AGM appoints the Auditors. The Auditors review the company's annual accounts, consolidated accounts and accounting records, and the administration by the Board of Directors and CEO.

The Auditor in Charge also presents an Audit Report to the AGM. The AGM 2018 re-elected Öhrlings PricewaterhouseCoopers AB as audit firm, with Niklas Renström as Auditor in Charge until the AGM 2019.

The group's operational governance

Chief Executive Officer

NOTE's CEO leads operating activities. This responsibility covers accounting issues, monitoring the group's strategies and business performance and ensuring that the Board of Directors receives the necessary information to be able to take well-founded decisions. The CEO reports to the Board of Directors, informing them of how operations are progressing based on the decisions they have taken. Written instructions define the segregation of duties between the Board of Directors and the CEO.

Group management

NOTE's group management is responsible for various parts of operations. This responsibility includes the preparation and execution of the group's overall strategies. During the financial year, group management held regular meetings to review results of operations, the conditions of operations and strategic and operational issues.

Governance of subsidiaries' operations

Subsidiaries' operations are followed up monthly on the basis of a number of operational targets, financial targets and key indicators.

Internal controls and risk management

Control environment

The division of roles and responsibilities between the Board of Directors and CEO is determined annually at the Board meeting following election via the rules of procedure for the Board of Directors and CEO and instructions for financial reporting. Ongoing work to maintain effective internal controls has been delegated to, and is mainly managed by, the CEO and the group's finance function. NOTE also works in close collaboration with its auditors.

The fundamental guidelines for internal control are managed via policies, instructions and similar governance documents. The content of these documents is updated and evaluated where necessary. The Board of Directors is responsible for key governance documents, and the group's finance function is responsible for other documents. NOTE has also developed an internal reporting package for financial information, which is monitored monthly within the group.

Risk assessment

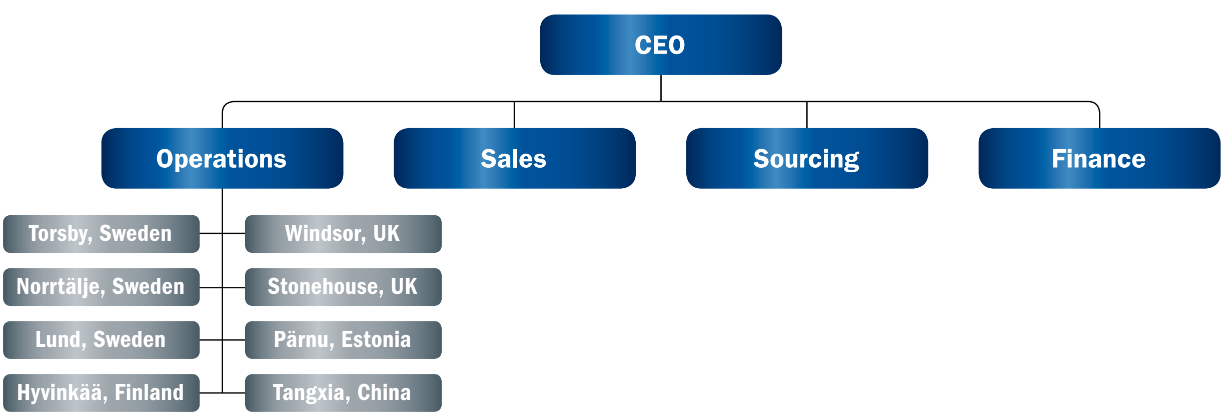
Through its operations, NOTE is exposed to a number of operational and financial risks. NOTE's finance policy states the limits within which financial risks should be managed. The finance policy is updated annually and adopted by the Board of Directors. NOTE also has a procedure for formalising management of the biggest risks in operations. The risks are evaluated from a matrix of probability and degree of financial effect. Existing control measures for the biggest risks in this matrix have been documented and additional controls introduced where required.

Guidelines and limits relating to risk assessments are updated regularly. For more information on risks and risk management, see Operations on page 13 and Note 24, Financial risks and finance policy on page 57–58.

Monitoring control activities

The monitoring of NOTE's units is under-going continuous progress. The units' financial and operational progress is followed closely in various forums. Matters that are addressed include financial key ratios and monitoring of goal-oriented activities relating to quality, cost, delivery and growth.

The need for an internal audit function is evaluated yearly. Considering the group's limited size and scope, the Board of Directors considers that NOTE does not need a separate internal audit function. The practical management of internal controls is conducted by NOTE's finance function.



Auditor's report on the Corporate Governance Statement

To the general meeting of the shareholders in NOTE AB (publ)
Corporate identity number 556408-8770

Engagement and responsibility
It is the board of directors who is responsible for the corporate governance statement for the year 2018 on pages 26–31 and that it has been prepared in accordance with the Annual Accounts Act .

The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Discrepancies between reports
Swedish and English-language versions of this report have been produced. In the event of any discrepancy between the two, the Swedish version shall apply.

Niklas Renström
Authorised Public Accountant
Öhrlings PricewaterhouseCoopers AB

Stockholm, Sweden, 28 March 2019

Group management

	JOHANNES LIND-WIDESTAM	DAVID KRANTZ	HENRIK NYGREN	FREDRIK SCHULTZ
Position	Chief Executive Officer	Chief Procurement Officer	Chief Financial Officer	Chief Sales Officer
Employed	2018	2017	2006	2015
Born	1972	1980	1956	1972
Education	M.Sc. (Econ.)	M.Sc. (Eng.) in communications and transport systems.	M.Sc. (Eng.) in industrial engineering and management.	Graduate of the Swedish Air Force Officer Training School, political economics qualifications.
Other significant assignments	None.	None.	None.	None.
Professional experience	Experience of a range of executive positions including serving as CEO of Kitron Sverige AB and Elos Medtech AB.	Long-term experience of procurement and supply chains in operational and executive positions with companies including Ericsson.	CFO and business controller of major listed Swedish and international industrial groups such as SSAB, Danaher Corporation and Snap-on Incorporated. Previous experience of business development and trade sales for companies including Retriva AB.	Many years' experience of the EMS sector from senior positions in supply chain, procurement and sales in multinational groups such as Flex and Enics.
NOTE shareholdings*	68,780 shares.	0 shares.	100,000 shares.	50,000 shares.
NOTE option holdings	565,000 options.	100,000 options.	165,000 options.	165,000 options.

* As of March 2019, Including holdings by related persons or legal entities.

Board of Directors




	JOHAN HAGBERG	KJELL-ÅKE ANDERSSON	ANNA BELFRAGE	KAJ FALKENLUND
Position	Chairman	Board member	Board member	Board member
Elected	2017	2010	2019	2019
Born	1971	1946	1962	1958
Education	Political economist and mathematician.	M.Sc. (Eng.)	M.Sc. (Econ.)	Undergraduate qualifications in mathematics, physics and mechanical engineering.
Main occupation	Professional investor.	Directorships and consulting in corporate management.	CFO of Södra Skogsägarna until 31 May 2019.	COO/Deputy CEO of SkulFlex Holding AB.
Other directorships	None.	Chairman of the Board of Cervitrol AB and Domitech AB. Director of Mekatronik Konsult i Lund AB.	Board member of Mycronic AB.	Board member of SVETAK.
Professional experience	Former mathematics teacher, entrepreneur active in the entertainment industry, as well as cultural producer active within regional adult education provider ABF Stockholm.	Over 40 years' experience in industry, about 30 years in the EMS sector. Various positions including development engineer, production manager and CEO of companies including Electrolux and NOTE.	Broad-based experience of accounting and manufacturing. Previous positions include serving as CFO of ABS Group, Beijer Electronics Group and Södra Skogsägarna.	Eleven years as CEO of Skultuna Flexible AB. Long-term experience as Global VP of Supply Management, most recently with ABB.
NOTE shareholdings*	7,037,306 shares.	1,003,500 shares.	0 shares.	0 shares.
Non-affiliated to company and management	Yes.	Yes.	Yes.	Yes.
Non-affiliated to major shareholders	No, holds >10% of NOTE's shares.	Yes.	Yes.	Yes.

* As of 28 Feb 2019, including holdings by related persons or legal entities.





BAHARE HEDERSTIERNA	CLAES MELLGREN	CHARLOTTE STJERNGREN	CHRISTOFFER SKOGH	JOHAN LANTZ
Board member	Board member	Board member	Employee representative, Board member	Employee representative, Board member
2015	2019	2019	2017	2017
1981	1959	1976	1975	1972
M.Sc. (Econ.)	M.Sc. (Eng.)	M.Sc. (Econ.) and B.A.	Senior high school graduate, social sciences programme.	M.Sc. (Econ.)
Vice President Global Sales of Knorr Bremse GmbH.	Business angel and non-executive director.	Partner and investor relations consultant at Cord Communications.	Business Development Manager of NOTE.	Business Development Manager of NOTE.
None.	Board member of AQ Group (Nasdaq Mid Cap) and Automation Region.	None.	None.	None.
Fifteen years within purchasing and supply chain in the vehicle industry. Broad experience of various global leadership roles in Sourcing at Volvo Cars and Volvo Trucks, most recently as Strategic Purchasing Manager for electronics at Knorr Bremse GmbH.	Founder of AQ Group, and the company's CEO between 2010 and 2018. Previously active as production, logistics and site manager at various ABB units.	Over ten years' experience as a Financial Analyst at investment bank Carnegie, focusing on telecom, IT and small caps. Broad-based experience as a finance journalist, most recently as Editor-in-Chief at finance channel EFN.	Former employee representative of NOTE from 2009-2014. Ten years' experience as an Account Manager. Broad-based experience of several functions including manufacturing, supplier development and strategic procurement.	Sales experience in various roles.
5,000 shares.	722,000 shares.	0 shares.	100 shares.	0 shares.
Yes.	Yes.	Yes.	Yes.	Yes.
Yes.	Yes.	Yes.	Yes.	Yes.

Formal Annual Accounts →

FORMAL ANNUAL ACCOUNTS

Report of the Directors

OPERATIONS–GENERAL

NOTE is one of northern Europe's leading EMS partners. Its market positioning is especially strong in the high mix market segment, i.e. products that require a high level of technological competence and flexibility. NOTE produces PCBAs, subassemblies and box build products. NOTE's offering covers the complete product lifecycle, from design to after-sales.

The group consists of parent company NOTE AB (publ) and wholly owned subsidiaries in Sweden, Finland, the UK, Estonia and China.

OPERATIONS IN 2018

2018 was another good year for NOTE. The stated growth target is to increase market shares and achieve minimum stable organic yearly growth of 10%. In 2018, sales increased by 17% to SEK 1,378.6 million. Organic growth was 15%, and in the final two months of the year, sales increased as a result of acquired company Speedboard Assembly Services in the UK. Pro forma including Speedboard, sales were over SEK 1.5 billion in 2018.

Market positioning advanced and NOTE secured new business, on new accounts and through extended collaborations in its already-strong customer base. NOTE experienced high demand across all domestic markets. Order books expanded in the year, and in like-for-like terms, were just over 25% larger than at the previous year-end, indicating continued positive progress in the near term. NOTE is maintaining the pace necessary to be one of the fastest-growing companies in its sector.

NOTE's business model is based on long-term customer relationships and partnerships. Its customer base is diverse, and NOTE already partners with several of the leading corporations in the Nordics across a broad spectrum of industries. The company anticipates continued good growth potential through intensified partnerships with existing customers in the industrial, communication, medtech, defence and high end communication sectors. For example, the company is prepared to commence large-scale shipments in the defence segment in 2019.

NOTE has also secured many new business customers, within traditional industries as well as new, high-growth application segments, with examples of the latter being the previously reported partnerships with CellMark, active in medtech, Plejd in smart lighting, and Charge Amps, which develops electric vehicle charging solutions. Expanding digitalisation across industry and in people's everyday lives is driving the demand for electronics. This is creating attractive business opportunities for NOTE, which is working methodically and successfully to realise them.

In earnings terms, the company progressed strongly, and essentially consistent with established plans. Reported operating profit was SEK 83.9 (93.4) million. In this context, it is important to note that year-2017 operating profit included positive non-recurring effects of nearly SEK 16 million, mainly associated with the capital gain from the property sale in Lund, Sweden, while this year's operating profit was negatively impacted by SEK 7.0 million of termination costs related to a change of CEO in September. Adjusted for these items, underlying operating profit improved by 17% to SEK 90.9 (77.7) million. The earnings increase has several causes, including increased sales, cost rationalisations implemented and brisk progress on the Western European market. Computed in the same way, i.e. adjusted for non-recurring items, the operating margin was 6.6%, unchanged year on year. Although NOTE's ambitions are higher, progress was slowed somewhat by unfavourable currency translations compared to 2017. Additionally, the company prepared and built up for continued growth in the year, both organisationally and in terms of business processes, as well as through performance-enhancing investments in its equipment.

The effective management of working capital is a success factor for continued growth. The global market for electronic components remained under strain, with extended lead-times and challenges in terms of availability. Combined with growth, and multiple new customer projects starting up, working capital, not least inventories, increased, putting cash flow under pressure. Cash flow was strong in 2017, positively impacted by factors including the property sale in Lund. Including the acquisition of Speedboard, cash flow after investments for the year was SEK –76.0 (69.7) million. NOTE is well prepared financially for its future. After the acquisition of Speedboard and the recently executed repurchase programme of 1 million treasury shares, NOTE's liquidity situation remains favourable, and its equity to assets ratio is nearly 40%.

SALES AND RESULTS OF OPERATIONS 2018

Group

Sales

NOTE sells to a large customer base, essentially active in the industrial, communication, medtech, defence and high end consumer electronics sectors. Its customer base consists of large corporations active on the global market, as well as local enterprises whose primary sales are in northern Europe.

Sales increased by 17% in the year to SEK 1,378.6 (1,175.7) million. Extra sales in November–December from the acquisition of Speedboard Assembly Services of the UK brought growth of just over 2%. The positive impact of altered exchange rates, mainly EUR and USD, was approximately 2%.

The sales increase consisted of extended collaborations on established accounts, and the progressive impact of increased sales to new business customers. Sales growth in Western Europe was 23%.

Sales increased on all domestic markets in Europe, and especially from defence and major industrial customers. The demand for EMS at the Estonian plant, mainly to customers in northern Europe, also progressed positively, with growth of some 9%. Sales from the plant in China, to local and global customers, grew by 11%.

NOTE endeavours to secure long-term customer relations and partnerships. In the period, NOTE intensified several collaborations on new product generations with a range of customers in its already-strong customer base.

NOTE has also been working methodically for some time on expanding its customer base further, to boost sales and capacity utilisation in the group's units. As a result of these marketing initiatives, NOTE secured many new business accounts. Most of these new customers are European and Asian SMEs. Several of these partnerships, which usually start with industrialisation services (service sales, prototyping and pilot series), have now resulted in batch production and higher volumes.

The 15 largest customers in sales terms represented 53 (56)% of group sales. As in the previous year, no single customer (group) generated more than about 10% of total sales.

The group's order book, consisting of a combination of fixed orders and customer forecasts, progressed well—at year-end the order book in like-for-like terms was up by just over 25% year on year.

Results of operations

In order to keep sharpening competitiveness and create the potential for profitable sales growth, NOTE has been conducting methodical improvement work at all units for several years. This work is conducted locally at each unit and through a number of group-wide projects. Over and above initiatives to expand and develop its customer offering, NOTE's focus is on measures that improve delivery precision and quality performance, as well as cost and working capital rationalisation.

Mainly as a result of increased sales and stable progress of margins on new projects and on established accounts, NOTE's gross margin widened by 0.6 percentage points to 12.5 (11.9)%.

Sales and administration overheads were SEK 83.3 (73.1) million. In like-for-like terms and adjusted for non-recurring costs associated with reorganisation measures in Sweden in the previous year, and costs related to the change of CEO in September this year, overheads increased by approximately SEK 5.5 million (8%). Essentially, this increase is sourced from resource improvements to increase future growth. As a share of sales and computed in the same way, underlying overheads were 5.6 (5.9)%.

Other operating expenses/income were SEK –4.5 (26.2) million. The previous year was positively impacted by SEK 20.6 million from the property sale in Lund, Sweden, and adjusted for this item, the comparative figure was SEK 5.6 million. In year-on-year terms, operating profit was negatively impacted by some SEK 8 million from currency revaluations.

Operating profit was SEK 83.9 (93.4) million. Adjusted firstly for the property sale and other non-recurring items in the first quarter of 2017, and secondly expenses related to the change of CEO in September this year, underlying operating profit increased by SEK 13.2 million (17%) to SEK 90.9 (77.7) million. Computed on the same basis, the operating margin was 6.6 (6.6)%.

A significant increase in net debt, mainly due to the acquisition of Speedboard in the fourth quarter, was a contributor to net financial income/expense increasing somewhat to SEK –5.1 (–4.6) million.

Profit after financial items was SEK 78.8 (88.8) million, corresponding to a profit margin of 5.7 (7.6)%.

Profit after tax was SEK 64.2 (72.1) million, or SEK 2.22 (2.50) per share. The tax expense for the year corresponded to 19 (19)% of profit before tax.

Parent company

The parent company, NOTE AB (publ), is primarily focused on the management, coordination and development of the group. Revenue for the year was SEK 37.4 (34.8) million, and mainly consisted of intra-group services.

Operating profit was negatively impacted by SEK 7.0 million in the third quarter due to the change of CEO. In the first quarter 2017, operating profit was positively impacted by the property sale in Lund. Net financial income/expense for the year also includes SEK 1.0 (2.3) million of dividend received from subsidiaries. Parent company profit after tax was SEK 16.8 (54.3) million.

FINANCIAL POSITION, CASH FLOW AND CAPITAL EXPENDITURE

Cash flow

Competing successfully in the high mix market segment sets high standards on flexibility in manufacture, the effective supply of materials and the capability to deliver custom manufacturing and logistics solutions. Accordingly, NOTE puts a sharp focus on continuously improving its business methods and internal processes in these segments.

The global market for electronic components remained under strain in the year in terms of availability and lead-times. Although this is nothing unusual, it demanded extra efforts by NOTE's sourcing and planning functions, as well as maintaining close dialogue with customers and suppliers to maintain good delivery precision.

NOTE puts a sharp focus on continuous rationalisation of its utilisation of working capital. The combination of a strained electronics component market, increased sales and start-ups of several major new customer projects, contributed to an increase in component inventories. In like-for-like terms, inventories reduced in the fourth quarter. However, capital tied-up in inventories was 54% higher at year-end than in the previous year. Additional inventories from the acquisition of Speedboard contributed 20 percent-plus to the inventory increase.

NOTE works continuously on monitoring credit risk and limiting the number of outstanding days of credit. At year-end, accounts receivable—trade, which increased for natural reasons in the year, were up by 25% year on year. The number of outstanding days of credit was down somewhat on the previous year-end.

Accounts payable—trade mainly consist of sourcing electronic components and other production materials. NOTE works actively on enhancing its partnering model on the supplier side, which involves sourcing been concentrated on fewer, quality-assured suppliers. Simultaneously, this helps streamline the utilisation of working capital. At year-end, accounts payable—trade were 40% higher than the corresponding point of the previous year.

Acquisitions impacted cash flow after investments by SEK –79.7 million in the fourth quarter. For the full year, cash flow was SEK –76.0 (69.7) million, corresponding to SEK –2.63 (2.41) per share.

Equity to assets ratio

According to NOTE's externally communicated financial targets, the equity to assets ratio should not fall below 30%. The equity to assets ratio at year-end was 39.8 (48.8)%. The acquisition of Speedboard Assembly Services had a negative impact on the equity to assets ratio of some 4 percentage points. The equity to asset ratio reduced by another some 5 percentage points due to the share dividend paid in the spring, and the repurchase of shares in the fourth quarter. The proposed dividend to shareholders of SEK 0.70 per share, or SEK 20.2 million, would reduce the equity to assets ratio by about two percentage points.

Liquidity

NOTE is continuing to put a sharp focus on measures that improve the group's liquidity and cash flow.

The group's available cash and cash equivalents, including unutilised overdraft facilities, were SEK 128.2 (139.0) million at year-end. Factored accounts receivable were approximately SEK 195 (163) million. Net debt was SEK 157.5 (22.9) million at year-end.

Investments

Capital expenditure on fixed assets in the year was SEK 28.8 (25.3) million, or 2.1 (2.1)% of sales. Investments were mainly projects to improve efficiency and quality.

Plan depreciation and amortisation increased to SEK 19.2 (16.1) million.

RESEARCH AND DEVELOPMENT ACTIVITIES

As a manufacturing partner, NOTE is closely involved in its customers' development processes through its operations, including contributing to the industrialisation phase and guiding and developing manufacturing processes for its customers. This work is continuous and not reported separately in the accounts.

NOTE continued to work on developing and implementing a group-wide ERP system in the year. The costs, which satisfy the criteria for capitalised expenditure, have been capitalised in the Balance Sheet.

THE NOTE SHARE

The total number of shares of the company is 28,872,600. All shares are of the same class and have a quotient value of SEK 0.50 per share. A repurchase programme of treasury shares was executed in December, with 1 million shares acquired at an average price of SEK 21.85 per share. At 31 December 2018, there were 980,000 outstanding share warrants in the incentive programmes approved by the AGMs in 2017 and 2018.

There are no limitations on transferring shares in the form of pre-emption clauses or similar that the company is aware of. As of the reporting date there was one shareholder with a shareholding of more than 10%, Johan Hagberg with 20.2 (15.9)% of the votes.

The company's Board members are elected annually by the AGM, which also approves amendments of the Articles of Association.

Otherwise, there are no known circumstances that could affect possibilities to acquire the company through a public takeover bid for the shares of NOTE.

For more information on the share and shareholders, see the NOTE share on pages 24–25.

GUIDELINES FOR REMUNERATING SENIOR MANAGERS

Senior managers means the members of NOTE's group management.

Remuneration to NOTE's management was decided in accordance with the Board of Director's guidelines, which were adopted by the AGM 2018.

Basic salary will consider individual responsibilities, experience and performance and will be subject to annual review. Variable remuneration is dependent on individual satisfaction of quantitative and qualitative targets, subject to a maximum of 100% of basic salary.

Pensionable age is 65. NOTE offers benefits similar to the ITP scheme (supplementary pensions for salaried employees). The dismissal pay and severance pay of a manager may not exceed an aggregate maximum of remuneration over 24 months. The Board is entitled to depart from these guidelines in special circumstances in individual cases.

For more information on remuneration, see Note 8, Employees, personnel expenses and remuneration to senior managers, on page 52.

SUSTAINABILITY

The environment, obligation of disclosure and certification

The operations in Sweden are U-classified, and do not require advance testing or reporting. Instead, the regulatory authority (municipal environmental and health board) can require actions or further investigation—if required for environmental or health reasons.

All NOTE's production plants have ISO 14001 environmental certification.

EU directives

The WEEE directive regulates the processing of electronic waste. Because NOTE does not have producer liability, no provisioning for processing electronic waste from consumer electronics has been made in accordance with IFRIC 6. This responsibility rests with product owners.

The EU Reach regulation formalises the usage of chemicals. NOTE is classed as a downstream user and/or end-user of chemicals, and is only subject to the obligation to register substances and prepare risk assessments in those cases where the company uses what are known as SVHC materials.

Human resources

The average number of full-time employees was 980 (912) in the year, 523 (492) of them being women. At year-end, NOTE had 1,077 (936) employees.

Work attendance in the group was 93.8 (95.8)% of regular working hours and staff turnover was 16.9 (15.5)%.

For more information on employees, see the Sustainability Report on pages 20–21. For more information on the environment, social conditions and human resources, as well as human rights and anti corruption, see the Sustainability Report on pages 14–21.

SIGNIFICANT RISKS OF OPERATIONS

Operational risks

NOTE is one of the leading northern European EMS partners. It has especially strong market positioning in the high mix market segment, i.e. for products that require high technology competence and flexibility. NOTE produces PCBAs, subassemblies and box build products. The customer offering covers complete product lifecycles, from design to after-sales.

NOTE's business model, which is designed to increase sales growth combined with limited overheads and investment costs in high-cost countries, is a way to reduce the risks of operations.

For more information on operational risks, see Operations on page 13.

Financial risks

Through its operations, the group is exposed to different forms of financial risks, such as borrowing and interest risk, currency risk, as well as liquidity and credit risks. Essentially, the group is financed through equity, loans and accounts payable–trade. Depending on economic and market conditions, NOTE's prospects of securing the required funding and liquidity should be considered as a significant risk.

Invoicing is in Swedish krona and foreign currency, mainly USD and EUR.

Otherwise, exchange rate risks lie mainly in the sourcing of production materials. Net exposure in foreign currency is essentially hedged through binding agreements where the customer bears the currency risk, and partly through cash flow hedges. The hedged currencies are USD and EUR.

For more information on financial risks, see Operations on page 13 and Note 24 Financial risks and finance policy, on page 57–58.

POST-BALANCE SHEET EVENTS

An Extraordinary General Meeting (EGM) in January elected Anna Belfrage, Kaj Falkenlund, Claes Mellgren and Charlotte Stjerngren as Board members. Johannes Lind-Widestam simultaneously left the Board, which then has seven Board members elected by shareholders' meetings, with Johan Hagberg serving as Chairman. The meeting also resolved on a three-year incentive programme based on 400,000 share warrants for the company's CEO and President.

Otherwise, the group has no significant events after the end of the financial year to report.

EXPECTATIONS OF FUTURE PROGRESS

Even if global economic uncertainty has increased in several contexts, the demand for NOTE's services remains high on all domestic markets. NOTE judges its potential to increase market shares further as positive. Large-scale shipments for several major customers and projects are scheduled to gather pace in the current year. Work for acquired company Speedboard to achieve its full potential is also ongoing.

PROPOSED APPROPRIATION OF PROFITS

The Board of Directors propose that profit be appropriated as follows (SEK):

Brought forward	36,143,923
Profit for the year	16,799,196
Total	**52,943,119**
Distributed to shareholders	20,210,820
Carried forward	32,732,299
Total	**52,943,119**

BOARD OF DIRECTORS' REASONED STATEMENT ON THE PROPOSED DIVIDEND

Against the background of NOTE's profit performance, the Board of Directors is proposing a dividend payment to shareholders of SEK 0.70 (0.70) per share, corresponding to SEK 20.2 (28.9) million. The proposed dividend to shareholders amounts to 38% of the company's profit as of the reporting date and reduces the group's equity to assets ratio from 39.8% to approximately 38% calculated on year-end figures.

The Board of Directors considers that the proposed dividend is consistent with the Swedish Companies Act's prudence rule, and accordingly is justifiable on the basis of stipulations relating to the company's equity, investment requirement, liquidity and financial position, as well as the risks associated with the nature and scale of its operations.

With regard to NOTE's results of operations and financial position otherwise, please refer to the Income Statement and Balance Sheet and the Notes to the Financial Statements below. NOTE's financial year covers the period 1 January to 31 December inclusive. All amounts are in SEK 000 unless otherwise indicated.

Five-year summary

SEK m (unless otherwise stated)

Consolidated Income Statement	2018	2017	2016	2015	2014
Net revenue	1,378.6	1,175.7	1,098.1	1,121.5	964.0
Gross profit	171.7	140.3	131.7	122.5	102.4
Operating profit	83.9	93.4	60.2	45.2	31.8
Profit before tax	78.8	88.8	54.5	39.8	28.8
Profit for the year	64.2	72.1	45.2	34.6	24.6
Consolidated Balance Sheet					
ASSETS					
Non-current assets	217.5	146.3	152.3	156.7	154.1
Current assets	747.5	609.6	542.2	506.5	458.8
TOTAL ASSETS	**965.0**	**755.9**	**694.5**	**663.2**	**612.9**
QUITY AND LIABILITIES					
Equity	383.6	369.2	318.0	287.1	270.2
Non-current liabilities	29.1	14.0	9.3	12.1	12.0
Current liabilities	552.3	372.7	367.2	364.0	330.7
TOTAL EQUITY AND LIABILITIES	**965.0**	**755.9**	**694.5**	**663.2**	**612.9**
Consolidated Cash Flow Statement					
Cash flow from operating activities	26.8	39.7	48.6	18.7	15.7
Cash flow from investing activities	-102.8	30.0	-7.7	-13.5	-13.2
CASH FLOW AFTER INVESTING ACTIVITIES	**-76.0**	**69.7**	**40.9**	**5.2**	**2.5**
Cash and cash equivalents at beginning of period	87.2	71.6	47.3	35.2	40.8
Cash flow before financing activities	-76.0	69.7	40.9	5.2	2.5
Cash flow from financing activities	18.0	-53.8	-17.0	7.3	-10.6
Exchange rate difference in cash and cash equivalents	1.8	-0.3	0.4	-0.4	2.5
CASH AND CASH EQUIVALENTS AT END OF YEAR	**31.0**	**87.2**	**71.6**	**47.3**	**35.2**
Consolidated key figures					
Earnings per share (basic), SEK	2.22	2.50	1.57	1.20	0.85
Earnings per share (diluted), SEK	2.22	2.49	1.57	1.20	0.85
Cash flow per share after investing activities, SEK	-2.63	2.41	1.42	0.18	0.09
Market capitalisation at end of period	616	702	491	344	209
Operating margin, %	6.1	7.9	5.5	4.0	3.3
Profit margin, %	5.7	7.6	5.0	3.5	3.0
Return on operating capital, %	17.8	24.2	16.1	12.9	10.1
Return on equity, %	17.1	21.0	14.9	12.4	9.7
Operating capital (average)	471.1	385.2	373.7	351.7	314.7
Interest-bearing net debt	157.7	22.9	60.4	81.9	64.3
Equity to assets ratio, %	39.8	48.8	45.8	43.3	44.1
Net debt/equity ratio, multiple	0.4	0.1	0.2	0.3	0.2
Interest coverage ratio, multiple	6.4	18.3	8.6	5.3	4.8
Capital turnover rate (operating capital), multiple	2.9	3.1	2.9	3.2	3.1
Sales per employee, SEK 000	1,407	1,289	1,113	1,193	1,080

For financial definitions, see Note 30 on page 59.

Operating margin 2018

6.1%

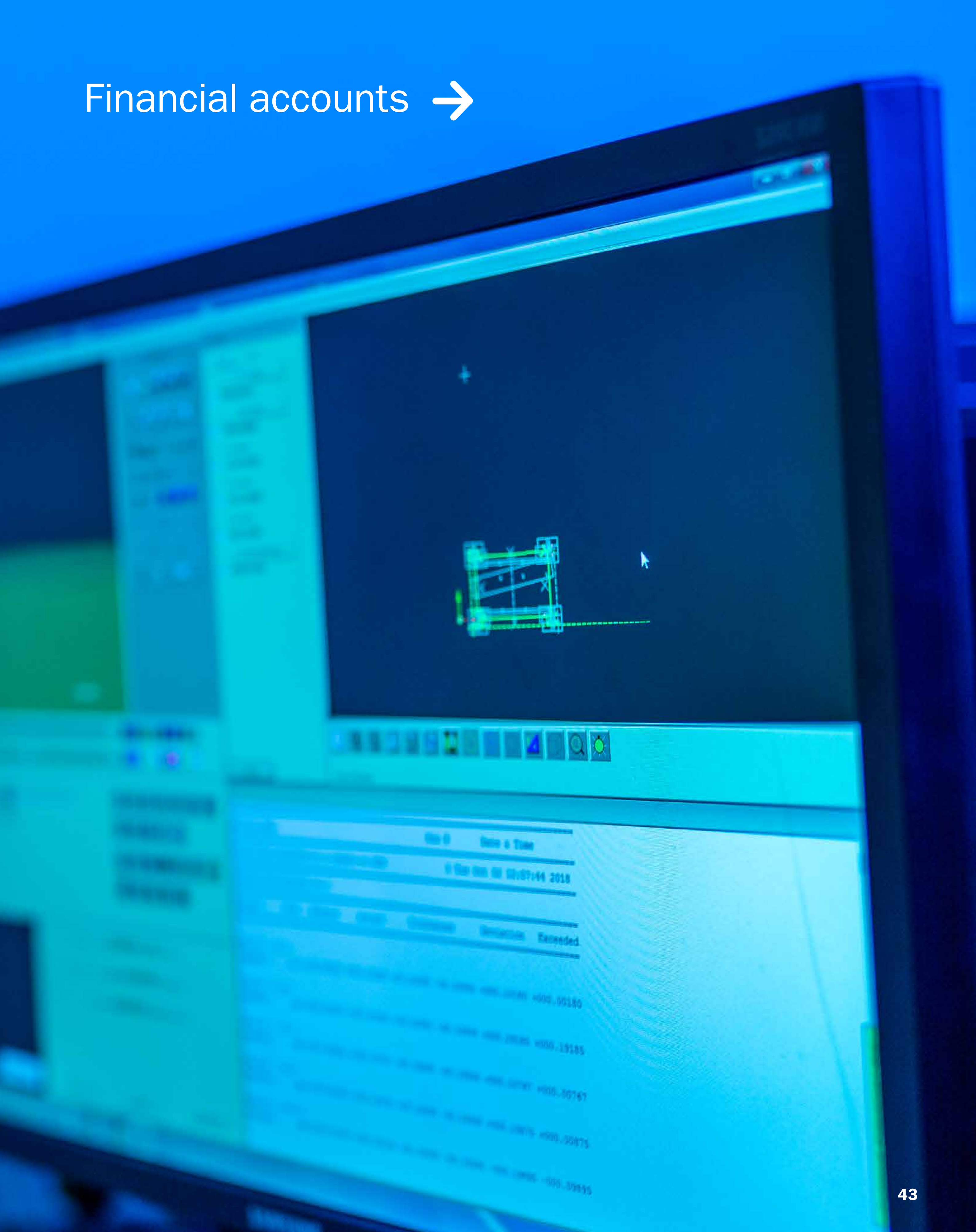
Equity to asset ratio 2018

39.8%

Sales growth 2018

17%

Financial accounts →



Consolidated Income Statement

SEK 000	NOTE	2018	2017
Net revenue	2, 3	1,378,577	1,175,719
Cost of goods sold and services		–1,206,883	–1,035,394
Gross profit		**171,694**	**140,325**
Selling expenses		–51,198	–44,563
Administrative expenses		–32,166	–28,569
Other operating revenue	4	21,039	44,284
Other operating expenses	5	–25,484	–18,065
Operating profit	3, 6, 7, 8, 9, 27	**83,885**	**93,412**
Financial income		9,529	509
Financial expenses		–14,657	–5,145
Net financial income/expense	10	**–5,128**	**–4,636**
Profit before tax		**78,757**	**88,776**
Tax	11	–14,517	–16,641
Profit for the year		**64,240**	**72,135**
Earnings per share (basic), SEK	17	2.22	2.50
Earnings per share (diluted), SEK	17	2.22	2.49

Consolidated Statement of Other Comprehensive Income

SEK 000	2018	2017
Profit for the year	**64,240**	**72,135**
Other comprehensive income		
Items that can be subsequently reversed in the Income Statement:		
Exchange rate differences	5,190	–1,134
Cash flow hedges	120	–89
Tax on cash flow hedges and exchange rate difference	–137	26
Total other comprehensive income, net after tax	**5,173**	**–1,197**
Total comprehensive income for the year	**69,413**	**70,938**

Consolidated Balance Sheet

SEK 000	NOT	2018-12-31	2017-12-31
Assets			
Intangible assets	12	134,978	79,791
Property, plant and equipment	3, 13	79,900	64,448
Long-term receivables	14	743	1,011
Deferred tax assets	11	1,896	1,027
Total non-current assets		**217,517**	**146,277**
Inventories	3, 15	369,986	239,558
Accounts receivable–trade	23, 24	327,216	261,775
Tax receivables		1,181	3,018
Other receivables	14	6,586	7,975
Prepaid expenses and accrued income	16	11,433	10,186
Cash and cash equivalents	23, 26	30,987	87,189
Total current assets		**747,389**	**609,701**
TOTAL ASSETS		**964,906**	**755,978**
Equity	18		
Share capital		14,436	14,436
Other paid-up capital		218,729	218,330
Reserves		8,223	3,050
Retained profit		142,241	133,405
Total equity		**383,629**	**369,221**
Liabilities			
Long-term interest-bearing liabilities	19, 23, 24	12,462	12,278
Deferred tax liabilities	11	7,724	1,728
Other non-current liabilities		8,947	–
Total non-current liabilities		**29,133**	**14,006**
Current interest-bearing liabilities	19, 23, 24	176,023	97,814
Accounts payable–trade	23, 24	273,599	195,045
Tax liabilities		8,910	3,279
Other liabilities	21	19,920	16,881
Accrued expenses and deferred income	22	73,113	59,721
Other provisions	20	579	11
Total current liabilities		**552,144**	**372,751**
TOTAL EQUITY AND LIABILITIES		**964,906**	**755,978**

For information on the group's pledged assets and contingent liabilities, see Note 25 on page 59.

Consolidated Statement of Changes in Equity

SEK 000	Share capital	Other paid-up capital	Reserves	Retained profit	Total equity
Opening equity, 1 Jan 2017	14,436	217,862	4,247	81,481	**318,026**
Comprehensive income					
Profit for the year				72,135	**72,135**
Other comprehensive income					
Exchange rate differences			–1,134		–1,134
Cash flow hedges			–89		–89
Tax on cash flow hedges and exchange rate difference			26		26
Total comprehensive income			–1,197	**72,135**	**70,938**
Payment warrants		468			**468**
Dividend				–20 211	**–20 211**
Closing equity, 31 Dec 2017	**14,436**	**218,330**	**3,050**	**133,405**	**369,221**

SEK 000	Share capital	Other paid-up capital	Reserves	Retained profit	Total equity
Opening equity, 1 Jan 2018	**14,436**	**218,330**	**3,050**	**133,405**	**369,221**
Comprehensive income					
Profit for the year				64 240	**64 240**
Other comprehensive income					
Exchange rate differences			5,190		5,190
Cash flow hedges			120		120
Tax on cash flow hedges and exchange rate difference			–137		–137
Total comprehensive income			**5,173**	**64,240**	**69,413**
Effect of amended accounting policies				–4,680	–4,680
Payment warrants		399			**399**
Repurchase treasury shares				–21,851	**–21,851**
Dividend				–28,873	**–28,873**
Closing equity, 31 Dec 2018	**14,436**	**218,729**	**8,223**	**142,241**	**383,629**

Consolidated Cash Flow Statement

SEK 000	NOTE	2018	2017
	26		
Operating activities			
Profit before tax		78,757	88,776
Reversed depreciation and amortisation		19,248	16,093
Other non-cash items		–3,153	–20,235
Tax paid		–10,698	–12,586
		84,154	**72,048**
Change in working capital			
Increase (–)/decrease (+) in inventories		–77,931	–36,138
Increase (–)/decrease (+) in trade receivables		–27,810	–21,343
Increase (+)/decrease (–) in trade liabilities		48,358	25,086
		–57,383	**–32,395**
Cash flow from operating activities		**26,771**	**39,653**
Investing activities			
Purchase of property, plant and equipment		–18,082	–12,859
Purchase of intangible assets		–5,020	–1,128
Sale of property, plant and equipment		–	44,000
Acquisition of subsidiary	29	–79,747	–
Sale of financial assets		–	–
Cash flow from investing activities		**–102,849**	**30,013**
Financing activities			
Borrowings		68,361	–
Amortisation of loans		–	–34,044
Repurchase of treasury shares		–21,851	–
Payment warrants		399	468
Dividend paid		–28,873	–20,211
Cash flow from financing activities		**18,036**	**–53,787**
Cash flow for the year		**–58,042**	**15,879**
Cash and cash equivalents			
At beginning of period		87,189	71,590
Cash flow before financing activities		–76,078	69,666
Cash flow from financing activities		18,036	–53,787
Exchange rate difference in cash and cash equivalents		1,839	–280
Cash and cash equivalents at end of period		**30,987**	**87,189**

Notes on the Consolidated Financial Statements

NOTE 1 Critical accounting principles

Consistency with standards and law
The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the EU and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC). RFR's (Rådet för finansiell rapportering, the Swedish Financial Reporting Board) recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

Basis of preparation of the consolidated financial statements
The parent company's functional currency is the Swedish krona, which is also the presentation currency for the parent company and group. Unless otherwise stated, all amounts are rounded to the nearest thousand.

Judgements made by management when applying IFRS that have a significant impact on the financial statements and estimates made that may imply significant restatements of following years' financial statements are reviewed in more detail in Note 28.

The following accounting principles for the group have been applied consistently for all periods presented in the consolidated financial statements, unless stated otherwise below. The group's accounting principles have been applied consistently on reporting and consolidating the parent company and subsidiaries.

The annual accounts and consolidated accounts were approved by the Board for issuance on 28 March 2019. The Consolidated Income Statement and Balance Sheet will be subject to adoption at the AGM (Annual General Meeting) on 25 April 2019. Swedish and English-language versions of this Report have been produced. In the event of any discrepancy between the two, the Swedish version shall apply.

Revised accounting principles
None of the IFRS or IFRIC interpretation statements that are mandatory for first-time adoption in accounts for financial years beginning 1 January 2018 or later are expected to have any material effect on the group.

New standards and interpretatios
A number of new standards and interpretation statements come into effect for financial years beginning after 1 January 2017 and have not been applied when preparing these financial statements. None of them are expected to have any material effect on the consolidated financial statements, apart from those stated below:

IFRS 9 Financial Instruments deals with the classification, measurement and presentation of financial assets and liabilities, and replaces those parts of IAS 39 that deal with the classification and measurement of financial instruments. This standard maintains a hybrid measurement approach, which is simplified in certain respects. There will be three measurement categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. How an instrument should be classified depends on the company's business model and the characteristics of the instrument. IFRS 9 also introduces a new model for measuring credit loss reserves, which is based on expected bad debt. For financial liabilities, classification and measurement does not change, apart from the case where a liability is recognized at fair value through profit or loss based on the fair value option. IFRS 9 reduces the requirement to apply hedge accounting by replacing the 80-125 criterion with the requirement of an economic relationship between the hedging instrument and the hedged item, and that the hedging quotient should be the same as used in risk management. The standard is applied to the financial year beginning 1 January 2018.

IFRS 9 introduces a new method for measuring the risk of bad debt. As in previous years, NOTE has provisioned on the basis of individually measured credit risk per customer. Based on a measurement of historical performance, the reserve for credit risks will be increased by some SEK 6 million. This reserve is accounted against consolidated equity when IFRS 9 is effective 1 January 2018. Otherwise, IFRS 9 will not have any material effect on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers formalises the recognition of revenues. The basic principle of IFRS 15 is that a company recognizes revenue in a manner that best reflects the transfer of the promised good or service to the customer. This recognition is applied using a five-step model. The principles IFRS 15 is based on should provide users of financial statements with more useful information on the company's revenues. The extended disclosure requirement means that information on revenue class, the timing of settlement, uncertainties associated with revenue recognition and cash flow attributable to the company's customer contracts should be provided. Revenue should be recognised when the customer obtains control over the sold good or service, and has the ability to use or receive benefits from the good or service. IFRS 15 replaces IAS 18 Revenues and IAS 11 Construction Contracts, as well as the associated SIC and IFRIC interpretation statements. IFRS 15 is effective 1 January 2018.

NOTE has conducted a review of the introduction of IFRS 15 and judges that the standard will not have any material effect on the consolidated financial statements.

The IASB published a new standard on leases in January 2016, IFRS 16 Leases, which will replace IAS 17 Leases and the associated SIC and IFRIC interpretation statements. This standard requires that assets and liabilities attributable to all lease arrangements, with certain exceptions, are recognized in the Balance Sheet. This recognition is based on the view that the lessee has the right to use an asset for a certain period of time, with a simultaneous obligation to pay for that right. The standard is applied for the financial year beginning 1 January 2019. Prospective adoption is permitted.

NOTE has conducted a review of introduction of IFRS 16 and the effect on the consolidated financial statements. NOTE has choosen the simplified method as transition to IFRS 16, which means that no recalculation will be done on the group financial statements for 2018. Instead, the opening banances for 2019 will be adjusted. According to the review, the non-current assets will increase with app. SEK 65 million and the financial debts will increase with the same amount when IFRS 16 is implemented.

None of the other IFRS or IFRIC interpretation statements that have yet to come into effect are expected to have any material effect on the group.

Operating segments
Operating segments are reported in a manner consistent with internal reporting submitted to the chief operating decision maker. The chief operating decision maker is that function with responsibility for allocating resources and judging the results of an operating segment. In the group, this function has been identified as the CEO, who takes strategic decisions.

Classification, etc
Essentially, the non-current assets and non-current liabilities of the group exclusively comprise amounts expected to be recovered or paid after more than 12 months from year-end. Essentially, the current assets and current liabilities of the group only comprise amounts expected to be recovered or paid within 12 months of the reporting date.

Consolidation principles
Subsidiaries
Subsidiaries are companies under the controlling influence of NOTE AB. A controlling influence implies the direct or indirect right to formulate a company's financial and operational strategies with the aim of receiving economic rewards. When judging whether a controlling influence exists, potential shares conferring voting rights that can be exercised or converted without delay are considered.

The group comprises the parent company and 12 wholly owned companies. Subsidiaries are reported in accordance with acquisition accounting. Acquisition accounting means that acquisition of a subsidiary is considered as a transaction whereby the group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. The consolidated cost is determined using an acquisition analysis relating to the acquisition. This analysis determines partly the cost of participations or operation, and partly the fair value of acquired identifiable assets and liabilities and contingent liabilities taken over on the acquisition date. The cost of subsidiary shares and operations is the total of the fair value of assets paid, liabilities arising or taken over, and for equity instruments issued that are submitted as payment in exchange for the acquired net assets. In business combinations where the acquisition cost exceeds the fair value of acquired assets and liabilities and contingent liabilities taken over that are recognised separately, the difference is recognised as goodwill. When the difference is negative, this is recognised directly in the Income Statement. Subsidiary financial statements are consolidated from the acquisition date until the date the controlling influence ceases. For acquisitions until 2009 inclusive, transaction expenses directly attributable to the acquisition were also included in cost. For acquisitions from 2010 onwards, transaction costs are recognised in the Income Statement.

Transactions to be eliminated on consolidation
Receivables from and liabilities to group companies, revenues or expenses and unrealised gains or losses arising from group transactions, are fully eliminated when preparing the consolidated financial statements.

Foreign currency
Foreign currency transactions and balance sheet items
Foreign currency transactions are translated to the functional currency (SEK) at the rate of exchange ruling on the transaction date. Foreign currency monetary assets and liabilities are translated to the functional currency at the rates of exchange ruling at the reporting date. The exchange rate differences arising on translation are recognised in the Income Statement. The exceptions are when the transactions are hedges that satisfy the requirements of hedge accounting, when the loss/gain is recognised in other comprehensive income.

Exchange rate gains and losses relating to loans and cash and cash equivalents are recognised as financial revenue or expenses in the Income Statement. All other exchange rate gains and losses are recognised as other operating revenue or expenses in the Income Statement.

Financial statements of foreign operations
The assets and liabilities of foreign operations including goodwill and other consolidated surpluses and deficits are translated to Swedish krona at the rates of exchange ruling at the reporting date. The revenues and expenses of foreign operations are translated to Swedish krona at an average rate of exchange, which is an approximation of the rates of exchange ruling at each transaction date. Translation differences arising from the currency translation of foreign operations are recognised in other comprehensive income.

Revenues

Sales of goods and executing services assignments

Revenues from the sale of goods and manufacturing services are recognised in the Income Statement when the control of the goods have been transferred, normally at shipment from warehouse. If there is significant uncertainty regarding payment, associated expenses or the risk of returns, and if NOTE retains a commitment in the ongoing management usually associated with ownership, no revenues are recognised. Revenues only include the gross inflows of economic rewards the company receives, or may receive, on its own behalf. Revenues are recognised at the actual value of what is received, or will be received, less deductions for discounting. Revenues for consulting services are recognised according to the percentage of completion method provided that the labour hours incurred are clearly identifiable and can be measured reliably.

Central government support

Central government support is recognised in accordance with IAS 20. Central government subsidies are recognised in the Income Statement and Balance Sheet when they are received. Central government subsidies received as remuneration for expenses that have already been charged to profits in previous periods are recognised in the Income Statement in the period when the receivable from central government arises. Central government subsidies for investments are recognised as a reduction of the carrying amount of the asset.

Lease arrangements and financial income and expenses

In the consolidated accounts, leases are classified as finance or operating leases. Finance leases occur when essentially, the financial risks and rewards associated with ownership transfer to the lessee. If this is not the case, the arrangement is an operating lease.

Operating leases

Payments for operating lease arrangements are recognised in the Income Statement on a straight-line basis over the lease term. Rewards received on signing a contract are recognised as a portion of the total lease expense in the Income Statement.

Finance leases

Assets held through finance lease arrangements are recognised as assets in the Consolidated Balance Sheet in accordance with the principles for owned assets. The obligation to pay future lease payments is recognised as long-term and current liabilities.

Minimum lease payments are allocated between interest expenses and amortisation of the outstanding liability. Interest expenses are allocated over the lease term so that each accounting period is charged with an amount corresponding to a fixed interest rate for the liability recognised in each period. Variable expenditure is expensed in the periods it occurs.

Financial income and expenses

Financial income and expenses comprise interest income on bank balances and receivables, interest expenses on loans, exchange rate differences and un-realised and realised gains on financial investments and derivative instruments used in financing activities.

Interest income/ expenses are recognised according to the effective interest method. Effective interest is the interest that discounts estimated future payments received and made during the expected term of a financial instrument, at the financial asset's or liability's recognised net value. The calculation includes all expenditure paid or received from contract counterparties that is a part of effective interest, transaction expenses and all other premiums and discounts.

Financial instruments

Financial instruments recognised in the Balance Sheet include cash and cash equivalents, accounts receivable–trade, derivatives and loans receivable on the assets side. Accounts payable–trade, derivatives and borrowings are recognised under liabilities and equity.

A financial asset or financial liability is recognised in the Balance Sheet when the company becomes party to the instrument's contracted terms. Accounts receivable–trade are recognised in the Balance Sheet when invoices are sent. Liabilities are recognised when the counterparty has delivered and there is a contracted obligation to pay, even if no invoice has been received. Accounts payable–trade are recognised when invoices are received.

A financial asset is de-recognised from the Balance Sheet when the contracted rights are realised, mature or the company relinquishes control over them. The same applies to part of a financial asset. A financial liability is de-recognised from the Balance Sheet when the contracted obligation is satisfied or otherwise extinguished. The same applies to part of a financial liability.

A financial asset and financial liability is offset and recognised at a net amount in the Balance Sheet only when there is a legal right to offset the amount and there is an intention to settle the items at a net amount or to simultaneously realise the asset and settle the liability.

Purchases and sales of financial assets are recognised on the transaction date, which is the date the company undertakes to purchase or sell the asset.

NOTE conducts impairment tests for its financial assets at the end of each reporting period. A financial asset is only impaired if there is objective evidence that it is impaired due to "loss events" that affect future cash flows of the asset and can be measured reliably. The asset's impairment loss is recognised in the Income Statement.

Subsequent recognition then depends on the following classification. IAS 39 classifies financial instruments in categories. This classification depends on the purpose of the acquisition of the financial instrument. Management determines the classification at the original time of acquisition. The categories are as follows:

Loans receivable and accounts receivable–trade

"Loans receivable and accounts receivable–trade" are non-derivative financial assets with fixed payments or payments that can be determined, and are not listed on an active market. The receivables occur when the company supplies funds, goods or services directly to the borrower without the intention of conducting trade in the claim. This category also includes acquired receivables. These assets are initially recognised at fair value including transaction costs, and then at amortised cost by applying the effective interest method, less potential provisioning for impairment. "Loans receivable and accounts receivable–trade" are included in current assets apart from items with maturities of more than 12 months from the end of the reporting period, which are classified as non-current assets.

Other financial liabilities

Loans and other financial liabilities such as accounts payable–trade, are included in this category. Initially, these liabilities are recognised at fair value including transaction costs, and then at amortised cost by applying the effective interest method, less potential provisioning for value impairment.

Factoring

NOTE uses factoring as part of its external funding. A factored trade receivable is recognised as a whole as a pledged asset in consolidated contingent liabilities. The factoring liability is recognised as a current interest-bearing liability in tandem with payment. Upon full payment from the customer, the amount of the accounts receivable–trade and the factoring liability are written down to zero, and NOTE's contingent liability ceases.

Regarding NOTE's factoring financing in Estonia, 90% of the risk in accounts receivable–trade has been transferred to the creditor. This financing is also reported as factoring, in accordance with applicable regulations.

Cash flow hedging

Currency exposure regarding future forecast flows is partly hedged through currency forwards. Currency forwards that hedge future flows are recognised in the Balance Sheet at fair value. Changes to fair value are recognised in other comprehensive income and are reclassified from equity to profit or loss in those periods when the hedged item affects profit or loss.

When a forecast transaction is no longer expected to occur, the accumulated gain or loss recognised in other comprehensive income is immediately reclassified from equity to the Income Statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash funds and immediately available balances with banks and corresponding institutions.

Property, plant and equipment

Property, plant and equipment are recognised in the group at cost less deductions for accumulated depreciation and potential impairment losses. The cost includes the purchase price and expenses directly attributable to bringing the asset into the location and condition for use in accordance with the purpose of its acquisition. The accounting principles for impairment losses are reported below.

Property, plant and equipment that comprise components of differing useful lives are treated as separate components of property, plant and equipment.

The carrying amount of property, plant and equipment is de-recognised from the Balance Sheet on disposal or sale, or when no future economic rewards are expected from using or disposing of/selling the asset. Profits or losses arising upon disposal or sale of an asset comprise the difference between the sales price and the asset's carrying amount less direct selling expenses. Profits and losses are recognised as other operating revenue/ expenses.

Additional expenditure

Additional expenditure is added to cost only if it is likely that the future economic rewards associated with the asset will arise for the company, and the cost can be measured reliably. All other additional expenditure is recognised as a cost in the period it occurs. Additional expenditure is added to cost to the extent that the performance of the asset is improved in relation to the level applying when originally acquired. All other additional expenditure is recognised as a cost in the period it occurs. Whether expenditure relates to the exchange of identifiable components, or parts thereof, is decisive to evaluation of when additional expenditure is added to cost, whereupon such expenditure is capitalised. Even in those cases where new components are added, expenditure is added to cost. Potential carrying amounts not expensed on exchanged components, or parts of components, are retired and expensed at exchange. Repairs are expensed on an ongoing basis.

Depreciation principles

Depreciation is on a straight-line basis over the estimated useful lives of assets. Land is not depreciated. The group utilises component depreciation, which means that the components' estimated useful lives are the basis for depreciation.

Estimated useful lives:

→ Land improvements	20 years
→ Buildings, real estate used in business operations	see below
→ Leasehold improvements–permanent equipment, servicing facilities etc. in buildings	5 years
→ Leasehold improvements–permanent installation, buildings	20 years
→ Permanent equipment, servicing facilities etc. in buildings	see below
→ Plant and machinery	5 years
→ Equipment, tools fixtures and fittings	4 or 5 years

Real estate used in business operations comprises a number of components with differing useful lives. The main division is buildings and land. However, buildings comprise several components, whose useful lives vary. The useful lives of these components are assessed to vary between 10 and 100 years.

The following main groups of components have been identified and are the basis for depreciation on buildings:

→ Framework	100 years
→ Additions to framework, interior walls, etc.	20–40 years
→ Fixtures and fittings, heating, electricity, ventilation and sanitation, etc.	20–40 years
→ Exterior surfaces, frontage, external roofing, etc.	20–30 years
→ Interior surfaces, mechanical equipment, etc.	10–15 years

The depreciation methods applied and residual values and useful lives of assets are re-evaluated at each year-end.

Intangible assets

Goodwill

Goodwill is the difference between the cost of a business combination and the fair value of acquired assets, liabilities taken over and contingent liabilities.

Goodwill is recognised at cost less potential accumulated impairment losses. There is no amortisation of goodwill. Goodwill from a business combination is allocated to the groups of cash generating units that are expected to benefit from the synergies of the business combination. NOTE allocates goodwill to the Western Europe and Rest of World business segments. Goodwill is subject to impairment tests at least yearly.

Other intangible assets

Other intangible assets acquired by the group are recognised at cost less accumulated amortisation (see below).

Expenses incurred for internally generated goodwill and internally generated trademarks and brands are recognised in the Income Statement when the expense occurs.

In 2014, the group commenced implementation of a new ERP system whose cost was covered by purchased consulting hours and time allocated to the project internally, which satisfies the criteria for capitalised expenditure.

Additional expenditure

Additional expenditure for capitalised intangible assets is recognised as an asset in the Balance Sheet only when it increases the future economic rewards for the specific asset to which it is attributable. All other expenditure is expensed as it occurs.

Amortisation

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, providing such useful lives are not indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are:

→ Trademarks, brands and similar rights	5 years
→ Capitalised expenditure on software	10 years
→ Capitalised expenditure for process development	3–5 years

Inventories

Inventories are recognised at the lower of cost and net realisable value. Net realisable value is the estimated sales price in operating activities less estimated expenditure for completion and achieving a sale.

Cost is calculated by applying the FIFO (first in first out) method and includes expenditure arising from the acquisition of inventory items and their transportation to their current location and condition. The cost of producing finished goods and work in progress includes a reasonable proportion of indirect expenses based on normal capacity utilisation.

The cost of finished and semi-finished goods produced by the company includes direct production expenses and a reasonable proportion of indirect production expenses. Valuations consider normal capacity utilisation.

Inventories are recognised net of deductions for individually judged risk of obsolescence.

Impairment

With the exception of inventories and deferred tax assets, the carrying amounts of the group's assets are subject to impairment tests at each reporting date. If there is such indication, the asset's recoverable value is calculated. Assets exempted by the above are subject to impairment tests in accordance with the relevant standards.

An impairment loss is recognised when an asset or cash-generating unit's carrying amount exceeds its recoverable value. An impairment loss is charged to the Income Statement. Impairment losses on assets attributable to cash-generating units (group of units) are primarily assigned to goodwill. A proportional impairment loss of the unit's other constituent assets (group of units) is effected subsequently.

Measuring recoverable values

Recoverable values on accounts receivable–trade are calculated as the original receivable less the amounts not expected to be received. The recoverable value of other assets is measured as the greater of fair value less selling expenses and value in use.

Reversal of impairment losses

Impairment losses of accounts receivable–trade are reversed if a subsequent increase in recoverable value can be objectively attributed to an event that has occurred after the impairment loss was effected. Goodwill impairment losses are not reversed. Impairment losses on other assets are reversed if changes to the assumptions forming the basis for calculating the recoverable value have occurred. An impairment loss is only reversed to the extend the asset's carrying amount after reversal does not exceed the carrying amount the asset would have had if no impairment loss had been effected, considering the depreciation or amortisation that would then have been effected.

Share capital

Dividends

Dividends are recognised as a liability after the AGM has approved the dividends.

Employee benefits

Defined-contribution pension plans

Obligations regarding expenditure on defined-contribution plans are recognised as an expense in the Income Statement when they occur.

A defined contribution pension plan is a pension plan by which NOTE pays fixed charges to a separate legal entity. NOTE does not have any legal or informal obligation to pay further contributions if this legal entity does not have sufficient assets to pay all benefits to employees associated with employees' service during current or previous periods.

Remuneration on notice of termination

A cost for remuneration coincident with the notices of termination to staff is recognised only if the company has demonstrably committed to terminate employment before the normal time, without the realistic possibility of withdrawing its decision, by a formal detailed plan. When remuneration is disbursed as an offering to encourage voluntary redundancies, a cost is recognised if it is probable that the offer will be accepted and that the number of employees who will accept the offer can be reliably estimated.

Provisions

Provisions are recognised in the Balance Sheet when the group has an obligation, and it is likely that an outflow of economic resources will be necessary to fulfil the obligation and the amount can be reliably measured. Provisions are measured at the present value of the amounts expected to be required to fulfil the obligation.

Restructuring programme and other non-recurring expenses

A restructuring programme provision is recognised when the group has determined an executable and formal restructuring programme plan, and the restructuring programme has either begun or been publicly disclosed.

Non-recurring expenses mean expenses of significant amounts, and simultaneously, of such a nature that they can be considered as non-operating and not recurrent each year. For example, non-recurring expenses are impairment of assets in disputes and expenses relating to changing CEOs.

Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the Income Statement apart from when the underlying transaction is recognised directly in other comprehensive income or directly against equity, whereupon the associated tax effect is recognised in other comprehensive income or directly in equity.

Current tax is tax to be paid or received for the current year, applying the tax rates enacted or substantively enacted as of the reporting date, which also includes adjustments to current tax attributable to previous periods.

Deferred tax is calculated according to the balance sheet method, proceeding from temporary differences between carrying amounts and taxable values of assets and liabilities. The following temporary differences are not considered; for temporary differences arising in the first-time recognition of goodwill, the first-time recognition of assets and liabilities that are not business combinations, and that at the time of the transaction neither influence reported nor taxable profits. Nor are temporary differences attributable to participations in subsidiaries not expected to be reversed within the foreseeable future considered. The measurement of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax regulations that are enacted or substantively enacted as of the reporting date.

Deferred tax assets on taxable temporary differences and loss carry-forwards are only recognised to the extent it is likely that they will be utilised. The value of deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

Earnings per share

The measurement of earnings per share is based on the consolidated profit for the year and on the weighted average number of shares outstanding in the year. When measuring earnings per share after dilution, the average number of shares is adjusted to take into account effects of any diluting ordinary shares, which, in the relevant reporting period, derive from options issued to senior management.

Contingent liabilities

A contingent liability is recognised when there is a possible commitment resulting from events that have occurred and whose incidence is only confirmed by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is not likely that an outflow of resources will be necessary or the size of the commitment can be reliably measured.

NOTE 2 Allocation of revenue

All group sales are derived from EMS operations, i.e. contract manufacture services for electronics products. Regarding future sales, the group order backlog consists of a combination of fixed orders and customer forecasts/material authorizations. The order backlog amounts normally to approximately six month sales.

NOTE 3 Operating segments

Significant key figures for NOTE's operating segments are in the following table. Western Europe consist of units located in geographical regions with high industrial activity and innovation standards in Sweden, Finland and the UK. These units provide advanced production technology services in close collaboration with customers, such as component selection, developing test equipment, prototyping and batch production. Rest of World, located in Estonia and China, are close to large end markets and in regions with strong traditions of production and high competence levels. In addition to development-oriented services, these units also offer cost-efficient volume production of PCBAs and box build products. Intra-Group are group-wide business support functions in the parent company and for the sourcing operations in NOTE Components.

	Western Europe		Rest of World		Intra-group		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
NET REVENUE								
External net revenue	823,640	671,343	554,937	504,376	–	–	1,378,577	1,175,719
Internal net revenue	10,637	10,251	80,338	74,337	–90,975	–84,588	–	–
Net revenue	**834,277**	**681,594**	**635,275**	**578,713**	**–90,975**	**–84,588**	**1,378,577**	**1,175,719**
OPERATING PROFIT								
Operating profit	58,730	56,364	38,675	24,678	–13,520	12,370	83,885	93,412
Operating profit	**58,730**	**56,364**	**38,675**	**24,678**	**–13,520**	**12,370**	**83,885**	**93,412**
Financial income and expenses–net							–5,128	–4,636
Profit before tax							**78,757**	**88,776**
SIGNIFICANT ASSETS BY SEGMENT								
Property, plant and equipment	39,253	17,051	40,332	46,974	315	423	79,900	64,448
Inventories	217,641	129,435	152,345	110,123	–	–	369,986	239,558
External accounts receivable–trade	218,985	158,948	108,303	102,473	–72	354	327,216	261,775
Total assets	**475,879**	**409,461**	**300,980**	**336,942**	**243**	**9,575**	**777,102**	**755,978**
OTHER INFORMATION								
Investments in property, plant and equipment	21,960	7,651	1,674	16,230	96	337	23,730	24,218
Depreciation and amortisation	-7,396	–5,596	–10,019	–8,906	–1,833	–1 591	–19,248	–16,093
Other non-cash items (excl. depreciation and amortisation)	2,319	869	863	2,964	–30	–24,068	3,153	–20,235
Average number of employees	339	287	620	606	21	18	980	912

NOTE's registered office is in Sweden. Revenues from external customers in Sweden were SEK 622.2 (599.0) million, from the rest of Europe SEK 496.8 (392.2) million and from the rest of the world SEK 259.6 (184.5) million. Generally speaking, NOTE has a diversified customer base where no single customer represents more than 10% of total group sales. The revenues are recognized in the income statement when the control of the goods have been transferred, normally at shipment from warehouse. Non-current assets in Sweden (excluding financial) were SEK 72.6 (52.5) million, in Estonia SEK 31.1 (32.6) million, in the UK SEK 60.1 (4.0) million and in other countries SEK 51.2 (55.2) million. Deferred tax assets in Sweden were SEK –1.8 (–1,2) million and in other countries SEK 3.8 (2.2) million.

Revenue per customer segment

Industrial SEK 891.2 (773.6) million, Communication SEK 260.9 (225.9) million, Medtech SEK 115.8 (111.4) million, Defence SEK 76.5 (37.2) million, High end cunsumer SEK 34.2 (27.6) million of which Western Europe: Industrial SEK 544.6 (443.9) million, Communication SEK 86.7 (77.2) million, Medtech SEK 111.6 (110.2) million, Defence SEK 76.5 (37.2) million, High end customer SEK 4.3 (2.8) million, of wich Rest of world: Industrial SEK 346.6 (329.7) million, Communication SEK 174.2 (148.7) million, Medtech SEK 4.2 (1.1) million, Defence SEK 0 (0) million, High end customer SEK 30.0 (24.9) million.

NOTE 4 Other operating revenue

	2018	**2017**
Exchange gains on trade receivables/liabilities	19,465	20,899
Gain on disposal of non-current asset	83	22,063
Other	1 491	1 321
Total	**21,039**	**44,284**

NOTE 5 Other operating expenses

	2018	**2017**
Exchange losses on trade receivables/liabilities	-25,216	-16,943
Other	-268	–1,122
Total	**-25,484**	**-18,065**

NOTE 6 Operating expenses by type

	2018	**2017**
Cost of goods and materials	–859,174	–734,494
Personnel expenses	–294,733	–257,647
Depreciation and amortisation	–19,248	–16,093
Other	–142,576	–118,357
Total	**–1,315,731**	**–1,126,591**

NOTE 7 Operating leases

Premises rent	**2018-12-31**	**2017-12-31**
Lease arrangements payable within one year	18,846	15,362
Lease arrangements payable between one and five years	35,680	38,995
Total	**54,526**	**54,357**

Group costs for premises rent in 2018 were 16 935 (14 409).

Other operating leases	**2018-12-31**	**2017-12-31**
Lease arrangements payable within one year	4,697	2,306
Lease arrangements payable between one and five years	8,536	4,900
Total	**13,233**	**7,206**

Group costs for other operating leases in 2018 were 2,350 (2,231).

NOTE 8 Employees, personnel expenses and remuneration to senior management

Expenses for employee benefits	2018	2017
Salaries and benefits	–222,308	–194,789
Pension expenses, defined-benefit plans	–	–
Pension expenses, defined-contribution plans	–15,035	–15,142
Social security contributions	–57,390	–47,716
Total	**–294,733**	**–257,647**

Alecta
The commitments for retirement and survivors' pensions for salaried employees in Sweden are largely insured through a policy with Alecta. Statement UFR10 from The Swedish Financial Reporting Board, Classification of ITP plans financed by insurance in Alecta, defines this as a defined-benefit multi-employer plan. For the financial year 2018, the company did not have access to sufficient information enabling the plan to be reported as a defined-benefit plan. Thus, ITP (Supplementary Pensions for Salaried Employees) plans insured through Alecta are reported as defined-contribution plans.

The expenditure for pension policies with Alecta in the year were SEK 2.6 (2.7) million. The charges for next year are estimated at some SEK 2.7 million. The group's share of total expenditure to the plan is negligible. Alecta's surplus can be divided between policyholders and/or beneficiaries. At year-end 2018, Alecta's surplus, expressed as a collective consolidation ratio was 142% (154%). The collective consolidation ratio comprises the market value of Alecta's assets as a percentage of insurance commitments calculated in accordance with Alecta's actuarial calculation assumptions, which are not consistent with IAS 19.

Defined-contribution pension plans
The group has defined-contribution pension plans in Sweden for white-collar and blue-collar staff, which the companies fund fully. There are defined-contribution plans in foreign countries, which are partly paid by subsidiaries and partly covered through employees' contributions. Payments to these plans is on an ongoing basis subject to the regulations of each plan.

	2018	2017
Expenses for defined-contribution plans*	–15,035	–15,142

* Includes 2 568 (2 667) for an ITP plan insured with Alecta.

Average number of employees	2018	Of which men	2017	Of which men
Sweden	261	70%	228	73%
UK	46	50%	28	46%
Finland	54	54%	46	58%
Estonia	278	27%	276	25%
China	341	43%	334	43%
Group total	**980**	**47%**	**912**	**46%**

Division between sexes in group management	2018 Share of women	2017 Share of women
Board members, Presidents	34%	26%
Other senior management, 4 (4) people	0%	0%

Senior management's remuneration		Basic salary, Directors' fees		Performance related pay		Other benefits		Pension expenses		Total	
Remuneration and other benefits		**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Chairman of the Board:	Johan Hagberg, since July 2018	–184	–	–	–	–	–	–	–	**–184**	**–98**
	John Hedberg, left in July 2018	–157	–242	–	–	–	–	–	–	**–157**	**–242**
	Kristian Teär, left in January 2017	–	–25	–	–	–	–	–	–	**–**	**–25**
Board members:	Kjell-Åke Andersson	–161	–162	–	–	–	–	–	–	**–161**	**–162**
	Bruce Grant, left in January 2017	–	–8	–	–	–	–	–	–	**–**	**–8**
	Bahare Hedenstierna	–111	–107	–	–	–	–	–	–	**–111**	**–107**
	Stefan Johansson, left in January 2017	–	–13	–	–	–	–	–	–	**–**	**–13**
	Henry Klotz, left in January 2017	–	–8	–	–	–	–	–	–	**–**	**–8**
	Johannes Lind-Widestam, since April 2018	–75	–	–	–	–	–	–	–	**–75**	**–**
	Mikael Norin, left in April 2018	–37	–	–	–	–	–	–	–	**–37**	**–73**
	Daniel Nyhrén, left in January 2017	–	–8	–	–	–	–	–	–	**–**	**–8**
	Per Ovrén, left in January 2018	–6	–	–	–	–	–	–	–	**–6**	**–43**
CEO:	Stefan Hedelius, left in April 2017	–	–1,572	–	–1,202	–	–124	–	–427	**–**	**–3,325**
	Henrik Nygren, acting CEO	–	–279	–	–57	–	–12	–	–64	**–**	**–412**
	Per Ovrén, since July 2017	–1,653	–995	–562	–599	–49	–29	–486	–365	**–2,751**	**–1,988**
	Johannes Lind-Widestam since September 2018	–825	–	–187	–	–	–	–	–	**–1,012**	**–**
Other senior management (4 (4) people)		–4,869	–4,454	–873	–1,204	–354	–311	–1,433	–1,572	**–7,530**	**–7,541**
Total		**–8,079**	**–8,087**	**–1 622**	**–3,062**	**–404**	**–476**	**–1,919**	**–2,428**	**–12,024**	**–14,053**

Severance pay, CEO
In addition to remuneration in the above table to former CEO Per Ovrén for the period January–September 2018, a further SEK 7.0 million of termination costs were charged to operating profit for the year. They primarily consist of salary, severance pay, pension, social security contributions and other benefits.

Other comments on the table:
Salary, benefits and Directors' fees are remuneration charged to consolidated profit for 2018. There was a profitability-based, performance-related remuneration programme for the CEO, senior managers, subsidiary Presidents and other key staff, during the financial year 2018. This programme had 18 (19) participants. In 2018, an estimated outcome of SEK 2.7 (4.8) million excluding social security contributions, was charged to the group's profit, of which SEK 1.6 (2.6) million related to senior managers. The Report of the Directors states the details of the remuneration guidelines for senior managers.

Share warrant programme
NOTE's AGM on 26 April 2018 resolved to introduce another long-term incentive programme (three years) for senior managers and key individuals. The programme has 8 participants. The incentive programme involved the issue of 380,000 share warrants, corresponding to approximately 1% of the number of outstanding NOTE shares. For the Chief Executive Officer, this equated to 104,000 share warrants, for other senior managers, a total of 195,000 share warrants, and for key individuals, a total of 81,000 share warrants. Pricing of the incentive programme was on an arm's length basis, at a subscription price of SEK 29.00 per share. The fair value of options was measured pursuant to the Black & Scholes option valuation model. The fair value amounted to SEK 1.05 per share warrant. The constituent parameters of the valuation models were as follows: share price of SEK 22.29, based on the average share price in the period 26 April 2018 to 16 May 2018, interest of 0.0%, volatility of 28% and dividend pursuant to NOTE's dividend policy.

NOTE 9 Auditors' fees and reimbursement

	2018	2017
PwC		
Auditing	-959	-963
Other services	-92	-403
Other auditors		
Auditing	-441	-337
Tax consultancy	–	-22
Other services	-595	-668

Auditing of the consolidated accounts was conducted through the whole year. No separate fees were payable for reviewing interim reports.

NOTE 10 Net financial income/expense

	2018	2017
Interest income on bank balances	–	106
Exchange gains	9,529	403
Other	–	–
Financial income	**9,529**	**509**
Interest costs on financial liabilities measured at amortised cost	-2,195	-1,857
Bank charges	-3,447	-2,486
Exchange losses	-9,015	-461
Other	–	-341
Financial expenses	**-14,657**	**-5,145**
Net financial income/expense	**-5,128**	**-4,636**

NOTE 11 Tax

Reported in Income Statement	2018	2017
Current tax expense (–)/tax revenue (+)		
Tax expense for the period	-10,383	-12,043
Restatement of tax attributable to previous year	-1,709	-1,422
Deferred tax expense (–)/tax revenue (+)		
Deferred tax relating to temporary differences/appropriations	-2,425	989
Deferred tax revenue/expense in capitalised/used tax value in loss carry-forward	–	-4,165
Restatement of tax attributable to previous year	–	–
Total reported tax in group	**-14,517**	**-16,641**

Deferred tax assets and loss carry-forwards
Deferred tax assets are temporary differences relating to the measurement of fixed assets and provisions, which will be allocated over most years.

Deferred tax assets are recognised in deductible loss carry-forwards to the extent it is likely that they can be used against future taxable profits. In 2017, an impairment loss of SEK -4.2 million was taken on previously capitalised loss carry-forwards relating to one of NOTE's subsidiaries. This impairment was taken because the company judges that it will not be able to use the loss carry-forward in the coming years due to the size of the operation of the subsidiary they relate to. Accordingly, deductible temporary differences and tax loss carry-forwards for which deferred tax assets have not been reported in the Income Statement and Balance Sheet amount to SEK – (4.3) million. None of the loss carry-forwards are subject to time limitation.

Reconciliation of effective tax	%	2018	%	2017
Profit before tax		78,757		88,776
Tax at applicable rate for parent company	-22,0	-17,327	-22,0	-19,531
Effect of other tax rates for foreign subsidiaries	3,1	2,414	3,1	2,756
Non-deductible expenses	-0,3	-265	-3,2	-2,874
Non-taxable revenue	2,5	2,005	8,8	7,810
Un-reported tax revenue on loss	-0,5	-382	-0,3	-283
Tax attributable to used portion of loss carry-forwards	0,0	–	0,1	76
Tax attributable to impairment of loss carry-forwards	0,0	–	-4,7	-4,165
Tax attributable to previous year	-2,2	-1,709	-1,6	-1,422
Other	0,8	747	1,1	992
Total reported tax in group	**-18,4**	**-14,517**	**-18,7**	**-16,641**

Provisions for deferred tax	31 Dec 2018	31 Dec 2017
Carrying amount at the beginning of period	1,729	2,464
Amount provisioned in period	7,597	256
Amount used in period	-1,602	-992
Carrying amount at end of period	**7,724**	**1,729**

	Deferred tax asset		Deferred tax liability		Net	
Recognised in Balance Sheet	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Intangible assets	–		2,924	–	-2,924	–
Property, plant and equipment	-32	-39	1,126	1,038	-1,158	-1,077
Derivatives measured at fair value	35	76	–	–	35	76
Loss carry-forwards	–	–	–	–	–	–
Provisions	1,893	990	1,172	–	720	990
Untaxed reserves	–	–	2,502	690	-2,502	-690
Tax receivables/liabilities	**1,896**	**1,027**	**7,724**	**1,728**	**-5,829**	**-701**

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

	2017					2018				
	Opening balance, 1 Jan	**Recognised in Income Statement**	**Recognised against comprehensive income**	**Recognised directly in equity**	**Closing balance, 31 Dec**	**Opening balance, 1 Jan**	**Recognised in Income Statement**	**Recognised against comprehensive income**	**Recognised directly in equity**	**Closing balance, 31 Dec**
Intangible assets	–	–	–	–	–	–	–	–	-2,924	**-2,924**
Property, pland and equipment	-2,058	1,037	-56	–	**-1,077**	**-1,077**	-81	–	–	**-1,158**
Derivatives measured at fair value	15	36	26	–	**77**	**77**	-17	–	-25	**36**
Loss carry-forward	4,165	-4,165	–	–	–	–	–	–	–	**–**
Provisions	849	140	–	–	**989**	**989**	-418	–	148	**720**
Untaxed reserves	-440	-250	–	–	**-690**	**-690**	-1,812	–	–	**-2,502**
Other	–	–	–	–	–	–	-97	–	–	**-97**
Total	**2,531**	**-3,202**	**-30**	**–**	**-701**	**-701**	**-2,424**	**–**	**-2,801**	**-5,925**

NOTE 12 Intangible assets

The useful life of goodwill is indefinite while the useful lives of other intangible assets is definite and conforms to what is stated in Note 1, Critical accounting policies. Intangible assets with definite useful lives are amortised on a straight-line basis over their useful lives.

	Goodwill, purchased	Capitalised expenditure for software	Customer relations	Trademarks & brands, etc.	Total
Cumulative cost					
Opening balance, 1 Jan 2017	72,420	14,689	–	1,926	**89,035**
Investments	–	1,096	–	32	**1,128**
Reclassification and exchange rate effects	–157	–	–	19	**–138**
Sales and retirements	–	–	–	–	**–**
Closing balance, 31 Dec 2017	**72,263**	**15,785**	**–**	**1,977**	**90,025**
Opening balance, 1 Jan 2018	**72,263**	**15,785**	**–**	**1,977**	**90,025**
Investments	37,399	5,020	16,386	102	**58,907**
Reclassification and exchange rate effects	–942	–	–465	–13	**–1,420**
Sales and retirements	–	–	–	–	**–**
Closing balance, 31 Dec 2018	**108,720**	**20,805**	**15,921**	**2,066**	**147,512**
Accumulated amortisation and impairment					
Opening balance, 1 Jan 2017	–2,030	–4,921	–	–1,713	**–8,664**
Reclassification and exchange rate effects	–	–	–	–13	**–13**
Amortisation for the year		–1,441	–	–116	**–1,557**
Sales and retirements	–	–	–	–	**–**
Closing balance, 31 Dec 2017	**–2,030**	**–6,362**	**–**	**–1,842**	**–10,234**
Opening balance, 1 Jan 2018	**–2,030**	**–6,362**	**–**	**–1,842**	**–10,234**
Reclassification and exchange rate effects	–	–	–	–22	**–22**
Amortisation for the year	–	–1,664	–531	–83	**–2,278**
Sales and retirements	–	–	–	–	**–**
Closing balance, 31 Dec 2018	**–2,030**	**–8,026**	**–531**	**–1,947**	**–12,534**
Carrying amounts					
As of 1 Jan 2017	70,390	9,768	–	213	**80,371**
As of 31 Dec 2017	**70,233**	**9,423**	–	**135**	**79,791**
As of 1 Jan 2018	**70,233**	**9,423**	**–**	**135**	**79,791**
As of 31 Dec 2018	**106,690**	**12,779**	**15,390**	**119**	**134,978**

Impairment testing of goodwill

NOTE allocates and tests goodwill in the Western Europe and Rest of World operating segments. The following table states goodwill values by operating segment.

	31 Dec 2018	31 Dec 2017
Western Europe	94,516	58,059
Rest of World	12,174	12,174
Total	**106,690**	**70,233**

Important variables	Method for defining values
Growth in the forecast period	Sales growth has been estimated at 5 (5)% during the forecast period for all entities. Market growth is based on historical experience, estimates in sector research and other externally available information.
Growth after the forecast period	Growth after the forecast period is estimated at 2 (2)%.
Cost of materials	The cost of electronic components is expected to reduce during the forecast period, partly because of continued rationalisation of the production process and partly through increased purchasing volumes and improved co-ordination of sourcing processes.
Personnel costs	Payroll expenses have been estimated using collective bargaining agreements and considering historical pay increases. The estimates also consider which NOTE plant production will be located in.

Impairment tests are based on measurement of value in use, a value based on cash flow forecasts totalling 3 (3) years. Cash flow for the first year is based on budget set by the Board of Directors. The following two years are based on the company's best judgement. Cash flow beyond the forecast period is extrapolated using the assessed growth rate as follows.

Impairment testing is conducted in the two operating segments—Western Europe and Rest of World. As operations are monitored otherwise, goodwill is monitored and impairment is tested at operating segment level.

Testing is based on estimated present values of future cash flows for each constituent legal entity of the operating segment. The present value of these aggregated cash flows are then compared with the goodwill and capital employed that is allocated to the operating segment.

The present value of forecast cash flow is calculated by applying a discount rate after tax based on risk-free interest and the risk judged to be associated with the operation. Against the background of NOTE mainly having shared borrowings, and that the group's entities operate on the same markets, the same discount rate after tax of 8.1 (9.0)% has been applied for both operating segments. The discount rate before tax amounts to 9.7 (11.1)%.

The recoverable amounts for both Western Europe and Rest of World exceed carrying amounts.

Sensitivity analysis, goodwill impairment testing

With the above measurement assumptions and considering the growth and profitability potential estimated by NOTE in its business model, there is no impairment of goodwill values at the reporting date.

If there is no market growth during or after the forecast period, this would not cause any impairment. An increase of the discount rate after tax by one percentage point, from 8.1 to 9.1 percentage points, would not imply any impairment.

Value in use reduces but still significantly exceeds the carrying amount of both Western Europe and Rest of World.

NOTE 13 Property, plant and equipment

	Buildings and land (real estate used in business operations)	Cost incurred on other party's property	Machinery and other plant	Equipment, tools, fixtures and fittings	Total
Cumulative cost					
Opening balance, 1 Jan 2017	46,814	9,216	159,779	34,362	**250,171**
Investments	–	1,153	22,268	797	**24,218**
Sales	–24,175	–	–2,215	–173	**–26,563**
Reclassification and exchange rate effects	627	–126	–487	–86	**–72**
Closing balance, 31 Dec 2017	**23,266**	**10,243**	**179,345**	**34,900**	**247,754**
Opening balance, 1 Jan 2018	**23,266**	**10,243**	**179,345**	**34,900**	**247,754**
Investments	626	2,277	19,431	23,199	**45,532**
Sales	–	–	–446	–934	**–1,380**
Reclassification and exchange rate effects	944	216	17,172	–14,480	**3,852**
Closing balance, 31 Dec 2018	**24,836**	**12,736**	**215,501**	**42,685**	**295,758**
Depreciation and impairment					
Opening balance, 1 Jan 2017	–23,473	–7,348	–120,083	–33,918	**–184,822**
Depreciation for the year	–505	–699	–12,795	–537	**–14,536**
Sales	13,748	–	1 951	173	**15,872**
Reclassification and exchange rate effects	–394	95	399	80	**180**
Closing balance, 31 Dec 2017	**–10,624**	**–7,952**	**–130,528**	**–34,202**	**–183,306**
Opening balance, 1 Jan 2018	**–10,624**	**–7,952**	**–130,528**	**–34,202**	**–183,306**
Depreciation for the year	–366	–757	–14,771	–15,727	**–31,621**
Sales	–	–	311	934	**1,245**
Reclassification and exchange rate effects	–603	–167	-15,696	14,290	**-2,176**
Closing balance, 31 Dec 2018	**–11,593**	**–8,876**	**–160,684**	**–34,705**	**–215,858**
Carrying amounts					
As of 1 Jan 2017	23,341	1,868	39,696	444	**65,349**
As of 31 Dec 2017	**12,642**	**2,291**	**48,817**	**698**	**64,448**
As of 1 Jan 2018	**12,642**	**2,291**	**48,817**	**698**	**64,448**
As of 31 Dec 2018	**13,244**	**3,859**	**54,817**	**7,980**	**79,900**

Depreciation and impairment is included in the following Income Statement lines

	2018	2017
Cost of goods sold and services	–16,711	–14,291
Administrative expenses	–237	–237
Selling expenses	–22	–8
Total	**–16,970**	**–14,536**

Leased production equipment via several different lease contracts*

	2018	2017
Opening cost	49,036	35,273
Investments and exchange rate effects	5,750	13,849
Sales/retirements	–	–86
Accumulated depreciation and exchange rate effects	–31,753	–20,963
Total	**23,033**	**20,785**

*Included under Machinery and other plant in the table showing Property, plant and equipment.

Sale of property in Lund

NOTE's industrial premises in Lund, southern Sweden, were sold to Estancia Bostad AB in March 2017. The purchase price, which has been paid in full, was SEK 44.0 million. Simultaneously, a multi-year lease contract was signed with NOTE Lund as tenant. The transaction had a SEK 20.6 million positive effect on NOTE's operating profit for 2017 in the first quarter.

Collateral

As of 31 December 2018, property with a carrying amount of 13,244 (12,642) was pledged as collateral for bank borrowings. As of 31 December 2018, there is ownership reservation on machinery, with a carrying amount of 115 (744).

NOTE 14 Long-term receivables and other receivables

Long-term receivables	31 Dec 2018	31 Dec 2017
Interest-bearing loans	–	–
Other long-term receivables	743	1,011
Total	**743**	**1,011**

Other receivables that are current assets		
Interest-bearing loans	–	–
VAT	3,749	3,940
Other	2,837	4,035
Total	**6,586**	**7,975**

NOTE 15 Inventories

	31 Dec 2018	31 Dec 2017
Raw materials and consumables	260,488	188,918
Products in process	47,855	21,316
Finished goods and goods for re-sale	79,850	44,162
Obsolescence provision	–18,207	–14,838
Total	**369,986**	**239,558**

The expensed inventories for the year are stated in Note 6, Operating expenses by type, on page 51.

NOTE 16 Prepaid expenses and accrued income

	31 Dec 2018	31 Dec 2017
Accrued income	3,746	3,683
Prepaid services	816	1,159
Prepaid rent	3,343	3,042
Prepaid licenses	2,384	1,299
Prepaid insurance	565	241
Prepaid lease payments	222	179
Other prepaid expenses	358	583
Total	**11,433**	**10,186**

NOTE 17 Earnings per share

	Before dilution		After dilution	
Earnings per share	**2018**	**2017**	**2018**	**2017**
Earnings per share, SEK	2.22	2.50	2.22	2.49

The calculation of earnings per share for 2018 is based on profit for the year of SEK 64,240 (72,135) and a weighted number of outstanding shares in 2018 of 28,872,600 (28,872,600) before dilution. After dilution effects, the weighted average number of outstanding shares in 2018 is 28,872,600 (29,172,600). Earnings per share are stated in accordance with IAS 33 Earnings per Share. The comparative figures for 2017 have been restated for consistency with the new regulations.

Earnings per share after dilution
As of 31 December 2018, NOTE had issued share warrants on 980,000 shares.

NOTE 18 Equity

	Share class A	
No. of shares (thousands)	**31 Dec 2018**	**31 Dec 2017**
Issued as of 1 January	28,873	28,873
Issued as of 31 December–paid up	**28,873**	**28,873**

As of 31 December 2018 registered share capital comprised 28,872,600 shares with a quotient value of SEK 0.50 each. There were 980,000 share warrants as of 31 December 2018. There were no other instruments that could cause dilution effects as of 31 December 2018. Shareholders are entitled to dividends, and shareholdings confer the voting rights of one vote per share at the AGM.

Other paid-up capital
Equity that is contributed by the owners. This includes a portion of share premium reserves transferred to the statutory reserve as a 31 December 2005, a premium of SEK 4 per share in the rights issue of 2010, less issue expenses and payment for warrants issued in 2017-2018.

Reserves

Translation reserve	31 Dec 2018	31 Dec 2017
Opening translation reserve	3,154	4,264
Translation differences for the year	5,113	–1,110
Closing translation reserve	**8,267**	**3,154**

The translation reserve includes all exchange rate differences arising from translating financial statements from foreign operations that prepared their financial statements in currencies other than the currency the consolidated financial statements are presented in. The parent company and group present their financial statements in Swedish kronor. The translation reserve also includes the effect of exchange rate differences on long-term internal loans that are equivalent to equity in subsidiaries.

Hedging reserve	31 Dec 2018	31 Dec 2017
Opening hedging reserve	–104	–17
Forecast cash flow hedges for the year	120	–87
Closing hedging reserve	**16**	**–104**

The hedging reserve includes the cash flow hedges whose effectiveness is partly tested in accordance with IAS 39 and partly relates to the forecast flows that have not yet affected the Consolidated Income Statement and Consolidated Balance Sheet.

Retained profit including profit for the period
Retained profit including profit for the period include accrued profits of the parent company and its subsidiaries. Previous provisions to statutory reserves, excluding transfers to share premium reserve are included in retained profit including profit for the year.

Capital management
The Board of Directors and management of NOTE have set the following financial targets:

Growth target
NOTE will increase its market share organically and through acquisitions.

Profitability target
NOTE will grow with profitability. Its target is for a minimum return on operating capital of 20%. For the long term and over a business cycle, profitability will also exceed the average of other mid-sized international and comparable competitors. For the financial year 2018 the return on operating capital was 17.8 (24.2)%.

Capital structure target
The minimum equity ratio should be 30%. At year-end, the equity to assets ratio was 39.8 (48.8)%.

Dividend policy
The dividend should be adapted to the average profit level over a business cycle and should be 30–50% of profit after tax for the long term. The dividend should also be available to adapt the capital structure.

NOTE 19 Interest-bearing liabilities

Non-current liabilities	31 Dec 2018	31 Dec 2017
Bank loans	–	96
Finance lease liabilities, fixed assets	12,462	12,182
Total	**12,462**	**12,278**
Current liabilities		
Overdraft facility	19,086	4,078
Factoring	151,098	87,765
Short-term portion of bank loans	113	230
Short-term portion of finance lease liabilities	5,726	5,741
Total	**176,023**	**97,814**

Pledged assets

15,043 (14,420) of collateral for bank loans, finance lease liabilities and overdraft facilities is pledged in the company's land and buildings (see also Note 13) and 212,879 (212,648) in operations. Collateral for factoring is issued at an amount of 195,251 (163,366) in pledged accounts receivable–trade.

90% of the risk associated with customer receivables–trade for NOTE's factoring engagements in Estonia have been transferred to the lender. To comply with applicable regulations, this financing is also reported as factoring, totalling 12,705 (12,657).

Fair value on non-current liabilities	Carrying amount		Fair value	
	2018	2017	2018	2017
Finance lease liabilities, fixed assets	12,462	12,182	12,172	11,470

The fair value of current liabilities corresponds to their carrying amount, because the discounting effect is not significant. Fair value is based on discounted cash flow with interest based on average loan interest of 2.4 (4.0)%.

Finance lease liabilities

Finance lease liabilities are due for payment as follows:

	2018			2017		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within one year	5,866	139	5,726	5,973	232	5,741
Between one and five years	12,765	303	12,462	12,675	492	12,182
Total	**18,631**	**442**	**18,189**	**18,648**	**724**	**17,923**

For more information, see Note 24 Financial risks and finance policy on page 57.

NOTE 20 Provisions

Short-term portion of provision	31 Dec 2018	31 Dec 2017
Other	579	11
Total	**579**	**11**

	2018	2018
Carrying amount at beginning of period	11	11
Provisions in the period	568	–
Amounts used in the period	–	–
Un-used amounts reversed in the period	–	–
Carrying amount at end of period	**579**	**11**

NOTE 21 Other current liabilities

	31 Dec 2018	31 Dec 2017
Staff withholding tax	4,811	3,726
Social security contributions	3,817	3,522
VAT	10,252	8,517
Other	1,040	1,116
Total	**19,920**	**16,881**

NOTE 22 Accrued expenses and deferred income

	31 Dec 2018	31 Dec 2017
Accrued salaries and benefits	16,525	12,752
Accrued social security contributions	11,877	8,943
Vacation payment	23,853	19,742
Other	20,858	18,284
Total	**73,113**	**59,721**

The Other item above includes expenses related to the sale of the property in Lund of SEK 0.0 (8.4) million.

NOTE 23 Financial instruments by category

31 Dec 2018	Loans receivable and accounts receivable–trade	Derivatives used for hedging purposes	Other financial liabilities	Total
Assets in the Balance Sheet				
Accounts receivable–trade and other financial receivables	327,216	–	–	**327,216**
Cash and cash equivalents	30,987	–	–	**30,987**
Total assets	**358,203**	**–**	**–**	**358,203**
Liabilities in the Balance Sheet				
Interest-bearing liabilities	–	–	188,485	**188,485**
Other liabilities	–	161	–	**161**
Accounts payable–trade and other financial liabilities	–	–	273,599	**273,599**
Total liabilities	**–**	**161**	**462,084**	**462,245**

31 Dec 2017	Loans receivable and accounts receivable–trade	Derivatives used for hedging purposes	Other financial liabilities	Total
Assets in the Balance Sheet				
Accounts receivable–trade and other financial receivables	261,775	–	–	**261,775**
Cash and cash equivalents	87,189	–	–	**87,189**
Total assets	**348,964**	**–**	**–**	**348,964**
Liabilities in the Balance Sheet				
Interest-bearing liabilities	–	–	110,092	**110,092**
Other liabilities	–	344	–	**344**
Accounts payable–trade and other financial liabilities	–	–	195,045	**195,045**
Total liabilities	**–**	**344**	**305,137**	**305,481**

For more information on financial instruments measured at fair value, see note 24 Financial risks and finance policy on page 57.

NOTE 24 Financial risks and finance policy

Through its operations, the group is exposed to various types of financial risk such as currency risks, funding and interest risks and liquidity and credit risks. The group's finance policy stipulates that financial risks are to be kept at the lowest possible level.

The group's finance policy for managing financial risk has been formulated by the Board and constitutes a framework for risk management. The policy's overall goal is to ensure the company's long and short-term access to capital, to adapt the financial strategy to the company's operations to enable the attainment and retention of a stable long-term capital structure, and to achieve the best possible financial income/expenses within stated risk limits.

The group's guidelines for loan financing state that there should be one main lender. The parent company is primarily focused on the management, co-ordination and development of the group, as well as group reporting and communication with shareholders. The group's operations are conducted in legal subsidiaries, and accordingly, the actual risks occur there.

NOTE 24 Cont.

Agreement terms
Financial assets mainly consist of cash and cash equivalents and accounts receivable–trade. The risk associated with accounts receivable-trade increases with the number of outstanding days of credit. There is a market tendency to require longer credit terms.

NOTE's funding consists of a combination of factoring and traditional overdraft facilities. Factored accounts receivable-trade were 195 (163) million at year-end.

The interest terms on the factoring and overdraft facilities are based on a variable base rate plus fixed percentage interest rates, average interest of 1.6 (1.6)% was charged to consolidated profit.

NOTE has agreed on a number of covenants to its lender as security for the liabilities. There were no breaches of covenants in the year.

Liquidity risks
Liquidity risk means the risk of being unable to fulfil payment obligations resulting from insufficient liquidity or difficulties in raising external borrowings. Operations are funded through means such as SEK 383.6 (369.2) million of equity and interest-bearing liabilities of SEK 188.5 (110.1) million, utilised overdrafts of SEK -19.1 (-4.1) million are included. The un-utilised overdraft facility was SEK 97.2 (51.8) million at year-end. Financial liabilities comprise loans and the utilised portion of the overdraft and factoring facilities.

Age analysis, financial liabilities

2018, SEK million	Total	Within 1 mth.	1–3 mth.	3 mth. –1 yr.	1–5 yr.	5 yr. or longer
Bank credit facilities including overdraft & factoring*	**170.9**	101.6	29.8	33.8	5.7	–
Finance lease liabilities*	**17.9**	0.5	0.9	4.1	12.4	–
Accounts payable-trade	**273.5**	197.2	68.3	8.0	–	–
Total	**462.3**	**299.3**	**99.0**	**45.9**	**18.1**	**–**

2017, SEK million	Total	Within 1 mth.	1–3 mth.	3 mth. –1 yr.	1–5 yr.	5 yr. or longer
Bank credit facilities including overdraft & factoring*	**92.3**	58.7	14.7	18.8	0.1	–
Finance lease liabilities*	**18.9**	0.6	1.6	3.8	12.9	–
Accounts payable-trade	**195.0**	128.1	59.0	7.9	–	–
Total	**306.2**	**187.4**	**75.3**	**30.5**	**13.3**	**–**

*Factoring and overdraft facilities are subject to estimated average interest of 1.6 (1.6) percentage points. A majority of these credits mature within three months. Finance lease liabilities are subject to estimated average interest of 4.0 (4.0) percentage points and a majority of these credits mature within 1-5 year.

Interest risks
Interest risk is the risk that the value of a financial instrument varies due to changes in market interest rates. Interest risks can partly comprise changes in fair value, price risk, and partly changes in cash flow, cash flow risk. Interest fixing periods are a significant factor influencing interest risk. Long interest fixing periods mainly affect cash flow risk, while shorter interest fixing periods affect price risk.

The management of the group's interest exposure is centralised, implying that the central finance function is responsible for identifying and managing this exposure.

The group's exposure to market risk for changes in interest levels is mainly attributable to the group's financial net debt which amounted to SEK 22.9 (60.4) million at year-end. There were no interest derivatives as of the reporting date, and accordingly, all interest was variable.

Translation exposure
The group's foreign net assets are divided between the following currencies, amounts in SEK 000 and percentage share of NOTE's total equity:

	31 Dec 2018		31 Dec 2017	
Currency	Amount	%	Amount	%
CNY	102,176	26.6	82,648	22.4
EUR	74,525	19.4	60,004	16.3
GBP	85,894	22.4	-2,744	-0.7
NOK	2,711	0.7	2,649	0.7
Total	**265,306**	**69.2**	**142,557**	**38.7**

Credit risks
Credit risks in financing activities
Credit risk consists of a party to a transaction being unable to fulfil its financial commitments.

Credit risks in accounts receivable-trade
The risk that the group's customers do not fulfil their commitments, i.e. that payments for accounts receivable-trade are not received, is a credit risk. The group's customers are subject to credit checks, implying the collection of information on customers' financial positions from various credit agencies. The group has prepared rules stating the level of decisions for credit limits, and how valuations of credits and doubtful debts should be managed. Bank guarantees or other collateral are required for customers with low creditworthiness or insufficient credit histories.

The ten biggest customers provide approximately 47 (50)% of sales. The group has relatively good diversification of customers across a range of industrial sectors.

Age analysis, accounts receivable-trade	31 Dec 2018	31 Dec 2017
Not overdue accounts receivable-trade	273,554	203,136
Overdue accounts receivable-trade 0-30 days	37,068	44,691
Overdue accounts receivable-trade > 30 days-60 days	16,724	9,387
Overdue accounts receivable-trade > 60 days	-130	4,561
Total	**327,216**	**261,775**

Currency risks
The group is exposed to various types of currency risk. The primary exposure is for purchases and sales in foreign currency, where risks can partly comprise fluctuations in the currency of the financial instrument, customer or supplier's invoice, partly the currency risk in expected or contracted payment flows, termed transaction exposure. Against the background of underlying pricing of electronic components being basically in USD, despite actual purchasing often being conducted in EUR, NOTE considers it relevant to disclose the effects of the aggregate exposure to EUR and USD.

Currency risk fluctuations also exist in the translation of foreign subsidiaries' assets and liabilities to the functional currency of the parent company, termed translation exposure.

Foreign currency expenses and purchases are largely hedged through binding contracts, where the customer assumes the full currency risk. Invoicing is largely in local currency and the majority is denominated in Swedish kronor, Euro or USD and with a fairly even division between these currencies. NOTE adopts a centralised view of managing currency hedges. NOTE's corporate finance function hedges net flows in foreign currency on rolling six-month forecasts, based on the limits stipulated in NOTE's finance policy.

Allocation 6 months from the closing date

	Net exposure from sales and purchasing in foreign currencies		Total hedging		Percentage		Average exchange rate	
	2018	2017	2018	2017	2018	2017	2018	2017
EUR	6,196	3,369	2,931	1,233	47%	37%	10.27	9.91
USD	13,516	7,384	6,334	4,450	47%	60%	8.98	8.29

The group classifies its forward contracts used for hedging forecast transactions as cash flow hedging.

Assets and liabilities measured at fair value
NOTE's derivative instruments held for hedge accounting are based on valuation tier 2 of IFRS 7, i.e. fair value is based on observable data from an independent source.

Materials risks
Because a high proportion of the group's sales values comprise materials, both the price and access to materials are decisive to profitability. NOTE's strategic sourcing company NOTE Components AB manages a substantial portion of materials sourcing agreements.

Sensitivity analysis
The following table illustrates the effect on the group from changes in a number of parameters.

	Effect on comprehensive income			
	2018		2017	
Market risk, SEK million	+/- 2%	+/- 5%	+/- 2%	+/- 5%
Change in sales price to customers	21.5	53.8	18.3	45.9
Change in sales volume	5.6	14.0	4.7	11.9
Change in materials price*	13.4	33.5	11.5	28.6
Change in payroll overheads	4.7	11.8	4.1	10.2
Change in interest rates	2.5	6.1	0.4	0.9
Change in EUR/USD exchange rate accounts receivable–trade and accounts payable–trade on the reporting date	1.3	3.2	1.1	2.8
Currency change on net assets in foreign subsidiaries	4.3	10.8	2.9	7.1

*Disregarding price adjustment clauses to customers.

NOTE 25 Pledged assets and contingent liabilities

Pledged assets for own liabilities and provisions	31 Dec 2018	31 Dec 2017
Property mortgage	15,043	14,420
Floating charge	212,879	212,648
Ownership reservation on machinery	115	744
Factored accounts receivable–trade	195,251	163,366
Total	**423,288**	**391,178**
Contingent liabilities		
Guarantees issued	49,348	42,568
County administrative board, conditional loan	141	–
Total	**49,489**	**42,568**

NOTE 26 Cash Flow Statement

Interest paid	2018	2017
Interest received	1,046	123
Interest paid	–908	–2,700
Other non-cash items		
Impairment losses	–2,819	3,832
Unrealised exchange rate differences	–2,462	1,196
Capital gain/loss on sale of property, plant and equipment	–	–33,430
Other items not affecting liquidity	2,128	8,167
Total	**–3,153**	**–20,235**
Cash and bank equivalents	**31 Dec 2018**	**31 Dec 2017**
Cash and bank balances	30,987	87,189
Un-utilised overdraft facilities	97,219	51,759
Total	**128,206**	**138,948**

			Non-cash items		
	31 Dec 2017	Cash flow	Borrowings, finance leases	Exchange rate differences	31 Dec 2018
Long-term interest-bearing liabilities	**12,278**	–4,754	4,573	364	12,462
Current interest-bearing liabilities	**97,814**	74,579	1,178	2,452	176,023
Total	**110,092**	**–69,823**	**5,751**	**2,818**	**188,485**

NOTE 27 Close relations

	2018	2017
Sale of goods and services to related parties	–	–
Trade purchases from related parties	–	–
Liability to related party as of 31 December	–	–
Receivable from related party as of 31 December	–	–

Transactions with related parties
Apart from the incentive programme for senior managers and key staff implemented in spring 2018, there were no transactions with related parties.

For more information on transactions with key staff in executive positions, see Note 8, Employees, personnel expenses and remuneration to senior management, on page 52.

NOTE 28 Critical estimates and judgements

Critical judgements when applying the group's accounting policies
Some critical accounting estimates made when applying the group's accounting policies are reviewed below.

Accounts receivable–trade and inventories
Accounts receivable–trade and inventories are the largest asset items in value terms on the reporting date. Both these items are reported as net values after deducting for impairment losses, based on individual judgement. The obsolescence reserve on the reporting date 31 December 2018 was SEK –18.2 (–14.8) million and the reserve for doubtful debt was SEK –8.5 (–8.7) million. Note 24 provides more information on the judgements made and information on the risks associated with these asset items.

Goodwill
The group's goodwill relates to the Swedish and foreign subsidiaries. Goodwill is subject to impairment tests in accordance with IAS 36 Impairment of Assets. On 31 December 2018, goodwill on consolidation was SEK 106.7 (70.2) million. Note 12 states more information on the measurement of goodwill items.

Deferred tax assets
Deferred tax assets are recognised on tax loss carry-forwards to the extent it is likely that they can be used against future taxable profits. Previously capitalised loss carry-forwards in a NOTE subsidiary were impaired by SEK –4.2 million in 2017. On the reporting date of 31 December 2018, the group's deferred tax assets were SK 1.9 (1.0) million. Note 11 states more information on the group's deferred tax assets.

NOTE 29 Acquisition

All the shares of Speedboard Assembly Services Ltd. of Windsor, UK, were acquired at month-end October. Sales in the 12 months prior to the acquisition were just over SEK 155 million, with an operating margin of approximately 10%. Speedboard had about 100 employees. This acquisition consolidates NOTE's positioning on the UK market, and contributes to the positive development potential of NOTE's other operations.

Information on purchase consideration, acquired net assets and goodwill follows:

Assets and liabilities taken over on acquisition	2018
Total purchase consideration	**91.3**
Property, plant and equipment	7.2
Intangible assets—customer relationships	16.4
Inventories	52.8
Accounts receivable—trade and other current receivables	30.2
Cash and cash equivalents	2.5
Interest-bearing liabilities	-0.6
Other operating liabilities	-8.4
Deferred tax liability	-1.2
Non-current liabilities	
Accounts payable—trade and other operating liabilities	-41.9
Acquired identifiable net assets	**56.9**
Goodwill	34.4
Total acquired net assets	**91.3**
Cash flow related to acquisitions in the period	
Purchase consideration paid	82.1
Cash in acquired entity	-2.5
Net outflow of cash and cash equivalents	**79.7**

Transaction costs for the acquisition were approximately SEK 1.0 million, primarily relating to expenses for legal counsel another consulting. These expenses are recognised on the administrative expenses line of the Consolidated Income Statement, and are included in operating activities in the Cash Flow Statement.

Existing customer relations with a total value of SEK 16.4 million were identified in tandem with the acquisition. The goodwill of SEK 34.4 million arising in the acquisition mainly relates to the company's skills and processes in PCB manufacture and box build, as well as expected coordination gains with NOTE's other operations.

NOT 30 Post-balance sheet events

The group has no significant events after the end of the financial year to report.

Parent Company Income Statement

SEK 000	NOTE	2018	2017
Net revenue		37,396	34,804
Cost of sold services		–16,424	–16,629
Gross profit		**20,972**	**18,175**
Selling expenses		–21,312	–17,031
Administrative expenses		–12,301	–11,776
Other operating revenue	2	4,627	869
Other operating expenses	3	–4,910	–1,137
Operating profit	4, 5, 6, 15	**–12,924**	**–10,900**
Profit from financial items	7		
Profit from participations in group companies		41,448	69,341
Interest income, etc.		2,016	1,729
Interest costs, etc.		–2,409	–1,202
Profit after financial items		**28,131**	**58,968**
Appropriations	8	–6,800	–
Profit before tax		**21,331**	**58,968**
Tax	9	–4,532	–4,657
Profit for the year		**16,799**	**54,311**

Parent Company Statement of Other Comprehensive Income

000 SEK	2018	2017
Profit for the year	**16,799**	**54,311**
Other comprehensive income		
Items that can be subsequently reversed in the Income Statement:	–	–
Total comprehensive income for the year	**16,799**	**54,311**

Parent Company Balance Sheet

SEK 000	NOTE	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	10		
Capitalised expenditure on development work		4,411	1,053
Property, plant and equipment	10	315	423
Financial assets			
Participations in group companies	16	221,379	221,379
Receivables from group companies	11	79,876	4,925
Deffered tax assets	9	–	–
Total financial assets		**301,255**	**226,304**
Total non-current assets		**305,981**	**227,780**
Current assets			
Short-term receivables			
Receivables from group companies		67,031	66,111
Other receivables	12	3,797	1,640
Prepaid expenses and accrued income		2,535	1,676
Total short-term receivables		**73,363**	**69,427**
Cash and bank balances	17	–5,732	46,902
Total current assets		**67,631**	**116,329**
TOTAL ASSETS		**373,612**	**344,109**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (28,872,600/28,872,600 class A shares)		14,436	14,436
Statutory reserve		148,161	148,161
Non-restricted equity			
Profit brought forward		36,144	32,557
Profit for the year		16,799	54,311
Total equity		**215,540**	**249,465**
Untaxed reserves			
Tax allocation reserve		6,800	–
Current liabilities			
Accounts payable–trade		7,313	2,288
Liabilities to group companies		128,901	81,313
Other liabilities		514	1,270
Accrued expensed and deferred income	13	14,544	9,773
Total current liabilities		**151,272**	**94,644**
TOTAL EQUITY AND LIABILITIES		**373,612**	**344,109**

Summary Statement of Changes in Parent Company's Equity

	Restricted equity		Non-restricted equity		
SEK 000	**Share capital**	**Statutory reserve**	**Profit brought forward**	**Profit for the year**	**Total equity**
Opening equity, 1 Jan 2017	14,436	148,161	70,650	–17,887	**215,360**
Appropriation of profit			–17,887	17,887	**–**
Comprehensive income					
Profit for the year				54,311	**54,311**
Other comprehensive income					
–			–	–	**–**
Total comprehensive income			**–**	**54,311**	**54,311**
Transactions with shareholders					
Dividend			–20,211		**–20,211**
Closing equity, 31 Dec 2017	**14,436**	**148,161**	**32,557**	**54,311**	**249,465**

	Restricted equity		Non-restricted equity		
SEK 000	**Share capital**	**Statutory reserve**	**Profit brought forward**	**Profit for the year**	**Total equity**
Opening equity, 1 Jan 2018	14,436	148,161	32,557	54,311	**249,465**
Appropriation of profit			54,311	–54,311	**–**
Comprehensive income					
Profit for the year				16,799	**16,799**
Other comprehensive income					
Total comprehensive income				**16,799**	**16,799**
Transactions with shareholders					
Repurchase of shares			–21,851		**–21,851**
Dividend			–28,873		**–28,873**
Closing equity, 31 Dec 2018	**14,436**	**148,161**	**36,144**	**16,799**	**215,540**

Parent Company Cash Flow Statement

SEK 000	NOTE	2018	2017
Operating activities	17		
Profit before tax		28,131	58,968
Reversed depreciation		591	463
Other non-cash items		40,409	–66,952
Tax paid		–6,700	–8,345
		62,431	**–15,866**
Cash flow from change in working capital			
Increase (–)/decrease (+) in trade receivables		–1,768	–6,637
Increase (+)/decrease (–) in trade liabilities		–15,081	–9,312
		–16,849	**–15,949**
Cash flow from operating activities		**45,582**	**–31,815**
Investing activities			
Purchase of intangible assets		–3,780	–155
Purchase of property, plant and equipment		–61	–336
Sale of property, plant and equipment		–	–
Purchase of financial assets		–74,951	–
Sale of financial assets		–	40,320
Cash flow from investing activities		**–78,792**	**39,829**
Financing activities			
Dividends paid		–28,873	–20,211
Repurchase of shares		–21,851	
Group contributions received		31,300	25,770
Group contributions paid		–	–1,591
Cash flow from financing activities		**–19,424**	**3,968**
Cash flow for the year		**–52,634**	**11,982**
Cash and cash equivalents			
At beginning of period		46,902	34,920
Cash flow before financing activities		–33,210	8,014
Cash flow from financing activities		–19,424	3,968
Cash and cash equivalents at end of period		**–5,732**	**46,902**

Notes on the Parent Company's Financial Statements

NOTE 1 Critical accounting principles

Parent company accounting policies
The parent company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and RFR's (Rådet för finansiell rapportering, the Swedish Financial Reporting Board) recommendation RFR 2, Accounting for Legal Entities. RFR's statements for listed companies have also been adopted. RFR 2 stipulates that in its annual accounts as a legal entity, the parent company should adopt all IFRS and statements endorsed by the EU, providing this is possible within the framework of the Swedish Annual Accounts Act, The Swedish Pension Obligations Vesting Act (Tryggandelagen) and with consideration to the relationship between accounting and taxation. This recommendation states the exemptions and supplements to be made from and to IFRS.

Accordingly, the parent company adopts those policies presented in Note 1 on page 48, of the consolidated accounts, subject to the exemptions stated below. These policies have been applied consistently for all years presented, unless otherwise stated.

Subsidiaries
Participations in subsidiaries are reported in the parent company in accordance with the cost method. Dividends received are only recognised as revenues if they are sourced from earnings accrued after the acquisition. Dividends exceeding these accrued earnings are considered as a re-payment of the investment and reduce the value of the participations.

Loans to subsidiaries
The parent company lends funds to subsidiaries in foreign currency. A portion of these loans is considered as a portion of net investments in subsidiaries. In previous periods, restatement of these loans to closing day rates was recognised in equity in the fair value reserve. Since 2017, these effects are recognised directly in parent company profit or loss in accordance with the revised principle RFR 2. Figures for the comparative year have been restated in the same way. Other loans receivable in foreign currency are revalued at closing day rates and the revaluation is recognised in the Income Statement.

Financial guarantees
The parent company has granted sureties in favour of subsidiaries. In accordance with IFRS, these obligations are classified as financial guarantee agreements. For such agreements, the parent company applies the relaxation of RFR 2 point 72, and accordingly reports the surety as a contingent liability. When the company judges that it is likely that payment will be required to settle the obligation, a provision is made.

Borrowing costs
The company expenses all borrowing costs immediately.

Revenues
Sales of goods and conducting services assignments. The revenue of services assignments in the parent company is recognised in accordance with Chap. 2 §4 of the Swedish Annual Accounts Act when the services are complete. All parent company sales are to other group companies.

Property, plant and equipment
Property, plant and equipment in the parent company are recognised at cost less deductions for accumulated depreciation and potential impairment losses in the same manner as for the group, but with a supplement for potential revaluations.

Intangible assets
The parent company has begun the process of implementing a new group-wide ERP system. Effective 1 January 2015, the parent company is applying the exemption of RFR 2 that permits expenditure for development, which pursuant to IAS 38 p. 57 should be recognised as an asset in the Balance Sheet, to be expensed in the period that it arises instead. Instead, capitalisation is in the group. Remaining intangible assets in the parent company have estimated useful lives of 10 years.

Leases
All lease arrangements in the parent company are reported in accordance with the rules for operating leases.

Tax
In the parent company, untaxed reserves are reported including deferred tax liabilities.

Group contributions and shareholders' contributions for legal entities
The company reports group contributions and shareholders' contributions in accordance with statements from the RR Emerging Issues Task Force. Shareholders' contributions are recognised directly to the recipient's equity and capitalised in shares and participations of the issuer, to the extent no impairment losses are necessary.

NOTE 2 Other operating revenue

	2018	2017
Exchange gains on trade receivables/liabilities	4,544	789
Gain on disposal/retirement of non-current asset	83	72
Other operating revenue	–	8
Total	**4,627**	**869**

NOTE 3 Other operating expenses

	2018	2017
Impairment of current asset	–	–
Loss on disposal/retirement of non-current asset	–167	–134
Exchange losses on trade receivables/liabilities	–4,743	–1,003
Total	**–4,910**	**–1,137**

NOTE 4 Auditors' fees and reimbursement

	2018	2017
PwC		
Auditing assignment	–480	–443
Auditing in addition to audit assignment	–	–
Tax consultancy	–	–
Other services	–92	–402
Total	**–572**	**–845**

NOTE 5 Employees, personnel expenses and remuneration to senior management

Expenses for employee benefits	2018	2017
Salaries and benefits	–16,976	–17,268
Pension expenses, defined-contribution plans	–4,129	–3,521
Social security contributions	–8,283	–7,363
Total	**–29,388**	**–28,152**

Average number of employees	2018	of which men	2017	of which men
Sweden	14	58%	13	64%

Division between sexes in management	2018 Share of women	2017 Share of women
Board of Directors	18%	19%
Other senior management 4 (4) people	0%	0%

Salaries, other benefits and social security contributions

	Salaries and benefits (of which bonus)		Social security (of which pension expense)	
	2018	2017	2018	2017
Management	–11,488 (–1,497)	–10,447 (–2,958)	–7,036 (–2,757)	–5,891 (–2,099)
Other employees	–5,488 (–330)	–7 587 (–1,170)	–5,376 (–1,373)	–4,993 (–1,422)

Management means the Board of Directors and the group management.

NOTE 6 Operating leases

	2018-12-31	2017-12-31
Lease arrangements payable within one year	1,612	1,344
Lease arrangements payable between one and five years	916	1,528
Total	**2,528**	**2,872**

Parent company expenses for operating leases were 2 006 (1 486). A significant proportion of operating leases relates to rents for premises. In addition, NOTE is party to lease agreements relating to cars and office equipment.

NOTE 7 Net financial income/expense

Profit from participations in group companies	**2018**	**2017**
Capital gain/loss on the sale of shares in group companies	–	35,626
Dividend from group companies	1,038	2,385
Group contributions, received	40,409	31,536
Group contributions, paid	–	–206
Total	**41,448**	**69,341**
Interest income etc.		
Interest income, group companies	517	992
Interest income, other	948	–
Exchange rate differences	551	737
Total	**2,016**	**1,729**
Interest costs, etc.		
Interest costs, other	–251	–7
Exchange rate differences	–1,581	–861
Other	–577	–334
Total	**–2,409**	**–1,202**

NOTE 8 Appropriations

	2018	2017
Tax allocation reserve, provision/dissolved for the year	–6,800	–
Total	**–6 800**	**–**

NOTE 9 Tax

Reported in Income Statement	**2018**	**2017**
Current tax expense (–)/tax revenue (+)		
Tax expense/tax revenue for the period	–4,532	–4,657
Deferred tax expense (–)/tax revenue (+)		
Deferred tax revenue/expense in capitalised/utilised tax values of loss carry-forwards	–	–
Total reported tax	**–4,532**	**–4,657**

Reconciliation of effective tax	**%**	**2018**	**%**	**2017**
Profit before tax		21,331		58,968
Tax at applicable rate for parent company	–22.0%	–4,693	–22.0%	–12,973
Non-deductible expenses	–0.2%	–48	–0.1%	–43
Non-taxable revenue	1.1%	229	14.2%	8,363
Tax attributable to previous years	–0.1%	–20	0.0%	–4
Tax attributable to dissolution of fair value reserve	–	–	–	–
Total	**–21.2%**	**–4,532**	**–7.9%**	**–4,657**

NOTE 10 Intangible assets and Property, plant and equipment

	Capitalised expenditure on development work	Equipment, tools, fixtures and fittings
Cumulative cost		
Opening balances 1 Jan 2017	1,466	461
Purchases	155	336
Sales and retirements	–	–
Closing balance, 31 Dec 2017	**1,621**	**797**
Opening balances 1 Jan 2018	**1,621**	**797**
Purchases	3,781	95
Sales and retirements	–	–51
Closing balance, 31 Dec 2018	**5,402**	**841**
Depreciation		
Opening balance, 1 Jan 2017	–257	–222
Depreciation for the year	–311	–152
Sales and retirements	–	–
Closing balance, 31 Dec 2017	**–568**	**–374**
Opening balance, 1 Jan 2018	**–568**	**–374**
Depreciation for the year	–422	–169
Sales and retirements	–	16
Closing balance, 31 Dec 2018	**–990**	**–527**
Carrying amounts		
1 Jan 2017	1,209	239
31 Dec 2017	**1,053**	**423**
1 Jan 2018	**1,053**	**423**
31 Dec 2018	**4,411**	**315**

Depreciation is included in the following Income statement lines	**2018**	**2017**
Cost of goods sold and services	–335	–232
Selling expenses	–248	–223
Administrative expenses	–8	–8
Total	**–591**	**–463**

NOTE 11 Long-term receivables

Receivables from group companies	**31 Dec 2018**	**31 Dec 2017**
Cumulative cost		
At beginning of year	4,925	9,569
Purchase	–79,876	120
Impairment	–	–
Re-payment	–4,925	–4,764
Total	**–79,876**	**4,925**

NOTE 12 Other receivables

	31 Dec 2018	31 Dec 2017
Tax receivable	3,795	1,627
Other receivable	2	13
Total	**3,797**	**1,640**

NOTE 13 Accrued expenses and deferred income

	31 Dec 2018	31 Dec 2017
Accrued consulting fees	724	562
Accrued salaries and benefits	6,782	4,194
Accrued social security contributions	3,960	2,782
Accrued vacation payment	2,314	1,863
Other	764	372
Total	**14,544**	**9,773**

NOTE 14 Pledged assets and contingent liabilities

Contingent liabilities	31 Dec 2018	31 Dec 2017
Rent guarantee	–	–
Sureties in favour of subsidiaries	41,348	42,568
Total	**41,348**	**42,568**

NOTE 15 Close relations

Close relation	Year	Sales of goods and services to related parties	Purchases from related parties	Liability to related party as of 31 December	Receivable from related party as of 31 December
Company owned by Board member	2018	–	–	–	–
Company owned by Board member	2017	–	–	–	–

Transactions with staff in executive positions

For the Board of Directors', the CEO's and other senior managers' salaries and other benefits, expenses and commitments relating to pensions and similar benefits, as well as agreements on severance pay, see note 8, page 52.

NOTE 16 Group companies

Specification of the parent company's direct holdings of shares in subsidiaries

Subsidiary Sweden/Corporate identity no./Registered office	No. of shares	31 Dec 2018 Carrying amount	31 Dec 2017 Carrying amount
NOTE Components AB, 556602-2116, Stockholm, Sweden	1,000	100	100
NOTE International AB, 556655-6782, Stockholm, Sweden	1,000	100	100
NOTE Järfälla AB, 556749-2409, Stockholm, Sweden	1,000	0	0
NOTE Lund AB, 556317-0355, Lund, Sweden	10,661	43,091	43,091
NOTE Norrtelje AB, 556235-3853, Norrtälje, Sweden	1,000	60,719	60,719
NOTE Nyköping-Skänninge AB, 556161-4339, Stockholm, Sweden	9,000	8,190	8,190
NOTE Skellefteå AB, 556430-0183, Stockholm,Sweden	5,000	16,078	16,078
NOTE Torsby AB, 556597-6114, Torsby, Sweden	30,000	3,000	3,000
Subsidiary other/Corporate identity no./Registered office			
NOTE Electronics (Dongguan) Co Ltd, 441900400100981, Dongguan, China	1	47,630	47,630
NOTE Hyvinkää Oy, 1931805-1, Hyvinkää, Finland	80	1,347	1,347
NOTE Pärnu OÜ, 10358547, Pärnu, Estonia	1	26,887	26,887
NOTE UK Ltd, 5257074, Telford, UK	1,850,000	14,237	14,237
Speedboard Assembly Services Ltd, 04849220, Windsor, UK (100% owned by NOTE UK Ltd)	–	–	–
Summa		**221,379**	**221,379**

The participating interest is 100 (100)% in all companies.

Cumulative cost	31 Dec 2018	31 Dec 2017
At beginning of year	254,416	254,466
Sales	–	–
Divestment	–	–50
Shareholder contributions	–	–
	254,416	**254,416**
Cumulative impairment		
At beginning of year	–33,037	–33,037
Sales	–	–
Impairment for the year	–	–
	–33,037	**–33,037**
Net carrying amount	**221,379**	**221,379**

NOTE 17 Cash Flow Statement

Interest paid and dividend received	2018	2017
Interest received	1,465	992
Interest paid	–251	–7
Dividend received	1,039	2,385

Other non-cash items		
Profit/loss on sale of shares in subsidiaries	–	–35,626
Impairment of financial assets	–	–
Impairment of current asset	–	–
Repurchase of shares	–21,851	–
Group contributions received/paid in the year	–40,409	–31,326
Other items not affecting liquidity	–	–
Total	**–62,260**	**–66,952**

Cash and cash equivalents	2018-12-31	2017-12-31
Cash and bank balances	–5,732	46,902

Un-utilised credit facilities		
Un-utilised credit facilities	105,000	45,000

NOTE 18 Information on the parent company

NOTE AB (publ) is a Swedish-registered limited company with its registered office in Stockholm municipality, Stockholm county, Sweden. The parent company's shares are listed on Nasdaq Stockholm Stock Exchange.

The address of the head office is NOTE AB (publ), Box 1285, 164 29 Kista, Sweden. The corporate identity number is 556408-8770. The consolidated accounts for 2018 comprise the parent company and its subsidiaries, collectively termed the group.

Financial definitions

Market capitalisation – Share price multiplied by total number of outstanding shares.

Equity per share – Equity divided by the number of shares at year-end.

Attendance – Attendance as a percentage of regular working-hours.

Average number of employees – Average number of employees calculated on the basis of hours worked.

Rate of capital turnover (operating capital), multiple – Sales divided by operating capital.

Net investments in property, plant and equipment – Investments in property, plant and equipment, excluding acquisitions of assets and liabilities, less sales and retirements for the year.

Net debt/equity ratio, multiple – Interest-bearing net debt divided by equity.

Sales per employee – Sales divided by the average number of full-time employees.

Operating capital – Total assets less cash and cash equivalents, non-interest bearing liabilities and provisions.

Staff turnover – Number of employees whose employment was terminated voluntarily in the year as a percentage of the average number of employees.

Earnings per share – Profit after tax divided by the average number of shares.

Return on equity – Net profit for the year as a percentage of the average equity for the most recent twelve-month period.

Return on operating capital – Operating profit as a percentage of the average operating capital for the most recent twelve-month period.

Interest-bearing net debt – Interest-bearing liabilities and provisions less cash and interest-bearing receivables.

Interest coverage ratio, multiple – Operating profit plus financial income divided by financial expenses.

Operating margin – Operating profit as a percentage of net sales.

Equity to assets ratio – Equity as a percentage of total assets.

Profit margin – Profit after financial items as a percentage of net sales.

The Board of Directors and CEO hereby certify that the consolidated accounts have been prepared in accordance with IFRS as endorsed by the EU and give a true and fair view of the group's financial position and results of operations. The annual accounts have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the parent company's financial position and results of operations. The Reports of the Directors of the group and parent company give a true and fair view of the group's and parent company's operations, financial position and results of operations and review the significant risks and uncertainty factors facing the parent company and group companies.

Johan Hagberg
Chairman

Kjell-Åke Andersson
Board member

Anna Belfrage
Board member

Kaj Falkenlund
Board member

Bahare Hederstierna
Board member

Claes Mellgren
Board member

Charlotte Stjerngren
Board member

Christoffer Skogh
Board member, Employee representative

Johannes Lind-Widestam
CEO

Kista, Sweden, 28 March 2019

As stated above, the annual accounts and consolidated accounts were approved for issuance by the Board of Directors on 28 March 2019. The Consolidated Income Statement and Consolidated Balance Sheet and the Parent Company Income Statement and Parent Company Balance Sheet will be subject to adoption at the Annual General Meeting on 25 April 2019.

Our Audit Report was presented on 28 March 2019

Niklas Renström
Auditor in Charge
Authorised Public Accountant
Öhrlings PricewaterhouseCoopers AB

Auditor's Report

To the General Meeting of the Shareholders of NOTE AB (publ), corporate identity number 556408-8770

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the Annual Accounts and Consolidated Accounts of NOTE AB (publ) for the year 2018.

In our opinion, the Annual Accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The Consolidated Accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the Annual Accounts and Consolidated Accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the contents of the complementary report that has been presented to the Parent Company's and the Group's audit committee pursuant to statutory audit regulation (537/2014) article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, this includes no prohibited services as specified in statutory audit regulation (537/2014) article 5.1 being provided to the audited company, or were applicable, its parent company or entities under its control in the EU.

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

Our audit approach

Scope and focus of audit

We designed our audit by determining materiality and assessing the risk of material misstatement in the consolidated financial statements. We focused on areas where the Managing Director and Board of Directors have made subjective judgments, such as key accounting estimates on the basis of assumptions and forecasts of future events, which are by their nature uncertain. Like for all audits, we also considered the risk of the Board of Directors and the Managing Director overriding internal control, and factors such as whether there is any evidence of systematic departures that have given rise to material misstatement resulting from fraud.

We tailored the scope of the our audit to conduct an expedient examination in order to comment on the consolidated financial statements as a whole, with consideration given to the group structure, accounting procedures and controls, and the industry in which the group operates.

Materiality

The scope and focus of the audit was influenced by our assessment of materiality. An audit is designed to achieve reasonable assurance regarding whether the financial statements are free from any material misstatements. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

On the basis of our professional assessment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. With the help of these and alongside qualitative considerations, we determined the scope and focus of the audit and the nature, timing and extent of our audit procedures, as well as assessing the effect of individual and aggregate misstatements on the financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period.

These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of accounts receivable—trade
We refer to note 23, Financial instruments per category and note 24, Financial risks and finance policy. The NOTE group sells products to a large number of customers worldwide. Its customer base is fairly diverse, with customers in different industrial sectors. The payment terms of customers are dependent on customer-specific circumstances and agreements entered. The value of the stock of outstanding accounts receivable—trade depends on the extent customers will pay. The company's information on individual customers' solvency is limited. According to the accounting policies applied by NOTE, management conducts an individual assessment of all accounts receivable—trade that are due for payment. Based on this individual assessment, a reserve for risks of outstanding accounts receivable—trade is created. These assessments are complex and dependent on several different factors, and accordingly, inherently include a measure of uncertainty.

Our audit approach to the key audit matter when auditing the valuation of accounts receivable—trade
We have evaluated the design and efficiency of specific selected controls in the sales process, the management of accounts receivable—trade and payments from customers. For example, these include creditworthiness checks and reconciliation of accounts receivable balances. We have also reviewed managements' analysis of the progress of days sales outstanding (DSO) and outstanding credit risks. We have also evaluated the processes applied for measuring accounts receivable—trade and randomly selected reserves against the company's decision-support documentation.

In addition to reviewing the controls in the sales process and measurement of accounts receivable—trade, we contacted a selection of customers in writing to confirm outstanding accounts receivable—trade balances. We have also followed up on the payments of a selection of accounts receivable—trade.

Valuation of inventories
We refer to note 15, Inventories. NOTE's production units hold inventories of raw materials and other input goods, products in progress and finished goods manufactured by NOTE. NOTE has customer-specific manufacture of electronic components based on manufacturing orders and sales forecasts from customers. Based on NOTE's manufacture, customer-specific components include a risk of obsolescence in inventories. NOTE conducts individual assessments of inventories per customer, which considers potential obsolescence. Based on this individual assessment, a reserve is recognised. These assessments are complex and dependent on several factors, and accordingly inherently include a measure of uncertainty.

Our audit approach to the key audit matter when auditing the valuation of inventories
We have evaluated the design and efficiency of specific selected controls in NOTE's processes for procuring raw materials and inventory management.

In addition to testing controls in the procurement processes and inventory management, we have evaluated the company's obsolescence reserve through a random review of details on the company's supporting data for measurement. We have also conducted an in-depth examination through random testing of the pricing of raw materials inventory, computed supplements on products in process and finished goods. We have also examined the inventories of significant units in terms of the time items have remained in inventory. We also perform sample inventory stock take for all significant entities.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–13, 23–25 and 33–35. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance or conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure, we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated. If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act, and consolidated accounts in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine as necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things monitor the company's financial reporting.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

An additional review of our responsibility for the audit of the annual accounts and consolidated accounts is available at Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This review is part of the audit report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of NOTE AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available at Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This discription is part of the auditor's report.

Öhrlings PricewaterhouseCoopers AB, Stockholm, Sweden, was appointed as audit firm of NOTE AB (publ) by the general meeting of shareholders on 26 April 2018, and has been the company's auditor since 18 April 2008.

Discrepancies between reports

Swedish and English–language versions of this Report have been produced. In the event of any discrepancy between the two, the Swedish version shall apply.

Niklas Renström
Authorised Public Accountant
Öhrlings PricewaterhouseCoopers AB

Stockholm, Sweden, 28 March 2019

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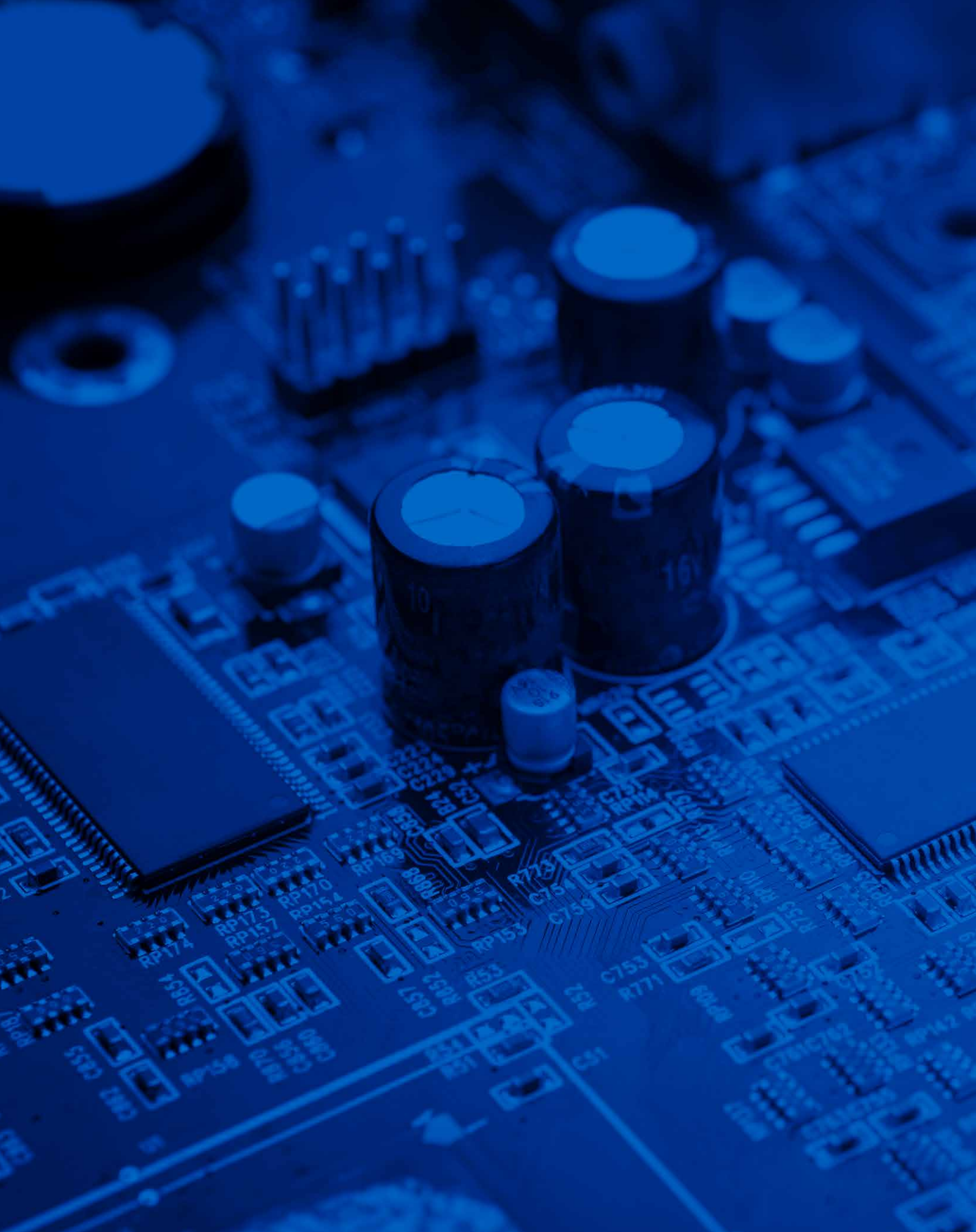
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