

Interim Report

January - June 2006



First half-year 2006

- Sales increased 14.1% to SEK 831.6 (728.7) m
- Operating profit amounted to SEK 43.0 (-109.0) m; operating margin was 5.2% (-15.0%)
- Profit after tax was SEK 27.9 (-81.8) m or SEK 2.88 (-8.50) per share after dilution
- Cash flow was SEK 8.3 (-25.1) m
- Forward-looking initiative on the Norwegian market began at the mid-point of the year

About NOTE

NOTE is active in electronics manufacturing services, EMS, which is the market for the contract manufacture of electronics. Apart from PCB manufacture, this includes a growing share of development, servicing and after-sales services. NOTE's business model combines EMS services close to customers geographically - Near sourcing™ - with the transfer of volume production to NOTE's international units that is easy for the customer. Most of NOTE's customers are in Sweden.

The group comprises the parent company and wholly owned subsidiaries in Sweden, Finland, the UK, Estonia, Lithuania, Poland and from the mid-point of 2006, Norway. The subsidiary NOTE Gdansk manages production collaborations with a number of subcontractors in central Europe. Component procurement enterprise NOTE Components, which is responsible for strategic procurement agreements for all the group's units, and a representative office in China, are additional. NOTE can also offer close-to-market production via the ems-ALLIANCE™, an international network of electronics manufacturers with partners in Brazil, China, India and the US.

NOTE's operations are primarily targeted at four defined customer segments: Industrial, Telecom, Vehicle/Maritime and Medical Technology/Safety & Security.

The EMS market

Outsourcing in the electronics market remains in high growth, as companies focus on core business and out-source production and maintenance to contract manufacturers like NOTE. The development and design share of these assignments has increased in recent years. Accordingly, NOTE has gained increased responsibility for the development, design and production of more complex solutions—contract design and manufacturing, CBM. This is consistent with NOTE's endeavour to move upwards in the value chain towards more value-added services.

A high share of customers are also demanding production of complete products—box build. Here, NOTE supplies the complete product including documentation and packaging.

Sector commentator iSuppli estimated that in 2005, the global EMS market grew by approximately 14%, generating sales of about USD 134 billion, while the European market grew by around 7%. Over the next 3 - 4 years, average estimated annual growth on the European EMS market is 9%. The Industrial and Telecom segments are expected to trace the highest growth in 2006.

Progress in the first half-year

The Nordic market for EMS services continued its robust progress in the first half-year, with the demand for product modification and production pursuant to RoHS directives being contributors to the positive progress. These directives came into effect from the mid-point of 2006, and have implications including the prohibition of lead from soldering processes.

Signs of the electronics components market overheating were already apparent early in the year, through increased delivery lead-times and limited access to some components. Accordingly, to safeguard its customers' needs, NOTE increased its component stocks in the period.

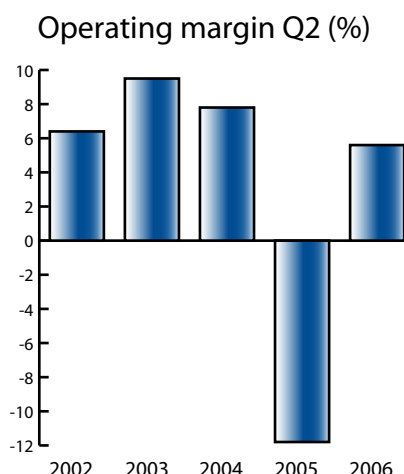
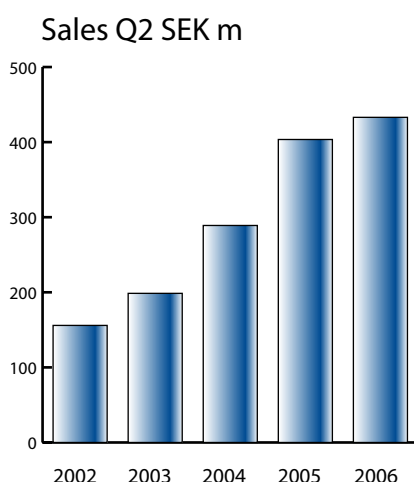
As previously reported, development activities intended to ensure NOTE remains its customers' first choice, co-ordinate the group's units and to build an even stronger NOTE, are underway. Consequently, a centralised Lean Management function was established in the second quarter. Its activities are intended to create a competitive edge through continuous improvement in the cost, quality and delivery reliability segments.

To enhance NOTE's sourcing know-how in low-cost regions, a number of specialist positions have been created in NOTE Gdansk. NOTE has also consolidated its production collaboration with subcontractors in Central Europe, with the aim of rationalising the transfer of volume production to units outside Sweden.

The AGM in April resolved to issue warrants corresponding to 200.000 shares within the auspices of an incentive plan for the CEO and other senior executives. This plan may result in maximum dilution of 2.1%. Pricing is on market terms, and the plan was fully subscribed in May. NOTE has no other securities-based incentive plans at present.

In March, NOTE Lund, which has produced PCBs for the CERN project ALICE, received the ALICE Industrial Award for its good collaboration, high innovation and high quality philosophy.

After several years' collaboration, Kanmed, which develops sophisticated medical technology equipment, recognised NOTE Torsby as its supplier of the year, the citation reading: "NOTE delivers on time with high quality and offers good customer care."



Sales and profits

First half-year

NOTE's sales grew by 14.1% to SEK 831.6 (728.7) m year-on-year in the period. This growth was organic, with the biggest gains in the Industrial and Telecom segments.

Operating profit grew by SEK 152.0 m to SEK 43.0 (-109.0) m. Operating profit was adversely affected by restructuring costs and other non-recurring costs of some SEK 128 m in the first half-year 2005. Adjusted for these costs in the previous year, operating margin increased sharply, by 2.6 percentage points to 5.2% (2.6%). The margin gains were mainly due to increased volumes and rationalisation effected in the production and logistics segment.

The transfer of NOTE's volume production to units outside Sweden began in the previous year. Consistent with this process of migration to low-cost countries, NOTE's facility in Borås was closed down early in the year. As a consequence of restructuring, overheads, particularly in the Swedish operations, reduced significantly year-on-year. Improved co-ordination of the group's production facilities and the transfer of volume production to units outside Sweden also contributed to gradual capacity utilisation gains in production.

Profit after financial items was SEK 38.7 (-113.0) m in the period, equivalent to a profit margin of 4.7% (-15.5%).

Second quarter

Sales increased by 7.3% to SEK 433.1 (403.7) m in the second quarter 2006 year-on-year. The sales gains were achieved across all four customer segments, and particularly within Telecom. However, the increase was limited somewhat by a shortage of some electronics components. The order backlog at the end of the period remained high.

Second-quarter operating profit increased by SEK 71.7 m to SEK 24.1 (-47.6) m. Adjusted for restructuring costs in the previous year and other non-recurring costs of some SEK 66 m, operating margin grew by 1.0 percentage points to 5.6% (4.6%). This margin gain is due primarily to volume expansion and rationalisation implemented.

Profit after financial items was SEK 22.3 (-49.4) m in the second quarter, equivalent to a profit margin of 5.2% (-12.2%).

Financial position and liquidity

The combination of sustained volume expansion and some stockpiling of electronics components resulted in working capital increasing by about 6% since year-end. Thus, cash flow for the first half-year was limited to SEK 8.3 (-25.1) m, or SEK 0.86 (-2.61) per share.

The equity/asset ratio consolidated by 1.2 percentage points on year-end to 26.5%. Liquidity remained healthy. At the end of the period, available liquid funds including unused credit facilities were SEK 72.1 (59.6) m.

Investments

Investments in tangible fixed assets were SEK 9.7 (16.2) m, or 1.2% (2.2%) of sales. Investments related mainly to production and measurement equipment, as well as IT systems. Depreciation and amortisation in the period was SEK 14.1 (15.7) m. Firm demand and the start-up of a prototype manufacturing facility on the Norwegian market are expected to result in a slightly increased rate of investment in the latter half-year.

Events after the end of the period

As part of an initiative to increase market shares in Norway, NOTE acquired all the shares of Nordic-PrintDesign AS of Norway at the mid-point of the year. This company offers specialist PCB design know-how. This enterprise's engineers have also developed an electronic component database, used in product development by large Swedish and Norwegian customers.

NOTE will build this enterprise, with 8 employees, into a full-range production facility with the corporate name NOTE Oslo AS, able to offer fast prototype production to Norwegian customers. This acquisition is consistent with NOTE's strategy of offering its customers high service levels through its Nearsourcing™ concept, which means NOTE is close to the customer in geographical and collaborative terms. The take-over was effective on 1 July, and will cause a limited increase of the group's intangible fixed assets.

Parent company

The parent company focuses primarily on the group's management, co-ordination and development. In the first half-year, parent company revenues were SEK 14.4 (19.6) m, comprising sales of intra-group services. Profit before tax was SEK -1.5 (-3.7) m. NOTE relocated its group head offices from Norrtälje to premises shared with NOTE Components' management at Danderyd, north of Stockholm.

Outlook

After restructuring and write-downs in the previous year, NOTE has posted four quarters of volume growth and stable earnings performance. Sales in the previous 12-month period were over SEK 1.6 billion, with a profit margin before tax approaching 5%. In this period, the return on operating capital was approximately 20%.

Given the first half-year profit margin strengthening and healthy order backlog at the end of the period, NOTE anticipates the second half-year 2006 providing continued stable volume and profit performance.

The Board of Directors
NOTE AB (publ)
9 August 2006

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Next financial report

The Interim Report for January-September 2006 will be published on 25 October.

Audit review

This Interim Report has not been subject to review by the company's auditors.

Accounting and valuation principles

This report has been prepared pursuant to RR (Redovisningsrådet, the Swedish Financial Accounting Standards Council) recommendation RR 31. Interim Reporting for Groups and IAS 34. The same accounting principles and calculation methods as in the latest Annual Report have been used in this Interim Report. All amounts in MSEK (millions of Swedish kronor) unless indicated otherwise.

P&L statement

	2006 Q2	2005 Q2	2006 JAN-JUN	2005 JAN-JUN	ROLLING 12 MONTHS	2005 JAN-DEC
SALES	433.1	403.7	831.6	728.7	1 607.0	1 504.1
COSTS OF GOODS AND SERVICES SOLD	-383.1	-415.6	-739.7	-769.6	-1 420.0	-1 449.9
GROSS PROFIT	50.0	-11.9	91.9	-40.9	187.0	54.2
SALES COSTS	-9.6	-16.7	-17.9	-33.3	-35.7	-51.1
ADMINISTRATIVE COSTS	-17.8	-18.1	-33.2	-38.3	-64.1	-69.2
OTHER OPERATING INCOME/COSTS	1.5	-0.9	2.2	3.5	0.6	1.8
OPERATING PROFIT*	24.1	-47.6	43.0	-109.0	87.8	-64.3
NET INTEREST INCOME/EXPENSE	-1.8	-1.8	-4.3	-4.0	-9.2	-8.8
PROFIT AFTER NET FINANCIAL ITEMS	22.3	-49.4	38.7	-113.0	78.6	-73.1
TAX	-6.5	13.6	-10.8	31.2	-24.6	17.4
PROFIT AFTER TAX	15.8	-35.8	27.9	-81.8	54.0	-55.7

* IN 2005, CONSOLIDATED OPERATING RESULTS WERE NEGATIVELY AFFECTED BY RESTRUCTURING COSTS AND OTHER COSTS OF A NON-RECURRING CHARACTER TOTALLING MSEK 128, OF WHICH MSEK 62 WERE ACCOUNTED IN THE FIRST QUARTER AND MSEK 66 IN THE SECOND QUARTER.

Key ratios

	2006 Q2	2005 Q2	2006 JAN-JUN	2005 JAN-JUN	ROLLING 12 MONTHS	2005 JAN-DEC
DATA PER SHARE*						
AVERAGE NUMBER OF SHARES BEFORE DILUTION (THOUSANDS)	9 624	9 624	9 624	9 624	9 624	9 624
AVERAGE NUMBER OF SHARES AFTER DILUTION (THOUSANDS)	9 757	9 624	9 691	9 624	9 657	9 624
PROFIT PER SHARE AFTER FULL TAX BEFORE DILUTION, SEK	1.64	-3.72	2.90	-8.50	5.61	-5.78
PROFIT PER SHARE AFTER FULL TAX AFTER DILUTION, SEK	1.62	-3.72	2.88	-8.50	5.59	-5.78
EQUITY PER SHARE BEFORE DILUTION, SEK	23.73	18.54	23.73	18.54	23.73	21.31
EQUITY PER SHARE AFTER DILUTION, SEK	23.25	18.54	23.25	18.54	23.25	21.31
CASH FLOW PER SHARE BEFORE DILUTION, SEK	-1.60	1.13	0.87	-2.61	2.47	-1.01
CASH FLOW PER SHARE AFTER DILUTION, SEK	-1.57	1.13	0.86	-2.61	2.46	-1.01
OTHER KEY RATIOS						
GROSS MARGIN	11.5%	-2.9%	11.1%	-5.6%	11.6%	3.6%
OPERATING MARGIN	5.6%	-11.8%	5.2%	-15.0%	5.5%	-4.3%
PROFIT MARGIN	5.2%	-12.2%	4.7%	-15.5%	4.9%	-4.9%
RETURN ON OPERATING CAPITAL	-	-	-	-	19.9%	-14.2%
RETURN ON EQUITY	-	-	-	-	25.7%	-28.1%
EQUITY RATIO	26.5%	21.0%	26.5%	21.0%	26.5%	25.3%
AVERAGE NUMBER OF EMPLOYEES	1 120	1 103	1 108	1 101	1 112	1 097
SALES PER EMPLOYEE	386	366	750	662	1 445	1 371

* THE AGM 2006 RESOLVED ON THE ISSUE OF WARRANTS CORRESPONDING TO 200.000 SHARES.

Balance sheet

	2006 30 JUN	2005 30 JUN	2005 31 DEC
ASSETS			
GOODWILL	46.4	51.3	46.4
OTHER INTANGIBLE FIXED ASSETS	1.8	2.4	2.1
TANGIBLE FIXED ASSETS	117.0	125.1	121.7
DEFERRED TAX ASSEST	3.9	-	13.9
OTHER FINANCIAL FIXED ASSETS	0.0	1.6	0.3
FIXED ASSETS	169.0	180.4	184.4
STOCK	320.5	272.1	297.4
TRADE RECEIVABLES	313.4	303.6	287.4
OTHER CURRENT RECEIVABLES	36.2	78.2	33.4
LIQUID FUNDS	21.7	15.4	9.1
CURRENT ASSETS	691.7	669.3	627.3
TOTAL ASSETS	860.7	849.7	811.7
EQUITY AND LIABILITIES			
EQUITY	228.4	178.4	205.1
LONG-TERM INTEREST-BEARING LIABILITIES	82.5	143.1	83.9
DEFERRED TAX LIABILITIES	10.3	18.0	10.4
OTHER LONG-TERM PROVISIONS	13.0	18.1	13.6
LONG-TERM LIABILITIES	105.8	179.2	107.9
CURRENT INTEREST-BEARING LIABILITIES	168.7	120.8	158.8
TRADE PAYABLES	260.6	234.3	227.1
OTHER CURRENT LIABILITIES	93.5	113.5	101.8
SHORT-TERM PROVISIONS	3.7	23.5	11.0
CURRENT LIABILITIES	526.5	492.1	498.7
TOTAL EQUITY AND LIABILITIES	860.7	849.7	811.7

Change in equity

	2006 Q2	2005 Q2	2006 JAN-JUN	2005 JAN-JUN	ROLLING 12 MONTHS	2005 JAN-DEC
OPENING EQUITY	217.2	218.4	205.1	265.6	178.4	265.6
PROFIT AFTER TAX	15.8	-35.8	27.9	-81.8	54.0	-55.7
DIVIDENDS PAID	-4.8	-4.8	-4.8	-4.8	-4.8	-4.8
PAYMENT, WARRANTS	0.6	-	0.6	-	0.6	-
CHANGE IN GROUP STRUCTURE	-	-	-	-1.0	-	-1.0
TRANSLATION DIFFERENCE	-0.4	0.6	-0.4	0.4	0.2	1.0
CLOSING EQUITY	228.4	178.4	228.4	178.4	228.4	205.1

Cash flow statement

	2006 Q2	2005 Q2	2006 JAN-JUN	2005 JAN-JUN	ROLLING 12 MONTHS	2005 JAN-DEC
PROFIT AFTER FINANCIAL ITEMS	22.3	-49.4	38.7	-113.0	78.6	-73.1
REVERSED DEPRECIATION AND AMORTISATION	7.4	7.6	14.1	15.7	28.2	29.8
OTHER NON-CASH ITEMS	-1.0	2.5	-7.7	29.8	-19.0	18.5
TAX PAID	-3.9	-2.9	-8.1	4.2	-33.0	-20.7
CHANGE IN OPERATING CAPITAL	-33.3	63.5	-19.0	107.5	-11.1	115.4
INVESTMENT BUSINESS	-6.9	-10.4	-9.7	-69.3	-20.0	-79.6
CASH FLOW	-15.4	10.9	8.3	-25.1	23.7	-9.7
LIQUID FUNDS						
AT START OF PERIOD	21.9	13.0	9.1	20.1	15.4	20.1
CASH FLOW	-15.4	10.9	8.3	-25.1	23.7	-9.7
FINANCING BUSINESS	15.2	-8.5	4.3	20.4	-17.5	-1.4
EXCHANGE RATE DIFFERENCE IN LIQUID FUNDS	0.0	0.0	0.0	0.0	0.1	0.1
LIQUID FUNDS AT END OF PERIOD	21.7	15.4	21.7	15.4	21.7	9.1
UNUSED CREDITS	50.4	44.2	50.4	44.2	50.4	68.0
AVAILABLE LIQUID FUNDS	72.1	59.6	72.1	59.6	72.1	77.1

Quarterly summary

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
SALES	433.1	398.6	428.2	347.2	403.7	325.0	276.8	251.2	289.0
GROSS PROFIT	50.0	42.0	51.0	44.1	-11.9	-29.0	-9.5	36.6	48.4
OPERATING PROFIT	24.1	18.9	23.4	21.3	-47.6	-61.4	-34.7	17.6	22.5
PROFIT AFTER FINANCIAL ITEMS	22.3	16.4	21.8	18.1	-49.4	-63.6	-36.0	15.3	19.6
PROFIT AFTER TAX	15.8	12.1	13.5	12.6	-35.8	-46.0	-26.6	11.2	14.1
CASH FLOW	-15.4	23.7	23.6	-8.2	10.9	-36.0	-23.4	-21.0	-0.4
PROFIT PER SHARE AFTER FULL TAX, SEK	1.62	1.25	1.40	1.31	-3.72	-4.78	-2.77	1.15	1.67
CASH FLOW PER SHARE, SEK	-1.57	2.47	2.45	-0.85	1.13	-3.74	-2.43	-2.18	-0.05
PROFIT MARGIN	5.2%	4.1%	5.1%	5.2%	-12.2%	-19.6%	-13.0%	6.1%	6.8%
EQUITY RATIO	26.5%	26.9%	25.3%	23.2%	21.0%	26.7%	36.1%	38.8%	35.7%

Five-year summary*

	ROLLING 12 MONTHS	2005	2004	2003	2002	2001
SALES	1 607.0	1 504.1	1 103.1	859.2	636.8	514.0
GROSS PROFIT	187.0	54.2	126.0	94.1	92.3	71.1
OPERATING PROFIT	87.8	-64.3	29.3	74.4	39.4	27.4
PROFIT AFTER FINANCIAL ITEMS	78.6	-73.1	19.5	63.0	30.9	21.8
PROFIT AFTER TAX	54.0	-55.7	13.6	44.2	21.4	15.6
CASH FLOW	23.7	-9.7	-14.4	-63.6	-8.4	-30.1
PROFIT PER SHARE AFTER FULL TAX, SEK	5.59	-5.78	1.50	5.41	3.13	2.60
CASH FLOW PER SHARE, SEK	2.46	-1.01	-1.60	-7.79	-1.24	-5.02
PROFIT MARGIN	4.9%	-4.9%	1.8%	7.3%	4.8%	4.2%
RETURN ON OPERATING CAPITAL	19.9%	-14.2%	6.6%	21.5%	20.3%	22.5%
RETURN ON EQUITY	25.7%	-28.1%	5.5%	36.9%	36.4%	53.6%
EQUITY RATIO	26.5%	25.3%	36.1%	22.0%	20.8%	14.8%
NUMBER OF EMPLOYEES	1 112	1 097	887	681	425	372

* 2004-2006 ACCORDING TO IFRS; 2001-2003 ACCORDING TO SWEDISH GAAP.

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