

Year-end Report

January - December 2006



Significantly improved profitability

January - December

- Sales increased 16% to SEK 1,741.5 (1,504.1) m
- Operating profit amounted to SEK 103.6 (-64.3) m; operating margin was 5.9% (-4.3%)
- Profit after tax was SEK 68.6 (-55.7) m or SEK 7.13 (-5.78) per share
- Cash flow was SEK 24.8 (-9.7) m
- NOTE begins initiative on Norwegian market
- Board of Directors proposes dividend of SEK 2.25 (0.50) per share

Fourth quarter

- Sales increased 14% to SEK 488.5 (428.2) m
- Operating profit rose 44% to SEK 33.8 (23.4) m
- Operating margins amounted to 6.9% (5.5%)
- Cash flow was SEK 41.4 (23.5) m
- Decision on new premises for NOTE Norrtelje
- Decision on new financial objectives

About NOTE

NOTE is one of the Nordic region's leading providers of Electronics Manufacturing Services, EMS, which is the market for the contract manufacture of electronics. Apart from PCB manufacture, EMS encompass a growing share of development, servicing and after-sales services. NOTE's business model combines EMS services close to customers geographically—Nearshoring™—with volume production at NOTE's international units.

The group comprises the parent company and wholly owned subsidiaries in Sweden, Norway, Finland, Estonia, Lithuania and Poland and a representative office in China. Component procurement enterprise NOTE Components is responsible for strategic procurement agreements for all the group's units. 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 customer segments: Industrial, Telecom, Vehicle/Maritime and Medical Technology/Safety & Security. Most of NOTE's customers are in Sweden.

The EMS market

Outsourcing in the electronics market remains in high growth, as product owners focus on core business and outsource production and associated services to contract manufacturers like NOTE. In addition to traditional manufacturing, EMS customers increasingly require assistance in such services as manufacturability, PCB design, active support in component selection and fast prototyping. Accordingly, NOTE is gaining increasing responsibility for the production of more complete solutions. As part of this process, NOTE has developed know-how and services offerings in more specialized, knowledge-intensive segments. Some customers are also demanding production of complete products—box build. Here, NOTE supplies the complete product including documentation and packaging.

The Nordic EMS market, which represents some 10% of the total European EMS market, maintained its brisk progress in 2006. This applies particularly in the Industrial and Telecom customer segments, both highly significant to NOTE's total sales. The combination of a generally positive Nordic business cycle and high demand for product modification and RoHS-ready production are contributors to this positive progress. RoHS directives apply from the mid-point of 2006 and have implications including the abolition of lead from soldering processes.

Progress in the first three quarters

So it can offer customers low total costs, NOTE has enhanced its skills in procurement, particularly in electronic and mechanical components. A number of specialist procurement positions were created in NOTE Gdansk in the year, simultaneous with the development of a new group-wide procurement system. Additionally, the production collaboration with NOTE's central European subcontractors was enhanced with the aim of extending production capacity and rationalizing the transfer of volume production to facilities outside Sweden.

Signs of the electronics components market overheating, through increased delivery lead-times and limited access to some components, was apparent in early 2006. Accordingly, to ensure its customers' needs, NOTE increased its component stocks by nearly 15% in the first half-year. Stocks returned to normal levels in the fourth quarter.

A rationalisation package is underway to safeguard NOTE's status as the customer's first choice, and to reinforce interaction between the group's units. As part of these activities, a central Lean Management function was created in the year. The purpose of lean activities is to create a competitive edge by continuous improvements in cost, quality and delivery reliability.

NOTE has also enhanced its strategic know-how in servicing markets through additional co-ordination efforts in the customer and market segments, which in the long term, may lead to continued healthy sales growth. As a result of these initiatives, several major agreements, with counterparties including SWE-DISH Satellite Systems, active in mobile satellite communication and Baldor UK Ltd., which develops and markets industrial motor control systems, were signed in the year.

NOTE's sales are closely linked to the progress of customers in its Industrial and Telecom segments. Sales in both these segments progressed robustly in 2006.

As part of NOTE's efforts to grow in Norway, at the mid-point of the year, NOTE acquired all the shares of Nordic-PrintDesign AS of Norway. This company offers specialist PCB design know-how. After changing corporate name to NOTE Oslo AS, and with a new management, a new production facility was brought on stream in the fourth quarter, offering fast prototyping to the Norwegian market. This

company has been built up pursuant to NOTE's Nearsourcing™ model. NOTE regards its prospects of increasing sales to Norwegian customers in 2007 as positive.

In December, NOTE signed an agreement with Norrtälje's municipal property company NIHAB to build new premises tailored to NOTE Norrtälje's operations. The purpose is to create a cost-efficient, high-technology production facility that conforms to lean principles as early as the development phase. This new facility, which will also house NOTE Academy training activities, is scheduled to come on-stream in summer 2007.

The AGM (Annual General Meeting) in April issued warrants corresponding to 200,000 shares for an incentive scheme for senior executives. This package may imply maximum dilution of 2.1%. Pricing is on market terms, and the package was fully subscribed in May. Otherwise, NOTE has no outstanding convertible debentures or other securities-based incentive schemes.

Sales and profits

January - December

NOTE's sales grew by 16% to SEK 1,741.5 (1,504.1) m year-on-year in 2006. This growth was essentially organic, with the biggest gains in the Industrial and Telecom customer segments.

Operating profit grew by SEK 167.9 m to SEK 103.6 (-64.3) 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, operating profit improved by approximately 63% and operating margin increased by 1.7 percentage points to 5.9% (4.2%). The margin gains were a result of increased volumes and rationalisation of production and logistics.

The transfer of NOTE's volume production to units in low-cost countries continued in 2006. Consistent with this process, NOTE's facility in Borås was closed down early in the year. With the aim of concentrating production in Sweden, operations at NOTE Björbo were divested in September. PCB production at Björbo had previously been transferred to NOTE's facility at Torsby.

As a consequence of restructuring, overheads, particularly in the Swedish operations, reduced 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.

Profit after financial items was SEK 96.2 (-73.1) m in the year, equivalent to a profit margin of 5.5% (-4.9%).

Fourth quarter

Demand remained healthy in the fourth quarter. Sales increased by 14% to SEK 488.5 (428.2) m in the fourth quarter compared to the corresponding period of 2005. The sales gains were achieved across all four customer segments, and particularly within Telecom.

Fourth-quarter operating profit increased by 44% compared to the corresponding period of 2005, to SEK 33.8 (23.4) m and operating margin amounted to 6.9% (5.5%). The margin gains of 1.4 percentage points were due primarily to volume expansion and rationalisation implemented.

Profit after financial items was SEK 32.4 (21.8) m in the fourth quarter, equivalent to a profit margin of 6.6% (5.1%). Profit margins progressively improved through the year.

Financial position and liquidity

A methodical remedial package intended to rationalize the group's utilization of working capital began at the mid-point of 2006. As a result, stock levels reduced by 10% after the end of the third quarter, and in the fourth quarter, cash flow was SEK 41.4 (23.5) m. On a full-year basis, cash flow was SEK 24.8 (-9.7) m, equivalent to SEK 2.58 (-1.01) per share.

The equity ratio increased by 4.9 percentage points in the year to 30.2%. Liquidity at the end of the period was favourable. Available liquid funds including unused credit facilities were SEK 81.4 (77.1) m.

NOTE has now posted six consecutive quarters of healthy volumes and stable profit performance. In 2006, the return on operating capital was 22.2% and the return on equity was 28.6%. The profit margin, which was 6.6% in the fourth quarter, progressively improved in the year, to 5.5% for the full year.

Capital Expenditures

Investments in tangible fixed assets were SEK 26.0 (29.8) m, or 1.5% (2.0%) of sales. Additionally, Nordic-PrintDesign AS of Norway, now NOTE Oslo AS, was acquired at the mid-point of the year, implying a modest increase to consolidated goodwill. The majority of investments related to production and measurement equipment, as well as IT systems. Depreciation and amortisation in the year was SEK 30.5 (29.8) m. NOTE expects its rate of investment to increase somewhat in 2007 to satisfy higher demand than in 2006.

Parent company

The parent company focuses primarily on the group's management, co-ordination and development. During the year, the parent company revenues were SEK 33.9 (38.2) m, comprising sales of intra-group services. Profit after net financial items was SEK -3.3 (-0.2) m.

Dividend

The Board of Directors is proposing that the AGM increases dividends to SEK 2.25 (0.50) per share equivalent to SEK 21.7 (4.8) m. The proposed dividend represents 31.6% of profit after tax.

Outlook

NOTE's aim is to continue to outgrow the rest of the Nordic EMS market. Thus NOTE will continue to enhance know-how and working methods that ensure the costs-efficient supply of materials. Improvements in quality, cost and delivery reliability are being achieved through the methodical implementation of lean management. Coupled with NOTE's Nearsourcing™ business model, this helps sharpen competitiveness and create value for customers.

NOTE's Board of Directors has set the following new financial objectives:

Growth objective

NOTE will increase market shares, mainly through organic growth.

Profitability objective

NOTE will grow profitably. NOTE's profitability objective over a business cycle is expressed as return on equity after tax of over 25%.

Capital structure objective

The equity ratio will be in the 25-35% interval.

Dividend objective

Dividends will be adapted to the average profit level over a business cycle, and for the long term, be 30-50% of profit after tax. Dividends will also be an option for modifying NOTE's capital structure.

The Board of Directors
NOTE AB (publ)

Danderyd, Sweden, 12 February 2007

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Next financial report

The Interim Report for January-March 2007 will be published on 25 April 2007.

Audit review

This Year-end Report has not been subject to review by the company's auditors.

Accounting and valuation principles

This report has been prepared pursuant to RR's (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 Year-end Report. All amounts in SEK m (millions of Swedish kronor) unless indicated otherwise.

P & L statement

	2006 Q4	2005 Q4	2006 JAN-DEC	2005 JAN-DEC
SALES	488.5	428.2	1,741.5	1,504.1
COSTS OF GOODS AND SERVICES SOLD	-425.8	-377.2	-1,535.0	-1,449.9
GROSS PROFIT	62.7	51.0	206.5	54.2
SALES COSTS	-12.7	-9.2	-39.5	-51.1
ADMINISTRATIVE COSTS	-17.5	-17.7	-66.8	-69.2
OTHER OPERATING INCOME/COSTS	1.3	-0.7	3.4	1.8
OPERATING PROFIT*	33.8	23.4	103.6	-64.3
NET INTEREST INCOME/EXPENSE	-1.4	-1.6	-7.4	-8.8
PROFIT AFTER NET FINANCIAL ITEMS	32.4	21.8	96.2	-73.1
TAX	-9.7	-8.3	-27.6	17.4
PROFIT AFTER TAX	22.7	13.5	68.6	-55.7

* IN 2005, CONSOLIDATED OPERATING RESULTS WERE NEGATIVELY AFFECTED BY RESTRUCTURING COSTS AND OTHER COSTS OF A NON-RECURRING CHARACTER TOTALLING SEK 128 M.

Key ratios

	2006 Q4	2005 Q4	2006 JAN-DEC	2005 JAN-DEC
DATA PER SHARE*				
AVERAGE NUMBER OF SHARES (THOUSANDS)	9,624	9,624	9,624	9,624
PROFIT PER SHARE AFTER FULL TAX, SEK	2.36	1.40	7.13	-5.78
EQUITY PER SHARE. SEK	27.86	21.31	27.86	21.31
CASH FLOW PER SHARE. SEK	4.30	2.44	2.58	-1.01
OTHER KEY RATIOS				
GROSS MARGIN	12.8%	11.9%	11.9%	3.6%
OPERATING MARGIN	6.9%	5.5%	5.9%	-4.3%
PROFIT MARGIN	6.6%	5.1%	5.5%	-4.9%
RETURN ON OPERATING CAPITAL	-	-	22.2%	-14.2%
RETURN ON EQUITY	-	-	28.6%	-28.1%
EQUITY RATIO, END OF PERIOD	30.2%	25.3%	30.2%	25.3%
AVERAGE NUMBER OF EMPLOYEES	1,135	1,101	1,127	1 097
SALES PER EMPLOYEE, SEK 000	430	389	1,545	1 371

* DATA PER SHARE IS CALCULATED ON THE BASIS OF THE ACTUAL NUMBER OF OUTSTANDING SHARES. THE AGM 2006 RESOLVED ON THE ISSUE OF WARRANTS CORRESPONDING TO 200,000 SHARES.

Balance sheet

	2006 31 DEC	2005 31 DEC
ASSETS		
GOODWILL	49.1	46.4
OTHER INTANGIBLE FIXED ASSETS	2.2	2.1
TANGIBLE FIXED ASSETS	115.5	121.7
DEFERRED TAX RECEIVABLES	0.9	13.9
OTHER FINANCIAL FIXED ASSETS	0.0	0.3
FIXED ASSETS	167.7	184.4
STOCK	307.6	297.4
TRADE RECEIVABLES	363.5	287.4
OTHER CURRENT RECEIVABLES	30.6	33.4
LIQUID FUNDS	18.8	9.1
CURRENT ASSETS	720.5	627.3
TOTAL ASSETS	888.2	811.7
EQUITY AND LIABILITIES		
EQUITY	268.1	205.1
LONG-TERM INTEREST-BEARING LIABILITIES	132.4	83.9
DEFERRED TAX LIABILITIES	13.3	10.4
OTHER LONG-TERM PROVISIONS	12.2	13.6
LONG-TERM LIABILITIES	157.9	107.9
CURRENT INTEREST-BEARING LIABILITIES	99.4	158.8
TRADE PAYABLES	259.2	227.1
OTHER CURRENT LIABILITIES	99.5	101.8
SHORT-TERM PROVISIONS	4.1	11.0
CURRENT LIABILITIES	462.2	498.7
TOTAL EQUITY AND LIABILITIES	888.2	811.7

Change in equity

	2006 Q4	2005 Q4	2006 JAN-DEC	2005 JAN-DEC
OPENING EQUITY	246.6	191.3	205.1	265.6
PROFIT AFTER TAX	22.7	13.5	68.6	-55.7
DIVIDENDS PAID	-	-	-4.8	-4.8
PAYMENT, WARRANTS	-	-	0.6	-
CHANGE IN GROUP STRUCTURE	-	-	-	-1.0
TRANSLATION DIFFERENCE	-1.2	0.3	-1.4	1.0
CLOSING EQUITY	268.1	205.1	268.1	205.1

Cash flow statement

	2006 Q4	2005 Q4	2006 JAN-DEC	2005 JAN-DEC
PROFIT AFTER FINANCIAL ITEMS	32.4	21.8	96.2	-73.1
REVERSED DEPRECIATION AND AMORTISATION	8.8	5.9	30.5	29.8
OTHER NON-CASH ITEMS	0.4	-7.9	-7.3	18.5
TAX PAID	13.6	-17.2	3.6	-20.7
CHANGE IN WORKING CAPITAL	-7.0	24.5	-76.1	115.4
INVESTMENT BUSINESS	-6.8	-3.6	-22.1	-79.6
CASH FLOW	41.4	23.5	24.8	-9.7
LIQUID FUNDS				
AT START OF PERIOD	15.4	7.7	9.1	20.1
CASH FLOW	41.4	23.5	24.8	-9.7
FINANCING BUSINESS	-37.9	-22.2	-15.0	-1.4
EXCHANGE RATE DIFFERENCE IN LIQUID FUNDS	-0.1	0.1	-0.1	0.1
LIQUID FUNDS AT END OF PERIOD	18.8	9.1	18.8	9.1
UNUSED CREDITS	62.6	68.0	62.6	68.0
AVAILABLE LIQUID FUNDS	81.4	77.1	81.4	77.1

Quarterly summary

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
SALES	488.5	421.4	433.1	398.6	428.2	347.2	403.7	325.0
GROSS PROFIT	62.7	51.9	50.0	42.0	51.0	44.1	-11.9	-29.0
OPERATING PROFIT	33.8	26.8	24.1	18.9	23.4	21.3	-47.6	-61.4
PROFIT AFTER FINANCIAL ITEMS	32.4	25.1	22.3	16.4	21.8	18.1	-49.4	-63.6
PROFIT AFTER TAX	22.7	18.0	15.8	12.1	13.5	12.6	-35.8	-46.0
CASH FLOW	41.4	-24.9	-15.4	23.7	23.5	-8.2	10.9	-36.0
PROFIT/SHARE AFTER FULL TAX, SEK	2.36	1.87	1.64	1.25	1.40	1.31	-3.72	-4.78
CASH FLOW/SHARE, SEK	4.30	-2.59	-1.60	2.47	2.44	-0.85	1.13	-3.74
PROFIT MARGIN	6.6%	6.0%	5.2%	4.1%	5.1%	5.2%	-12.2%	-19.6%
EQUITY RATIO	30.2%	27.2%	26.5%	26.9%	25.3%	23.2%	21.0%	26.7%

Five-year summary*

	2006	2005	2004	2003	2002
SALES	1,741.5	1,504.1	1,103.1	859.2	636.8
GROSS PROFIT	206.5	54.2	126.0	94.1	92.3
OPERATING PROFIT	103.6	-64.3	29.3	74.4	39.4
PROFIT AFTER FINANCIAL ITEMS	96.2	-73.1	19.5	63.0	30.9
PROFIT AFTER TAX	68.6	-55.7	13.6	44.2	21.4
CASH FLOW	24.8	-9.7	-14.4	-63.6	-8.4
PROFIT/SHARE AFTER FULL TAX, SEK	7.13	-5.78	1.50	5.41	3.13
CASH FLOW/SHARE, SEK	2.58	-1.01	-1.60	-7.79	-1.24
PROFIT MARGIN	5.5%	-4.9%	1.8%	7.3%	4.8%
RETURN ON OPERATING CAPITAL	22.2%	-14.2%	6.6%	21.5%	20.3%
RETURN ON EQUITY	28.6%	-28.1%	5.5%	36.9%	36.4%
EQUITY RATIO	30.2%	25.3%	36.1%	22.0%	20.8%
NUMBER OF EMPLOYEES	1,127	1,097	887	681	425

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

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