Annual Report 2017

NILÖRNGRUPPEN

NILORN
WORLDWIDE

Contents

Nilörngruppen in brief

Nilörngruppen is an international group, established in 1977, that adds value to trademarks through branding and design in the form of labels, packaging and accessories to customers, especially in the fashion and apparel industry. Nilorn strives to increase customer competitiveness by offering services covering all design resources, plus a logistics system that guarantees reliable and prompt delivery.

Nilorn is one of Europe's leading players with revenue of MSEK 680. Nilorn delivers more than 1.5 billion labels per year, of different sizes and types. Nilorn is represented in Sweden, Norway, Finland, Denmark, Germany, Belgium, Italy, Switzerland, France, Holland, Great Britain, Portugal, Spain, Hong Kong, India, Turkey, Bangladesh, China and Pakistan.

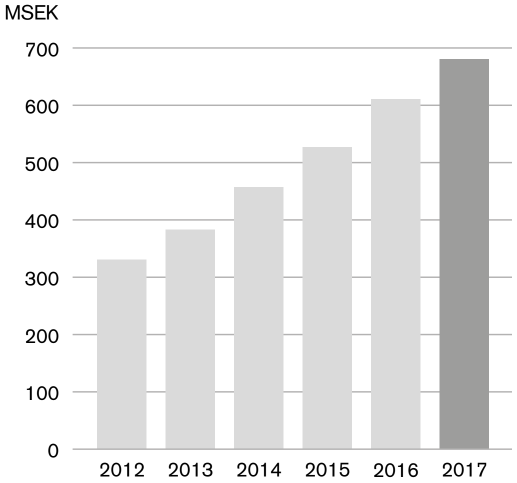
Nilorn applies the motto ”maximum customer satisfaction”. The entire corporate structure is based on this central theme, which constitutes the basis for all of Nilorn's operations, from design to production, selling, logistics and service.

The vision is ”The Best label & branding company worldwide”.

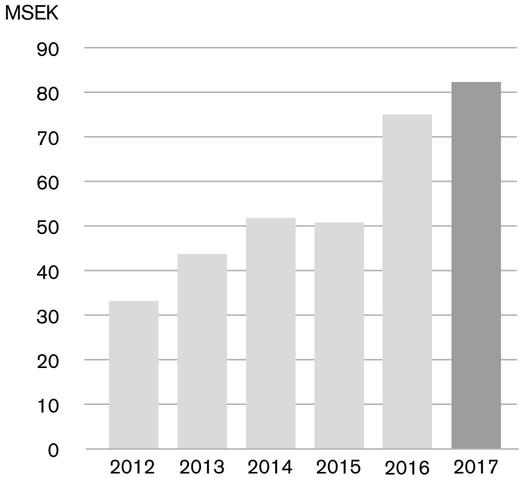
2017 in brief

- Order bookings increased by 12 percent to MSEK 716 (638).
- Revenue adjusted for acquisitions and currency effects amounted to MSEK 692 (610), for underlying organic growth of 13 percent.
- Consolidated revenue in SEK increased by 11 percent to MSEK 680 (610).
- Operating profit (not including costs in the amount of MSEK for change of listing) amounted to MSEK 86.1 (75.0).
- Profit for the year amounted to MSEK 65.0 (56.2).
- Earnings per share amounted to SEK 5.70 (4.93).
- Cash flow from operating activities amounted to MSEK K 66.2 (54.5).
- The Board of Directors has decided to propose to the Annual General Meeting a dividend of SEK 4.00 (3.60) per share.
- Acquisition the inventory and customer list of HC Etiketter A/S for, preliminarily, MDKK 6.5.
- Production in Bangladesh was started towards the end of the second quarter. After investing production, the company has again achieved a positive result after initial start-up costs at the plant.
- Nilorn has the 4 April 2018 change the listing from First North Premier to OMX Small Cap.
- Strong development in the Nordic Region and Germany. Weaker growth in England.
- Positive results in all operating Nilorn companies (except Bangladesh).

NET REVENUE



OPERATING PROFIT



NILORN IN NUMBERS	2017	2016	2015	2014	2013	2012
Net revenue, MSEK	680.4	610.5	527.2	457.5	382.8	330.4
Operating profit, MSEK	82.4	75.0	50.8	51.8	43.7	33.1
Profit for the year, MSEK	65.0	56.2	39.0	41.7	34.6	25.0
Earnings per share, SEK	5.7	4.9	3.4	3.7	3.0	2.2
Return on capital employed, %	47.2	49.7	39.3	47.9	48.2	35.6
Return on equity, %	44.6	44.8	34.3	39.9	38.2	27.0
Equity ratio, %	49.2	50.8	48.8	53.3	55.5	55.8
Average number of employees	444	358	335	301	268	246

Dear shareholders, customers and associates,

The business continued its positive development and 2017 was again the best ever in terms of order bookings, sales and results since the business started in 1977. Nilorn today has efficient processes and one of the market's strongest offerings and we continue to put great effort into improving this further.

We would obviously have been unable to succeed in our fine development without our important customers, most of whom we have worked with for many years. We have increased sales to most of our absolutely largest customers, which shows that they are satisfied with our total solution and therefore entrust us with most of their purchases. This is a trust we will make every effort to deserve with the goal of continued in-depth cooperation. An important reason why customers feel so good with Nilorn our amazing associates, who are committed and work hard every day to make Nilorn's customers satisfied. This is achieved through "freedom under responsibility", allowing staffers to take their own initiatives with the customer in focus.

We increased order bookings by 12 percent during the year to MSEK 716 (638), revenue by 13 percent to MSEK 692, adjusted for acquisitions and foreign exchange effects, and operating profit to MSEK 86.1 MSEK (75.0), not including MSEK 3.7 in costs for changing listing.

We experienced significant increases in Sweden and Germany, while England after several years of large increases developed at a slightly slower pace during the past year. We are also seeing strong development on Denmark after the acquisition of HC etiketter. Italy is market where we see good growth, with many exciting projects under development.

We improved routines and processes during the year to create more efficient handling and follow-up of the growing volume of orders. This has freed up time so that our sellers can serve new and existing customers in order to create more profitable business. We have been successful in increasing sales, at the same time as we are attracting new customers with well-known brands and chain companies in the fashion and sporting goods industries.

The implementation of our new enterprise system has also begun. By year-end we had implemented the system in our Swedish, German and Dutch operations. The implementation now continues in the remaining Nilorn companies around the world, with completion expected in the beginning of next year. Overall, the switch has been smooth so far and we are convinced that full implementation will create the conditions for continued growth with a modern enterprise system.

Platform for continued growth

The positive development in recent years is the result of a goal-oriented strategy where sales efforts have been prioritized. We have worked on improving our internal processes and routines in order to shorten development and lead times for our customers. Our ambition has been that Nilorn should be able to provide a wider concept with more products to our biggest customers as a way of becoming their partners in branding and labelling.

We have also placed great emphasis on improving our product lines and creating exciting and creative ideas that can help our customers in crafting even better and more selling label concepts.

Our production unit in Bangladesh has been in operation for some time now and we are now able to offer a strong, local alternative with a high level of service where we have control over and can manage the entire process. We can also ensure that our own high standards for corporate social responsibility (CSR) are maintained in this challenging market.

Nilorn gives high priority to sustainability and continues to invest with the goal of offering the strongest concept in the market in sustainability, in labelling and branding.

"The goal is to offer a strong total concept with a high of service in order to provide our customers with a simple and cost-effective solution."

Market leader

Nilorn's competitiveness lies primarily in creative know-how in branding and design of labels, packaging, accessories and in logistic solutions to ensure timely deliveries in a market where our customers demand an ever higher level of service. The goal is to offer a strong total concept with a high of service in order to provide our customers with a simple and cost-effective solution.

Opportunities and challenges

I envision several signs of exciting opportunities for Nilorn in the future. The interest we encounter among established brand owners and chain companies in different markets in Europe is evidence of the strength of our offer. We will obviously use this to create interesting business with "the right customers". By the right customers I mean customers who are demanding, but also see significant added value in working with Nilorn and the quality, reliability and broad spectrum that we offer.

Our vision is that "Nilorn shall be the best label and branding company in the world" is something I together with our organisation will work hard to achieve in the years to come. The trend continues to be that customers, regardless of the price of the brand and the product, pay more attention to their labels and branding concepts. The importance of profiling and to have a well-thought-out and well-developed brand strategy will be extremely important in the ever more intense competition that prevails on the international market.

We have a highly competent and passionate group of employees, both within the company and in the partner companies we co-operate with. They are impassioned about their job and are working hard to ensure that Nilorn offers a high level of service and the strongest concept offered in the market. They have all been part of our success and great development in recent years and are sure to continue to be Nilorn's greatest asset and a major reason why we are well placed to maintain and develop our strong position in labels and branding.

Given that we have doubled our revenue over the past five years, plus the fact we are growing in virtually all markets, I am optimistic about the future. I am convinced that we have a good and exciting journey ahead of us and we will do our utmost to make 2018 another great year.

Borås, 12 April 2018

Claes af Wetterstedt
President, Nilörngruppen AB

Business concept, goals and strategy

Vision

”The best label and branding company worldwide”.

Business

Nilorn's business idea is to offer a complete profiling concept that strengthens the image of customer companies' trademarks. The concepts contain branding and design, product development, integrated logistics solutions and RIS (Retail Information Systems). Nilorn's business idea is summarised as ”Adding value to your brand”.

Goal

Nilorn's overarching and long-term goal is to be one of the leading players in the markets where the Group is established.

Strategy

The strategy is aimed at profitable growth based on a strong offer in branding and design, growing international presence by expanding the service and manufacturing network, and increased efforts in the areas of Retail Information System (RIS) and Radio Frequency Identification (RFID).

The strategy includes efforts to increase the value content of the products, to establish even closer co-operation with key customers, utilising combined resources and to optimising the manufacturing structure in our own production and collaboration with partner companies. This strategy means that Nilorn aims to assume a clear position as a global leading operator with product and service offerings that create added value for its customers.

Values

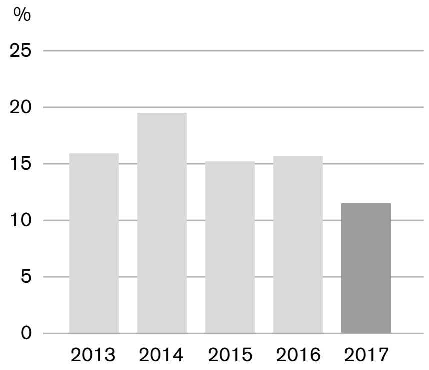
Nilorn is a decentralised organisation with a high degree of freedom under responsibility where the Group's values serve as a guide. This gives the individual employee opportunity to act independently, which is something our customers experience in the form of fast service. Major efforts are expended on disseminating Nilorn's values, thereby creating a “we” feeling within the Group. In Nilorn we try to find simple solutions, which is a must in a decentralised organisation with a quick decision-making process.

Growth and profitability goals

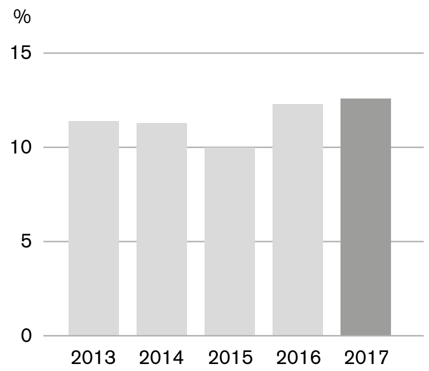
Nilorn strives for sustainable and profitable growth. The growth target is 7 per cent per year, with an operating margin in excess of 10 percent and net liabilities not to exceed 2 times profit before interest, taxes, depreciation and amortisation (EBITDA).

Over the past five years growth has averaged 15 percent, with an operating margin of 11 percent and a positive net cash position despite major investments in a property in Borås and a production facility in Bangladesh, as well as a level of dividends of between 73 and 99 percent of net profit.

GROWTH IN PERCENT PER YEAR



OPERATING PROFIT MARGIN BY YEAR



BEACON
Product development

Nilorn – The small company's flexibility with the big company's synergies

In-house production – external sourcing

Historically, Nilorn was a label producer with production in several European countries, including Sweden, Germany, Belgium, England, Denmark and Portugal. Much of the production has been closed down or sold off and the former production companies have been converted into our sales units in Europe, but the tradition and the technical expertise remains. This is a great benefit to us in our discussions with, and advice to, our customers.

Nilorn still has production in Portugal of both woven and printed labels. During the year we also started production in Bangladesh. We also have our own production of printed labels in England, Germany, Turkey and Hong Kong, and close co-operation with external key suppliers in other countries, such as China, Hong Kong, India, Pakistan, Turkey, Italy and other countries. Internal production accounts for 10 to 15 percent of the Group's total sales. Our own production of labels with variable data (Retail Information Services) is a prerequisite for providing a high level of service (quality control and lead times), since they are produced when ordered, compared with other labels, such as woven labels, which are placed in inventory and delivered from "the shelf". The production in Portugal makes it possible for us to offer short lead times for delivery in Europe, at the same time as we retain the technical know-how within the Group. This has been a great benefit for us in the start-up of the factory in Bangladesh. Bangladesh is an important textile nation with a high rate of growth, but also a country where it is difficult to control quality, work conditions and sustainability. By starting our own production in the country we gain control over service, quality and, especially, CSR, thereby making it possible to secure the offer to our customers.

Limited in-house production gives Nilorn the flexibility to operate in countries where the customers want delivery rather than focusing on operation at capacity in our own factories. This means improved service to our customers, at the same time as Nilorn gains flexibility to adapt its costs to market demand.

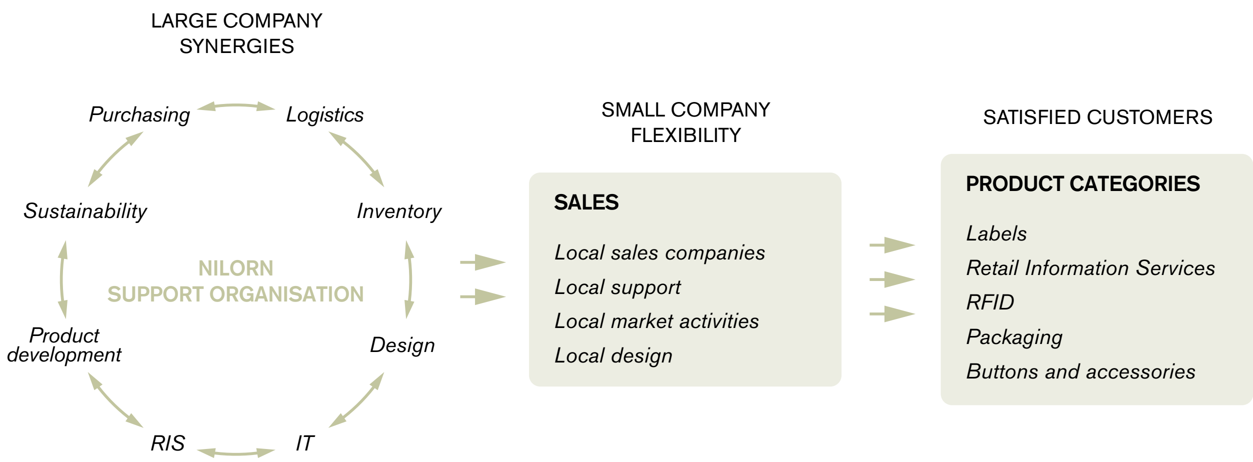
Transformation to a profitable growth company

Since 2009 Nilorn has undergone a transformation from having been focused on production to a group that is permeated by service and which puts the customer at the centre. Nilorn has built and now has distribution units in Turkey, Hong Kong, China, Bangladesh, Pakistan, India, England, Portuga,l and a central warehouse in Germany for the European operations. The distribution units serve the European sales companies with product development, sourcing, warehousing and distribution.

By creating a decentralised organisation, with great freedom under responsibility, Nilorn has speeded up the process and improved the service level, at the same time as costs have been cut. The Group was previously burdened by high overhead costs, complicated routines and a lack of focus. From having been a group where a small number of companies contributed positive results, and where most were operating at a loss, Nilorn now is a group where all companies make positive contributions, albeit at varying rates. This makes a significant difference to the Group's profitability.

Nilorn has managed to create the small company's flexibility, while achieving the large company's synergies. The central units that serve the business are:

- Design (there is also design at the local sales units to support the sales activities and to capture local differences).
- RIS (Retail Information Services) to give the customers a simple and efficient solution for variable data.
- Purchasing in order to take advantage of the Group's scalability with respect to purchasing and to gain control of the supply chain.
- Logistics for secure and efficient deliveries.
- Sustainability in order to gain control of our suppliers and to secure the Group's sustainability efforts, as well as support the customers in this process.
- IT to ensure secure and efficient handling of the Group's processes.
- Accounting and finance to ensure effective internal control, accurate financial reporting, operational governance and management of the Group's financial risks.



Nilorn is active in a market with a small number of very large players, such as Avery Dennison, a listed American company with factories around the world and where labels for the textile industry is one of several business sectors with many small and local players. Nilorn is large enough to have a global distribution network and the group-wide synergies that any smaller companies lack, while at the same time being small enough to maintain short decision paths and a flexible organisation where employees thrive and customers feel that they are at the centre. Act local, be global.

Over the past five years the Company:

- Has more than doubled revenue
- Had an average operating margin in excess of 11 percent
- Has each year paid a dividend of between 70 and 90 percent of net profit
- Has had a strong balance sheet with an equity ratio of 50 percent
- Over the years built its liquidity, ending each year with a positive net cash and cash equivalents position

Distribution by product category

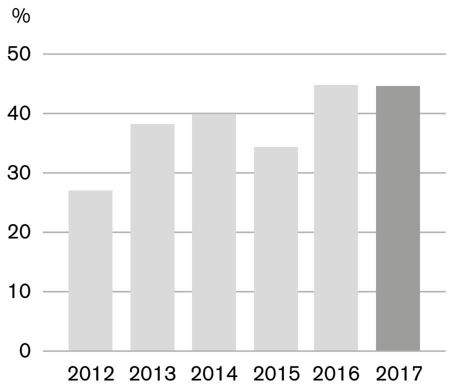
The chart on the right shows Nilorn's revenue by product category.

Labels is the largest product category with 60 percent of total revenue. This is also the product category that is most complex to produce and has the highest margins. The category includes woven labels, printed textile labels, printed hanging labels and flossed labels.

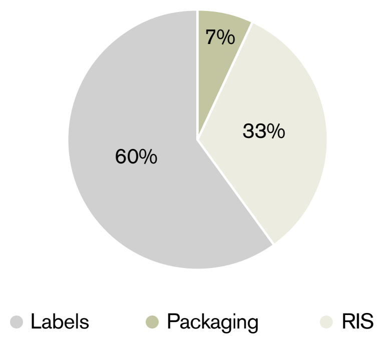
Product category RIS (Retail Information Services) accounts for 33 percent of total revenue and contains labels with variable data, such as price marking labels, size labels, care labels and RFID (Radio Frequency Identification). Nilorn has grown sharply in this area in recent years and now has 12 employees working full-time to adapt Nilorn's systems to receive customer files in a simple way and to make it easy for the customers to place orders via Nilorn's web solution. The production of RIS labels is handled locally to order and typically in-house to ensure quick delivery and good quality control. RFID are labels with a chip containing data (intelligent labels). RFID gives the customer significantly better control of the goods and makes for more efficient handling. RFID labels have been around for several years, but it is only recently that prices have come down, triggering inquiries. Nilorn is investing heavily in RFID and has several projects in progress together with customers.

Packaging accounts for 7 percent of consolidated revenue. This is an area with slightly lower margins, but with great potential, especially because of the increasing volume of e-trade where the packaging is becoming an increasingly important element for a positive customer experience.

RETURN ON EQUITY



REVENUE BY PRODUCT CATEGORY



Customers

The sales companies meet customers, mainly brand owners, all over Europe. Most deliveries are to customers' sub-contractors, however, i.e. the factories where customers' garments are sewn, most of which are in Asia, but also in Europe in countries such as Turkey, Portugal, Italy, the Baltic States, etc. In most cases the customers guarantee the inventory of labels as they are unique for them and also the accounts receivable.

Nilorn has more than 1,000 customers. The ten largest account for approximately 35 percent of Group sales, and the twenty largest account for 50 percent.

A market with opportunities

The global as well as the European market for branding and design is growing. Brand name owners are increasing their investments actions that will help strengthen their brands where labels, packaging and accessories are important elements.

A market in transformation that creates opportunities

Low price brands as well as premium brands are investing ever more resources into differentiation. The market for labels, packaging and accessories is keeping up with the overall development of the fashion industry in terms of colours, textiles and combinations of materials. In today's society there is a growing number of trends ongoing at the same time. The life cycle of collections are also getting shorter as trends are evolving ever more quickly.

New regulatory frameworks also affect demand. The EU, for instance, introduced more stringent requirements for textile products to be labelled in accordance with specific regulations. Over the longer term demands on the fashion and garment industries are affected by the general economic development, with important factors such as GNP growth and private consumption.

The growing importance of the brand means that the development for branding and design that contributes to more distinct profiling and increased sales has been positive. Demand is growing in Europe as well as other markets. Since more and more customers demand holistic concepts Nilorn offers: branding, design, product development and offers professional logistics solutions.

Customers with high demands

Nilorn has extensive experience in collaboration with the fashion and garment industries and as the market's leading specialist, the Group possesses solid knowledge in the fields of design and design development. Nilorn chiefly co-operates with high demands for development of concepts that strengthen their brands. Through close co-operation with its customer, Nilorn understands which factors each customer's brand in the marketplace. Based hereon Nilorn develops concepts that contribute to differentiating and strengthening the customer companies' most important asset, their brands. This creates value both for Nilorn's customers, the brand owners and for their customers, the end consumers.

MARK TRENDS

- *Increased investments in brand profiling.*
- *The market for branding and design concepts follow the trends in fashion.*
- *Ever more trends are current at the same time.*
- *Technical advances create new opportunities.*

Nilorn's head office

Customized solutions based on a multitude of features

Nilorn has the widest range of features in branding and design of labels, packaging and accessories. Nilorn offers branding consultancy services and design expertise focused on the fashion and garment industry, control of the production and high quality as well as IT and logistics solutions that allow customers to control the flow of their labels, packaging and accessories. This means that Nilorn can guarantee just-in-time delivery worldwide.

Branding increasingly important

Most of Nilorn's customers are in the fashion and garment industry where branding reinforces the identity and image of the garment. Some even argue that the brand is the most important feature of the garment. In order to achieve success and sell well at the retail level the brand must have a clear profile that stands out in the crowd. The brand and the marketing is more important than ever – from advertising campaigns to branding and design concepts that adorn and profiles the products at the retail level. This creates an opportunity to combine important information with profiling that enhances value. This is where Nilorn stand out from the competition. Nilorn has specialist competence in branding on garments and in stores. This is also very important for e-commerce as the customers want a positive experience when unpacking the goods.

Nilorn's customers demand high quality, flexibility, great branding and design content, as well as advanced logistics solutions. To meet the demands Nilorn is committed to a high level of service and to being the customers' best partner in branding and design concepts based on labels, packaging and accessories. Nilorn has extensive experience and knows what it takes to build, maintain and further develop strong brands.

On target with close co-operation

Nilorn always strives to develop close co-operation with customers in the quest to generate unique branding and design concepts that contribute to differentiating and strengthening their most important asset – the brand. The customers must know that Nilorn always works to achieve the best possible solution for their needs. Such co-operation always begins with listening to the customers to identify and understand their aspirations.

Nilorn creates added value by clearly communicating the products' benefits at the retail level. Business relations are of a long-term nature and are based on close co-operation between Nilorn and the different customer departments, where management, marketing, design and logistics departments participate. To be at the forefront it is also required that Nilorn always can offer new ideas that simplify and streamline customer operations. The Group was at the forefront of developing comprehensive solutions based on efficient IT systems.

However, you cannot be complacent. Nilorn has the experience, competence and size required to lead the development in the branding and design industry also in the future.

NILORN'S COMPETITIVE ADVANTAGES

- *Close co-operation with several of the world's leading brands.*
- *Competence in branding, design and product development of brands.*
- *Logistics solutions and IT systems on a global basis.*

THE NILORN PROCESS

- **MEETING:** Meetings between client and Nilorn. In close cooperation clients needs identifies and results in a design brief.
- **DESIGN:** Unique design skills create tailor-made concepts for different costumer segments.
- **PRODUCT DEVELOPMENT:** Based on design and high quality technical solutions.
- **PRODUCTION:** Own manufacturing combined with a network of partners in strategic markets throughout the world.
- **LOGISTICS:** Electronic web-based ordering system allows delivery within 48 hours.
- **MANUFACTURER:** Production location where the labels are sewn into the garment.
- **CONSUMER:** End user of the long chain from idea to product.

Creative design

Graphic designers and branding consultants who are specialized in developing graphic concepts for fashion and fashion-related products work at Nilorn's design departments in Sweden, Great Britain, Germany, Belgium and Denmark. Customers are offered a unique and expressive product appearance with the aid of labels, packaging and accessories.

As is the case in all visual communication, it is important to attract, to guide and to provide information. For producers of functional materials in, for instance, the sport segment, we have seen an increased need for communication.

Concepts that strengthen brands

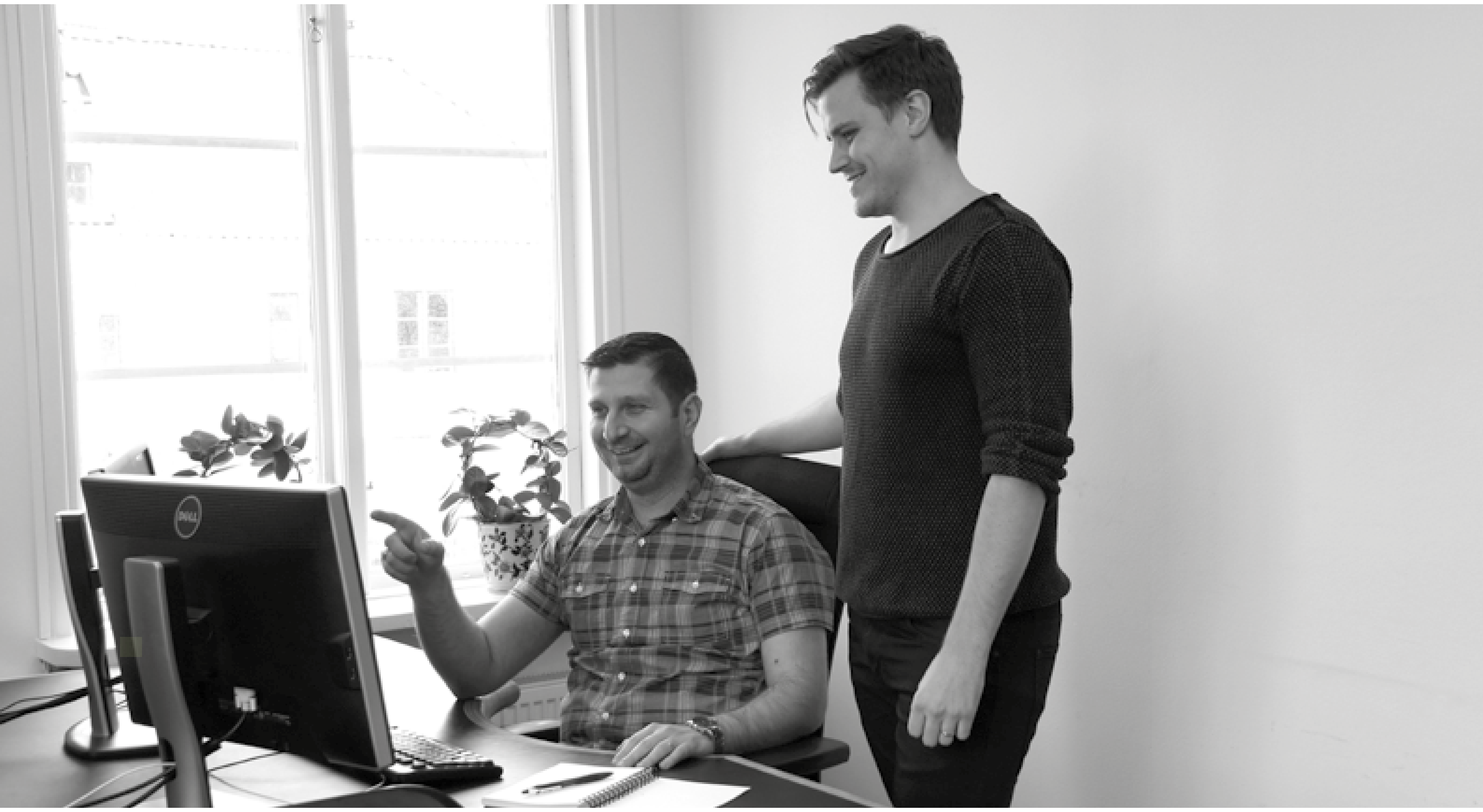
At Nilorn's design departments we use the word concept when we speak about our work. A concept can be anything from just a few to more than 50 labels and packaging items and accessories with details. There is a theme that combines all parts of the concept. Logotypes, graphic expressions, colours, patterns or materials that can be used to provide a uniform appearance in a manner that promotes strong communication. The most common elements of a concept are woven labels, hanging labels made of paper, plastics, leather or textile materials. Latex, cardboards, wrappings, tissue paper and accessories. The possibilities are endless, using different printing and punching methods, foil embossing and different ways of attaching the labels.

Another important detail for us at Nilorn is the location of the labels. Placement that surprises and has a function are important parts of a concept. Our customers appreciate our know-how and often ask us to participate in their design process at an early stage. In a good concept, the labels should work individually, in combination and in harmony with the garment. Graphic design, combined with exciting materials must highlight the unique values that create a connection between brand and product. The notion that consumers appreciate our labels/ brand accessories so highly that they land on a desk Instead of In the waste paper basket is what inspires our graphic designers.

A design process focused on satisfying needs

When customers sense a need for renewed or stronger profiling and wants to achieve a change, that is when Nilorn's services are in demand. In today's competitive markets it is more important than ever to be seen and heard. The difference between success and failure can be razor thin. Branding has a direct link to the consumer's choice of product and is crucial to how a brand is perceived.

At Nilorn our graphic designers bring together all the materials needed to strengthen the identity of a brand. When the image and the target are identified, Nilorn's design team create bespoke solutions for each individual purpose. All signals are co-ordinated to a whole that focuses on strengthening the customer's brand. The finished result includes everything from packaging, accessories, labels, placement solutions and selection of materials. The concept is presented to the customer in an exciting and informative way according to customer requirements. Nilorn's combination of experience and innovation creates new dimensions for branding.



Nilorn's head office, RIS department.

Retail Information Service (RIS)
– the perfect solution for bar codes

One feature of Nilorn's business concept is to simplify the label handling for its customers. The market's best web-based order system give customers full control of ongoing production, lead times and inventory balance. As experts in handling labels, packaging and accessories we offer effective customer solutions where the customer solutions where cost and time aspects go hand in hand with secure and global distribution options.

A Unique IT logistics solution

One of the most important aspects when it comes to production of bar codes and care instructions is that the label typically contains information that varies. There are labels to be distributed to different production countries and where the time aspect is often crucial. Nilorn, with its global network and flexible production has solutions for that which for many customers is perceived as being complicated, time-consuming and expensive. For the customers the process is simple. At the same time as they place a production order with a manufacturer, they send a message to Nilorn specifying the information to be included on the labels. The label is produced and distributed directly to the manufacturer or placed in inventory to be dispatched when ordered via our internet-based web ordering system.

Customers who choose to work with Nilorn get assistance ensuring timely production and distribution of the labels. All information about the entire process is available at Nilorn's web order site where it can be accessed in six languages, 24/7.

Nilorn's web solution

With our knowledge and experience of meeting the production and distribution needs for global chains as well as smaller local brands, we dare to say that our solution is unique and that our customers are satisfied. Nilorn has a wide variety of options for managing variable data labels. The most common types of labels are:

- *Adhesive paper*
- *Simple label with bar code*
- *Care instructions on textile ribbon*
- *RFID labels*

Labels and packaging with RFID.

RFID
Radio Frequency Identification

As early as in the early 2000s, Nilorn worked on a number of projects in RFID where the opportunities for retail and apparel were identified. However, it turned out that although the interest was great, the market was not yet ready to embrace the technology.

An increasing interest in RFID

Last year we saw a significant increase in the number of customers who want to get started evaluating RFID labelling in their businesses.

Even if globally there are a few early adopters in retail and apparel industry who have used RFID for several years, it is only in recent years that we have experienced a gradually growing interest among European brands. The technology has improved over time, while the price of both the tags and the equipment has fallen, making it easier to put together an attractive investment calculation.

The fact that a few global brands have chosen to adopt RFID, and that articles on the subject increasingly appear in different news feeds, obviously contributes to the increased interest. A growing number of brands are taking a closer look at how labelling with RFID can improve the efficiency in their supply chain, with improved inventory control, reduced shrinkage, increased sales and savings as effects.

Some major chains have begun to demand RFID labelling by their suppliers in order to be allowed via their channels.

Nilorn's offer

We help our customers review their current labelling and how RFID could best be integrated. The most common method is to replace the price tag/barcode label with an RFID version, either in the form of a hangtag, or an adhesive label. There are other alternatives and materials for application of RFID, for instance sewing the label on together with the existing care label.

We recommend our customers to begin with a small pilot project, followed by gradually rolling out to full scale. Select, for example, a couple of suppliers to label products with RFID rather than the usual price label. Another alternative is to begin with a selected product group.

Nilorn has flexible solutions to make the change at a pace that suits the brand. The ordering routine remains as simple for

RFID labels as, for instance, for the usual price labels. For the garment manufacturer there need be no change at all. They attach the price label to the garment as usual and the only visual difference is a small RFID logo printed on the label.

Global standard

RFID labelling of products for the typical customer in retail and apparel occurs in accordance with a global standard, which makes for standardised use in everything from store to central warehouse, third-party logistics solutions and different types of marketing channels.

The unique code on the RFID chip is made up of, among other things, the EAN/UPC code and a unique serial number. The labels are read with radio waves and no line of sight is needed as is the case with a traditional barcode. Several RFID-labels can be read at the same time, compared to barcodes that have to read manually, one at a time.

History

At Nilorn an RFID showroom was built as early as in the beginning of the 2000s to demonstrate the possibilities in practice.
A number of different types of labels were developed, such as hangtags, adhesive labels and woven labels, which were then attached to various garment lines.

Cartons containing RFID-marked garments were bulk scanned and the content was read without opening the cartons. Suggestions of garments matching the ones brought into the fitting room were shown on a screen and it also allowed statistics to be developed showing which garments were often tried on, but then not purchased. Garments paid for were disarmed at a self-service checkout, allowing the consumer to pass the security gate without triggering an alarm. An inventory-reading product rack for automatic restocking was also included as part of visions for the future.

And now, several years later, interest in RFID has really started to take off as a growing number of brands are beginning to recognise the benefits, and in some cases even the necessity of adopting this technology to secure their business for the future.

RFID labels are an equally simple and obvious part of our solutions and offer as price tags and care labels.

A global market

In order to be able to compete for the large branding and design assignments, it is necessary to be close to the customers since the decisions on strategic issues are made at the head offices. Labels, packaging and accessories are becoming ever more important for the brand and are therefore increasingly a matter for senior management to consider. On the other hand, most of our customers' production takes place in low-cost countries, in Asia and the former Eastern Europe, for example. As customer companies have expanded into new geographic markets, both in terms of sales and manufacture, the branding and design industry has become ever more global.

In-house production in Portugal

From local to global

This development means that the branding and design companies must be close to their customers as well as their suppliers and be able to handle deliveries just-in-time in virtually the entire world. Garments are designed and sold in Western Europe, but production is by and large in Asia. The branding and design concepts are developed in close co-operation with the brand name owners in Western Europe, but most labels, packaging and accessories are delivered directly to the manufacturers, especially in Asia, where China still is the most important purchasing market for the fashion industry.

Nilorn's main customers, the brand owners, concentrate their resources on branding and design, brand development, marketing and sales, while manufacturing is being outsourced to subcontractors.

Growing presence in Asia

This development makes it necessary for Nilorn to be present locally in these countries, via its own companies and a network of strategic partners. In close co-operation with partner companies, Nilorn has access to high-quality production in the Asian growth markets, where Nilorn East Asia in Hong Kong is an important hub for the business together with the distribution units in China, India, Bangladesh, Pakistan and Turkey.

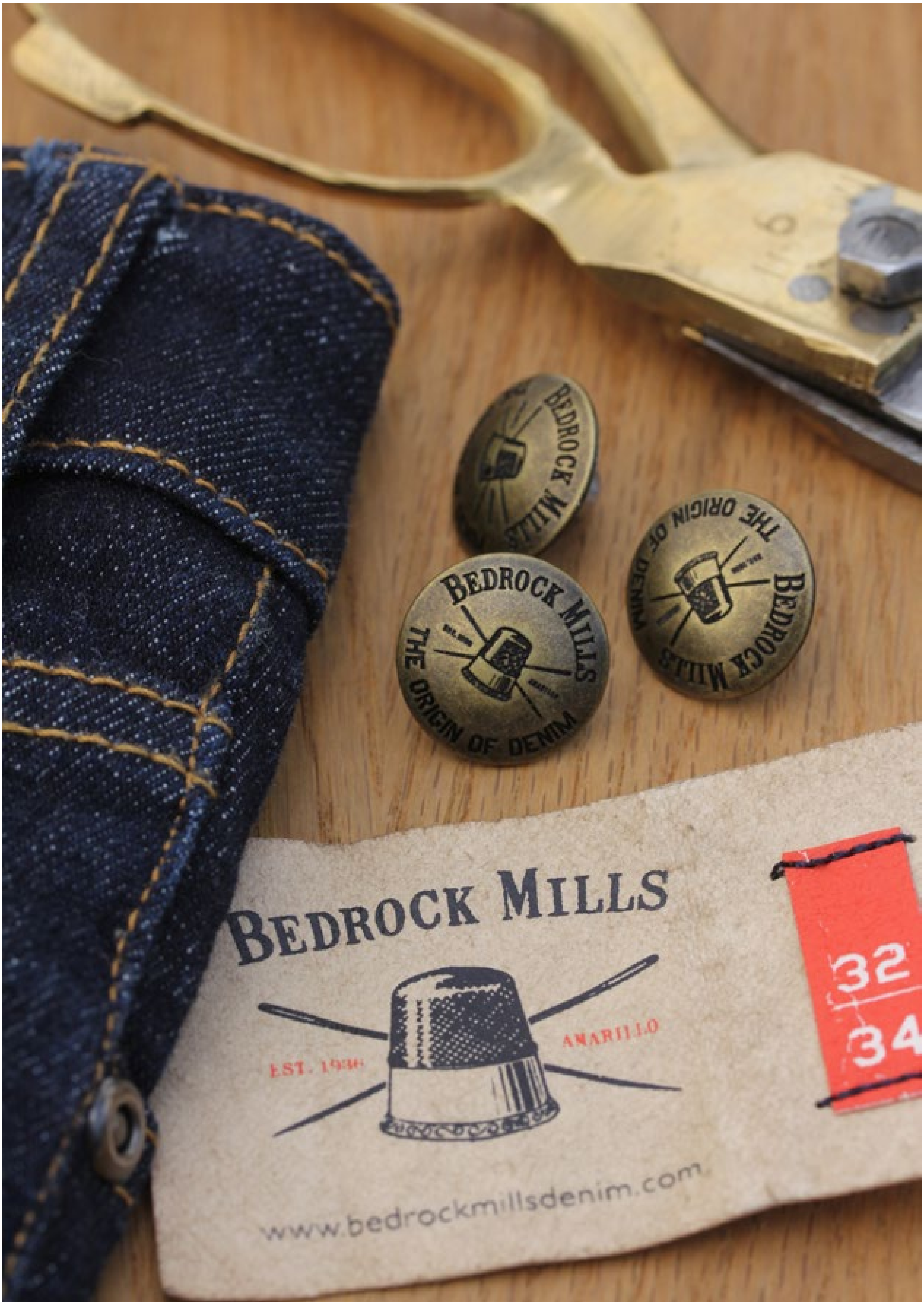
An important part of Nilorn's strategy is to continue to attract strong and professional partners to the Group's network. The purpose is to be able to offer customers effective logistics regardless of where in the world the customer produces its goods. Joint product development functions have been built in order to strengthen Nilorn's branding, design and product development.

For highly fashionable goods bought in the middle of the season and which demand extremely short lead times, Turkey has become an increasingly important purchasing market for the European garment companies, a trend that has grown in strength in recent years.

Both in-house production and collaborators

Nilorn has operations in Sweden, Denmark, Norway, Finland, Great Britain, Italy, Germany, Belgium, Holland, France, Portugal, Hong Kong, China, Bangladesh, Indie and Turkey. There is a partner company in Switzerland.

Nilorn's presence in Europe is important as that is where the purchasing decisions are made and that is where branding, design and concept, garments, labels, packaging as well as accessories are developed. Access to its own production, combined with production at partner companies, allows the Group to maintain quality, flexibility and to meet customer demands at the highest level and also to live up to the demands for competitive pricing. Access to our own manufacturing creates advantages for product development and sample management – making reality out of something that just a few days ago was at the idea stage.



BEDROCK MILLS
Product development

Sustainability work

Nilorn works actively to contribute to a more sustainable future.

For Nilorn sustainability means meeting individuals' and customers' long-term requirements without compromising on the alternatives at hand. Our efforts for a sustainable future is many-facetted:

- Environmental responsibility with respect to the products we deliver and the impact on the environment of our daily work.
- Social and ethical responsibility, meaning that we want to ensure that our products are manufactured under good working conditions, which comply with international conventions and laws and that we offer a good workplace for our employees.

Our efforts to guarantee environmentally friendly products mean that we together with our customers must assume responsibility to select sustainable materials and choose the most suitable form of transportation. Our goal is to minimise the environmental impact through active choices, while meeting our customers' requirements for materials and fast delivery. Both in our own organisation and among our suppliers we are reviewing processes, materials and certifications in order to offer products that include more sustainable alternatives and we commit ourselves to assess, reduce and prevent environmental impact and the effects of our activities, products and services.

We work with different types of certification of products to call attention to the improvements made along our value chain, such as:

- bluesign®
- Oeko-Tex 100, class 1
- FSC (Forest Stewardship Council)
- RCS (Recycled Content Standard)

These certifications work in different ways, and include different product types, in order for the requirements of each certification are achieved, such as in terms of environment and ethical standards.

Nilorn's factories in Portugal and Hong Kong are bluesign® system partners. The basic idea behind bluesign® is based on five principles in a single standard. By focusing on resource management, emissions to air and water, consumer safety, work environment and safety, production becomes more sustainable.

EU's chemicals legislation REACH is the basis for our work with Nilorn Restricted Substance List. Our suppliers are expected to sign agreements with Nilorn in which they certify that they comply with the legislation and restrictions regarding the use of chemicals. Nilorn is a member of Swerea, IVF's chemicals group, the aim of which is to convey legal requirements and other information in the chemicals area in support of companies' daily work with chemicals.

Nilörngruppen's Sustainability Report 2017

All of Nilorn's operations shall comply with international legislation and conventions. Nilorn has signed UN's Global Compact's principles for sustainability. Global Compact is the world's largest sustainability initiative, with more than 12,000 participating companies and organisations in more than 170 countries. Nilorn undertakes to realize and integrate the ten principles with respect to human rights, labour law, environment and anti-corruption based on the United Nations Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the RIO Declaration on Environment and Development and the United Nations Convention against Corruption.

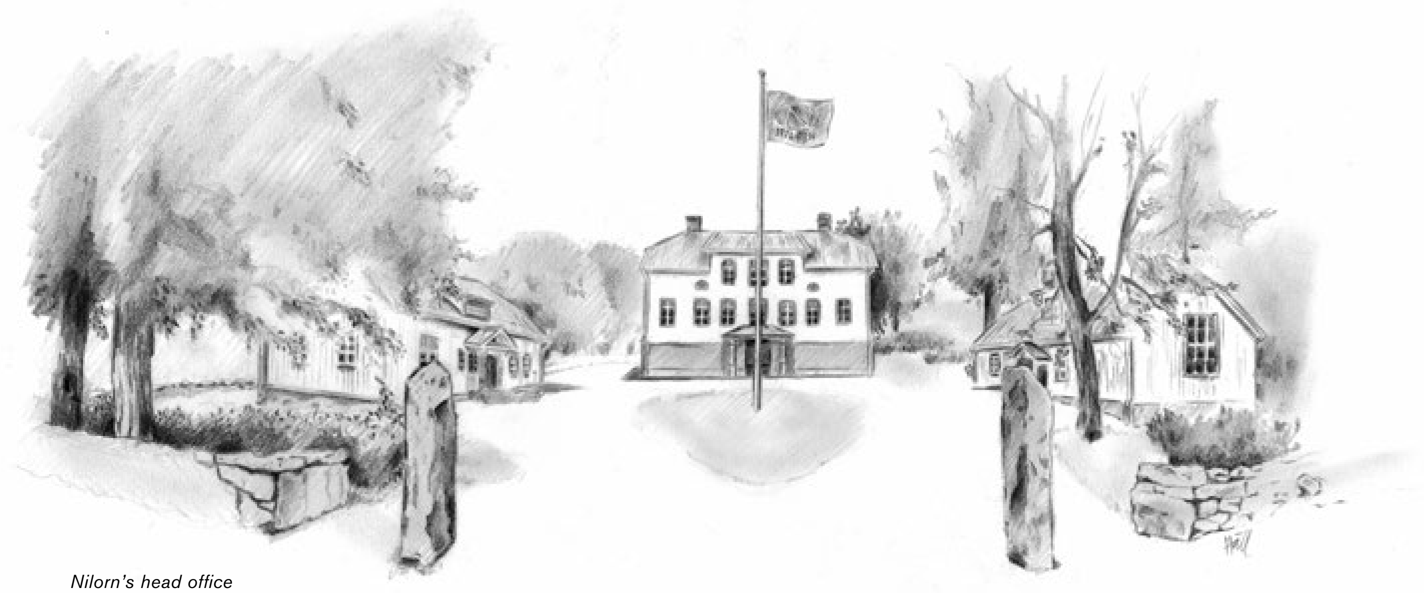
Nilorn's Code of Conduct was updated in 2017 and is based on the Ethical Trading Initiatives Base Code. All of Nilorn's suppliers are expected to sign our agreement and adhere to our suppliers' manual, which among other things contains a code of conduct, environmental requirements and a list of chemicals.

Nilorn's businesses in Hong Kong, Portugal, Turkey and Bangladesh have been subjected to a social and ethical audit by Sedex Members Ethical Trade Audit (SMETA). SEDEX is a non-profit organisation where members co-operate with focus on improvements in responsible and ethical business practices in global supply chains. Many of our suppliers are members of SEDEX and similar initiatives, such as BSCI (Business Social Compliance Initiative). Nilorn also performs its own follow-us on our suppliers where we on location assure ourselves that the suppliers comply with the agreements they have signed. The annual supplier evaluation with its follow-up is a good tool in the dialogue with our suppliers.

Nilorn's anti-corruption policy means that we do not accept gifts or other favours from any of our co-operation partners. If gifts or other favours are accepted, it must done with full transparency and in a manner that complies with the Company's rules regarding value and type of gift.

Nilorn has also published its first statement in accordance with Great Britain's Modern Slavery Act 2015, where we explained the actions we take to reduce the risks of modern slavery that may occur in the supply chain and our operations.

Further information about our efforts are found in the Sustainability Report.



Nilorn's head office

History

1970's

Nilorn is a design agency that Claes-Göran Nilsson started in Borås in the beginning of the 1970's. Operations were developed to include also production of labels, which was contracted out to manufacturers in Europe.

1980's

Nilorn sees opportunities of streamlining the production of labels the production of labels and to expand. The first manufacturing company, Borås Etikettväveri, is acquired, as is Försäljnings AB Nordiska Bandväveriet, Screentryckeriet Dekoratören and Menda in Denmark. At the end of the decade Svenska Bandfabriken, Bohus Textilkonst and Nordisk Heliotextil are acquired.

1990's

To ensure the international expansion, a private placement was made in 1990 to external financiers. In the same year the largest textile printer in the Nordic countries was acquired, K Björn Eriksen in Denmark, and in 1992 Bally Labels in Switzerland was acquired. Shamrock-Ruga in Belgium and Dalle Caen in France were acquired in 1995. Arko Etiketten in Germany was added in 1998 and Nilrngruppen was listed on the Stockholm Stock Exchange. In 1999 Great Britain's leading label manufacturer, H.H. Calmon & Co Ltd, which also has operations in Portugal and Hong Kong, India and the Dominican Republic, was acquired. A twenty-percent stake in the German label producer Gustav König Etiketten was acquired the same year.

2000's

Belgium's largest label manufacturer, Nominette, was acquired in 2001. Nilorn East Asia Ltd in Hong Kong was stared the same year. In 2004 Claes-Göran Nilsson, Nilörngruppen's founder, quit as Chairman and left all his assignments for the Group. Nilorn changed its strategy from being a label manufacturer to being a company with sharper focus on design and rational logistics solutions. Partner agreements were concluded with production units in China, Bangladesh, India, Turkey and Tunisia.

In 2005 the Swedish production unit for woven labels, Borås Etikettväveri, was closed and parts of the production were moved to Nilorn's production unit in Portugal.

Restructuring of production operations continued in 2006 and the production of woven labels was moved from England and Germany, for the most part to Portugal. In 2007 the Belgian production of woven labels was terminated and the former partner, Hazer Etiket was acquired and its name was changed to Nilorn Turkey.

In 2008 production at Nilorn Turkey was discontinued and operations were concentrated to purchasing and sales. In 2009 Claes af Wetterstedt took over as President and CEO. Traction, who had been a part owner since 2005, increased its ownership to 65 percent of the shares outstanding and Nilörngruppen AB was delisted from the Stockholm Stock Exchange on 30 June. In connection with the Annual General Meeting a new Board of Directors was appointed. Petter Stillström was elected to serve as Chairman of the Board of Dirrectors.

2010's

In 2010 subsidiaries were established in Bangladesh and China (Shanghai). Logistics in Europe were streamlined by establishing a central warehouse for the German and Belgian units. In 2012 Nilörn AB moved its warehouse from Sweden to the central warehouse in Germany in order to streamline operations. The Group established a facility for production of care labels (textile printing operations) in Hong Kong. This was also the first year ever that all operating companies reported positive results.

In 2014 Nilorn Pakistan Ltd was established and the production of both woven and printed labels was expanded in Portugal. A sales office was established in Italy.

In 2015 Nilörngruppen AB's share is listed on Nasdaq First North Premier.

In 2017 Nilörngruppen AB decided to change its listing to Small Cap. Proprietary production was started in Bangladesh. A European distribution company was established in Germany.

Multi-year Survey

NILORN'S DEVELOPMENT IN SUMMARY 2013-2017

Amounts in MSEK	**2017**	**2016**	**2015**	**2014**	**2013**
Income Statement					
Net revenue	680.4	610.5	527.2	457.5	382.8
Operating profit	82.4	75.0	50.8	51.8	43.7
Net finance items	–0.2	–1.1	–0.8	–0.4	0.3
Profit before taxes	82.2	73.9	50.1	51.4	44.0
Taxes	–17.2	–17.7	–11.0	–9.6	–9.4
Net profit for the year	65.0	56.2	39.0	41.7	34.6
Profit attributable to the Parent Company's equity holders	65.0	56.2	39.0	41.7	34.6
Balance Sheet					
Non-current assets	62.9	49.5	39.4	23.4	16.6
Inventories	110.0	88.9	80.1	73.3	53.9
Trade receivables	76.2	73.4	58.6	58.7	48.2
Other non-current assets	18.7	24.3	22.7	20.5	14.0
Cash and cash equivalents	44.8	35.2	31.5	38.6	38.3
Total assets	312.6	271.3	232.4	214.4	171.0
Equity attributable to the Parent Company's equity holders	153.9	137.8	113.3	114.3	94.9
Total equity	153.9	137.8	113.3	114.3	94.9
Long-term liabilities	1.2	5.0	5.0	5.9	6.2
Trade payables	61.7	52.8	46.6	46.2	34.1
Other current liabilities	95.7	75.7	67.4	48.0	35.8
Total liabilities and equity	312.6	271.3	232.4	214.4	171.0

Amounts in MSEK	**2017**	**2016**	**2015**	**2014**	**2013**
Key financial indicators and other information					
Revenue growth, %	11.4	15.8	15.2	19.5	15.9
Operating margin, %	12.1	12.3	9.6	11.3	11.4
Profit margin, %	12.1	12.1	9.5	11.2	11.5
Capital employed	189.6	163.3	139.8	120.7	97.7
Average capital employed	176.5	151.6	130.3	108.7	92.5
Return on capital employed, %	47.3	49.7	39.3	47.9	48.2
Average equity	145.9	125.6	113.8	104.6	90.7
Return on equity, %	44.6	44.8	34.3	39.9	38.2
Equity ratio, %	49.2	50.8	48.8	53.3	55.5
Interest-bearing net cash and cash equivalents	9.1	9.7	5.0	32.1	36.6
Average number of employees	444	358	335	301	268.0

For definitions of alternative key financial indicators, refer to page 64.

The Nilörngruppen share 2017

The share

Nilörngruppen's class B share is listed since 4 April 2017 on Nasdaq Stockholm from being listed on First North Premier of the Stockholm Stock Exchange since 12 June 2015. Each class A share entitles its owner to ten votes and each class B share entitles its owner to once vote.

Ownership structure

At year-end 2017 Nilörngruppen had 4,227 (3,327) shareholders. At year-end the ten largest owners held 60.0 percent of the capital and 77.3 percent pf the votes.

Dividend

The Board of Directors proposes a dividend of SEK 4.00 per share for the 2017 operating year (SEK 3.60 per share 2016).

Amounts in SEK	2017	2016	2015	2014	2013
Per-share data					
Number of shares outstanding, thousands	11,402	11,402	11,402	11,402	11,402
Profit	5.70	4.93	3.42	3.66	3.04
Dividend	4.00*	3.60	3.00	3.50	3.00
Equity	13.50	12.08	9.94	10.02	8.32

** Proposed dividend*

THE LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2017

Name	Class A shares	Class B shares	% of capital	% of votes
AB Traction (via subsidiary)	960,000	1,830,000	24.5	57.0
State Street Bank & Trust Com., Boston	-	877,003	7.7	4.4
Nordea Investment Funds	-	611,136	5.4	3.1
Bnymsanv Re Bnymtd Re Montanaro Eur	-	600,000	5.3	3.0
Försäkrings AB, Avanza Pension	-	504,422	4.4	2.5
BPSS Par/Echiquier Excelsior	-	380,000	3.3	1.9
Nordnet Pensionsförsäkring AB	-	364,934	3.2	1.8
Protector Forsikring ASA	-	300,000	2.6	1.5
JPMEL - Stockholm Branch	-	259,041	2.3	1.3
RBC Investor Services Trust	-	168,430	1.5	0.8
TOTAL	**960,000**	**5,894,966**	**60.2**	**77.3**
Other shareholders (4,217)	-	4,547,022	39.9	22.7
TOTAL	**960,000**	**10,441,988**	**100.0**	**100.0**

Corporate governance report

Corporate Governance

As a company listed on First North Premier, Nilörngruppen is not required to apply the rules of The Swedish Code of Corporate Governance ("the Code"). However, the Company has chosen to apply these rules, as described below, to a large extent. In accordance with the rules, Nilörngruppen's Board of Directors has therefore drawn up this corporate governance report in accordance with the rules of the Code.

Corporate governance refers to the regulatory framework and structure built to effectively control and manage the activities of a limited liability company. Described below is how the Group is governed, step by step, from the owners to the operative activities and how corporate governance was conducted in Nilorn during 2017.

The Swedish Code of Corporate Governance

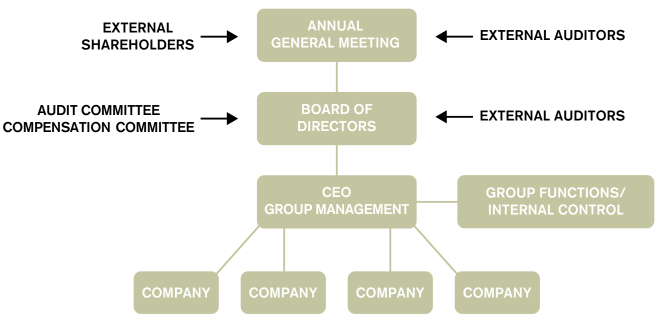
This corporate governance report is not a part of the formal annual accounts and has not been reviewed by the Company's auditors.

Deviations from the code

Rule: Nomination committee

Explanation: Nilörngruppen does not have an appointed nomination committee, since the ownership structure is clear, with Traction owning a majority of the votes, and also because there are no other owners with a significant ownership stake. However, shareholders are always welcome to submit comments and/or suggestions on the composition of the Board of Directors to the Chairman of the Board, Petter Stillström (telephone +46-(0)8-506 289 00).

CORPORATE GOVERNANCE



Articles of Association

In addition to legislation, rules and recommendations, the Articles of Association constitute a central document for the governance of the Company. The Articles of Association are adopted by the annual general meeting of shareholders and contain some basic information on the Company, such as the kind of business the company is to conduct, the size of the share capital, the number of shares issued, the size of the Board of Directors and how the annual general meeting is to be convened. The complete Articles of Association are available at Nilörngruppen's website www.nilorn.com.

Responsibility for management and control of the Group is shared among shareholders at the General Meeting of Shareholders and the President, which is in keeping with the Swedish Companies Act, other laws and regulations, rules in force for listed companies, the Articles of Association, the internal rules of procedure of the Board of Directors and other internal governance instruments.

Shareholders

At year-end 2017 Nilörngruppen had 4,227 shareholders (3,327). At year-end the ten largest shareholders owned 60 percent of the capital and 77 percent of the votes and the largest shareholder, AB Traction, through subsidiaries, owned 25 percent of the capital and 57 percent of the votes.

General meeting of shareholders

The highest decision-making body is the general meeting of shareholders, where all shareholders have the right to participate. The general meeting of shareholders has the right to decide on all matters not contrary to Swedish law. At the general meeting of shareholders, shareholders exercise their right to vote to decide on the composition of the Board of Directors, auditors, and other central issues such as adoption of the Company's balance sheet and statement of income, allocation of results, and decide on discharge from responsibility for the Board of Directors and the President. Shareholders may turn to the Board of Directors to bring an issue to be dealt with at the general meeting of shareholders, or to the Chairman of the Board of Directors with suggestions to nominate directors.

2017 Annual General Meeting

The Annual General Meeting of Nilörngruppen was held 3 May 2017 in Borås. Complete information about the 2017 Annual General Meeting is available at the website, www.nilorn.com.

2018 Annual General Meeting

The Annual General Meeting will be held at 5:00 p.m., 16 May 2018 at the head office in Borås.

The Board of Directors and its independence

The Board of Directors of Nilörngruppen is bound by the requirements for independence set forth in The Code. The main features of the requirement for independence are that only one member of management may be a member of the Board of Directors and that at least two of the directors elected by the general meeting of shareholders who are independent relative to the Company and its management must also be independent relative to the Company's major shareholders.

The Board of Directors shall consist of not less than three and a maximum of six directors. Since the 2017 Annual General Meeting the Board of Directors has had four members. At the 2017 Annual General Meeting Petter Stillström, Vilhelm Schottenius and Marie Nilsson Peterzén were re-elected and Gunilla Brisinger was elected as new director. All directors except Petter Stillström are independent relative to the Company and its major owners. Petter Stillström is the President of AB Traction and a major owner of the company.

Tasks of directors

The tasks of the Board of Directors are governed by law and recommendations and by the rules of procedure of the Board of Directors. The Board of Directors review the rules of procedure annually and adopts them

COMPOSITION OF THE BOARD OF DIRECTORS

2017			Presence		Independent	
Member	Elected	Fee	Regularly scheduled Board of Directors meetings	Statutory Board of Directors meetings	Relative to the Company and management	Relative to major shareholders
Petter Stillström (Chairman since 2009)	2007	180,000	9/9	1/1	yes	no
Gunilla Brisinger	2017	100,000	9/9	1/1	yes	yes
Marie Nilsson Peterzén	2016	100,000	9/9	1/1	yes	yes
Vilhelm Schottenius	2009	100,000	9/9	1/1	yes	yes

by a decision of the Board of Directors. The rules of procedure regulate the distribution of responsibility between the Board of Directors and the President, the President's powers, the meeting schedule and reporting. The Board of Directors meetings deal with budgets, interim reports, the annual accounts, the business situation, capital expenditures and business establishment. The Board of Directors also receive on a monthly basis reports on the Company's financial position. At the regularly scheduled Board of Directors meetings reports are also submitted about the day-to-day operations of the Group's companies, with in-depth analysis and proposals for action. Also dealt with are issues concerning long-term business strategy and structural and organisational issues. As the Board of Directors consists of Swedish directors only, Swedish is spoken at meetings and all documentation is in Swedish. Normally, seven to ten board of directors meetings are held each year. During 2017 the Board of Directors held nine regularly scheduled meetings and one statutory meeting after the Annual General Meeting. The Chief Executive Officer of the Group serves as board secretary. The Chairman maintains regular contact with the President and follows the Group's business and development.

One time per year the Chairman of the Board of Directors initiates an evaluation of the work of the Board of Directors. Each director has answered a questionnaire. The answers are compiled and the results discussed at a board meeting. The Board of Directors continuously evaluates the work of the President by following the development of the business towards the set goals.

Election committee

Nilörngruppen does not have an appointed nomination committee, since the ownership structure is clear, with Traction owning a majority of the votes, and also because there are no other owners with a significant ownership stake. However, shareholders are always welcome to submit comments and/or suggestions on the composition of the Board of Directors to the Chairman of the Board, Petter Stillström (telephone +46-(0)8-506 289 00).

Audit committee

The Board of Directors has considered the matter of establishing a separate audit committee, but has decide that the Board of Directors in its entirety shall handle these matters, thus constituting an audit committee. The audit committee receives continuous information about internal controls and compliance, checking of reported values, estimates, assessments and other matters that may affect the quality of financial reporting. The results of the Group's internal controls are reported continuously to the audit committee, which in turn issues guidelines for the work going forward. The audit committee prepares and decides on audit issues as well as quality assures the Company's internal governance and control with respect to:

- Financial reporting
- Risk management and risk control
- Compliance
- Other internal governance and control

The Company's auditors are in charge of examining how well the overall rules for internal control are complied with in the Group's companies. The auditors also report on their findings with respect to internal control. Following the review of the auditors, the Company's auditors prepare an audit memorandum for the Board of Directors with comments on the individual companies and the Group as a whole. The auditors also personally report their findings following their review and their evaluation of the Company's internal control and application of accounting policies during one Board of Directors meeting.

Remuneration committee

Since May 2017 the Group has a remuneration committee consisting of Petter Stillström and Vilhelm Schottenius. Previously, salary levels, pension benefits, incentive issues and other terms of employment for the President and other members of executive management was dealt with by the Board of Directors in its entirety.

Remuneration of the Chief Executive Officer and other members of senior management shall consist of a market-based fixed salary. Variable compensation such as bonuses may be allowed where justified to make possible recruitment and retention of key individuals and to stimulate improvements in sales and results. Variable remuneration shall be based on predetermined and measurable criteria such as earnings and sales development. The variable remuneration may not exceed 100 percent of the fixed remuneration.

There shall be no separate fee for members of senior management for board-of-directors work in Group companies. Pension benefit shall be equal to the ITP plan, or when relating to members of senior management outside Sweden, pension benefits that are customary in the country in question.

Terms of employment for the President

Compensation to the President consists of a fixed salary and a bonus maximised to twelve monthly salaries. See Note 7. No Board of Directors fee is paid to the President. Pension benefits amount to 25 percent of the fixed salary. For the President, a mutual notice period of 12 months applies.

Remuneration of the Board of Directors

The General Meeting of Shareholders decides on fees to the directors elected by the General Meeting of Shareholders. The distribution of fees between the Chairman and other directors is shown in Note 7 of the annual report. No additional compensation has been paid to any director.

Auditor

At the 2017 Annual General Meeting, the audit firm KPMG was appointed as auditor. In conjunction with the Annual General Meeting Thomas Bohlin was appointed to serve as responsible for the audit. Thomas Bohlin's other assignments include Eton, Starsprings, Teknos, Finepart and NLY Scandinavia AB. Thomas Bohlin owns no shares in Nilörngruppen.

The audit work

The Group applies international reporting standards, International Financial Reporting Standards (IFRS), when preparing the Group's financial reporting. Auditing of the annual report, the consolidated financial statements and the accounting, the management by the Board of Directors and the President is performed in accordance with Internationals Standards Auditing (ISA) and generally accepted auditing standards in Sweden.

Operational management of the business

The Board of Directors of Nilörngruppen appoints the President of the Parent Company, who also serves as Chief Executive Officer. Written instructions establish how responsibilities are divided between the President and the Board of Directors. The President's responsibility for day-to-day operations includes ongoing investments and divestments, personnel, financial and accounting issues, day-to day contacts with the Company's stakeholders, such as authorities and the financial market, and to ensure that the Board of Directors gets the information needed to make well-founded decisions The President reports to the Board of Directors. The President has appointed a management group consisting of two persons:

- Chief Financial Officer
- Asia manager

Group management is responsible for implementation of the Group's overall strategy, ongoing business management, design and compliance with policy and risk management, financing issues and other matters incumbent upon a management group. Other issues dealt with may be corporate acquisitions and group-wide projects. The management group meets regularly to drive and follow up on current projects and business issues.

Report of the Board of Directors on internal control

General

The Board of Directors is responsible for the corporate governance work and the internal control in accordance with the Swedish Companies Act and The Swedish Code of Corporate Governance. The all-embracing purpose is to protect the Company's assets and the investment of the shareholders.

This description of internal control and risk management is submitted by Nilorn's Board of Directors and has been compiled in accordance with The Swedish Code of Corporate Governance and is thus limited to internal control of the financial reporting. The Board of Directors has chosen to integrate the report of the Board of Directors on internal control in the corporate governance report and only describe how it is organised without providing statement on how well it has worked and without review by the auditor. Nilorn's internal control structure is based on the COSO model (Committee of Sponsoring Organizations of the Treadway Commission) and assessments are made in the fields of control environment, risk assessment, control activities, information and communication, and follow-up.

Control environment

The goal of the internal control is to create a clear responsibility structure and an efficient decision-making process. An important part hereof is to define and adopt a number of basic policies, guidelines and frameworks for the Company's financial routines.

The rules of procedure for the Board of Directors and for the President establish a role and responsibility distribution aimed at effective management of business risks. The Board of Directors has also adopted a number of basic guidelines and policies of importance to the internal control, such as financial policy, accounting and reporting instructions, financial manual personnel manual, anti-corruption policy and information policy. The basic policy and governance documents are subject to ongoing review. Management regularly reports to the Audit Committee based on established routines. The Board of Directors evaluates on an ongoing basis the operations and results in the form of an appropriate reports package containing an income statement and a balance sheet and other relevant operational and financial information.

Risk evaluation

Risk evaluation is performed on an ongoing basis in the Group to identify significant risks. Risk management includes identification, analysis and efforts to prevent risks from occurring or minimise their effects. As far as the financial reporting is concerned, the most important risks are judged to be the risk of significant errors in the valuation of assets, liabilities, revenue or costs, or changed business conditions, etc. The risk analysis has identified a number of critical risks. Major focus is on purchasing and revenue processes since this is where the largest flows in the Group are.

Control activities

The Group's central staff is responsible for designing, implementing, enhancing and maintaining control routines control activities in order to effectively manage the risks that the Board of Director and management deem to be essential. The control activities are aimed at timely detection or prevention of the risk of incorrect reporting.

Nilorn has introduced a control system to verify the various processes and to ensure the accuracy of the financial reporting. To safeguard the internal controls there are both automated controls such as IT-based systems that handle authorisation rights, and manual controls in the form of, for example, reconciliation, internal Board of Directors meetings, internal audit and self-evaluation.

Detailed economic analysis of results and follow-up to plans and forecasts complement the controls and provide an over-arching confirmation of the quality of the reporting. All reporting companies have a responsible chief financial officer, or a controller responsible for the accuracy of the financial reporting from the unit. Nilorn's controller function follows up and analyses to verify that the reporting from each unit is correct, complete and timely. Presidents are not allowed to appoint or dismiss the chief financial officer and the chief financial officers report directly to the Group's chief financial officer.

The results and follow-ups of the controls are presented to and discussed by the Audit Committee. Most processes are wholly or partially centralised, such as design, purchasing, logistics, financing, IT and consolidated summaries. The Board of Directors receives regular financial reports and the financial situation of the Group and the different companies is dealt with at every Board of Directors meeting.

Information and communication

Nilorn's significant and governing documentation in the form of policies, guidelines and manuals regarding financial reporting, is communicated primarily via the intranet and the Group's finance manual.

The Board of Directors receives financial reports on a regular basis. For communication with internal and external parties there is a communications and IR policy that provides guidelines for how this communication should take place. The purpose of the policy is to ensure that all information obligations are complied with in a correct and complete manner.

Follow-up

The Board of Directors and management monitors on an ongoing basis the Group's compliance with adopted policies and guidelines. Nilorn's business units are integrated through common business and consolidated reporting systems, as well as common accounting instructions. The Group's central financial function also co-operates closely with subsidiary controllers with respect to financial statements and reporting. Nilorn has no separate internal audit function. However, Nilorn does have a defined process for evaluation and follow-up of internal control. The form of follow-up is decided by the Board of Directors, which also evaluates annually the need for a separate internal auditing function.

The Group applies international accounting standards, International Financial Reporting Standards (IFRS), when preparing the Group's reporting. An ongoing review is performed each autumn by the external auditor. Starting in 2018, the consolidated Q3 interim report is reviewed by the Company's auditor. This review follows the recommendation issued by FAR SRS.

CACTEA

Product development

Administration report

The Board of Directors and the President of Nilörngruppen AB (publ), corporate ID number 556322-3782, hereby submit the annual report and consolidated financial statements for the financial year 1 January 2017 – 31 December 2017.

Corporate governance
Nilörngruppen AB is a Swedish limited liability company with its domicile in Borås and follows the Swedish Companies Act.

Shareholders
The Annual General Meeting gives shareholders an opportunity to ask questions directly to the Chairman of the Board of Directors, the Board of Directors and the President. Invitation to the 2018 Annual General Meeting, to be held in Borås 16 May, 2018 will be advertised in nationwide daily newspapers not less than four weeks before this date. The Company responds throughout the year to inquiries from shareholders. Published documents and press releases during 2017 are available at the Company's website www.nilorn.com.

Ownership structure
As of 31 December 2017 the Company's share capital consisted of 960,000 Class A shares and 10,441,998 Class B shares. Each class A share entitles the holder to ten votes and each Class B share entitles its holder to one vote.

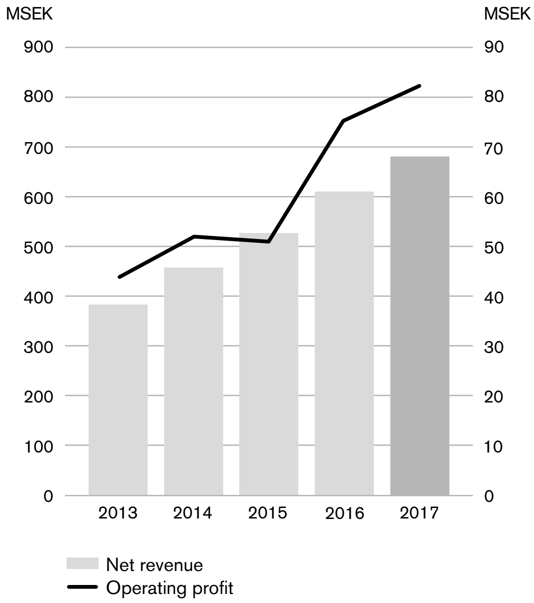
As of 31 December there were 4,227 shareholders in Nilörngruppen AB (3 327). The largest shareholder was AB Traction via a subsidiary, which held 24.5 percent of the capital and 57.0 percent of the votes.

Business
Nilörngruppen AB is an international group, established in 1977, that adds value to trademarks through branding and design in the form of labels, packaging and accessories to customers, primarily in the fashion and clothing industry. Nilorn strives to increase customer competitiveness by offering services covering all design resources, plus a logistic system that guarantees secure and timely deliveries.

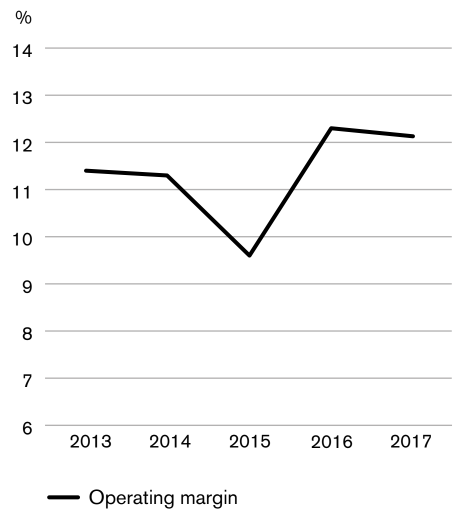
Nilorn is one of Europe's leading players with revenue of MSEK 680 (610). Nilorn delivers more than 1.5 billion labels per year of different sizes and types. Nilorn is represented with subsidiaries in Sweden, Denmark, Germany, Belgium, Great Britain, Portugal, Hong Kong, India, Turkey, Bangladesh, China and Pakistan.

Nilorn applies the motto "maximum customer satisfaction". The entire corporate structure is based on this central theme, which forms the basis of all activities within Nilorn, from design to manufacturing, sales, logistics and service.

NET REVENUE & PROFIT



OPERATING MARGIN



Summary of 2017
Order bookings
Order bookings increased by 12 percent to MSEK 716 (638).

Net revenue
Net revenue increased by 11 percent to MSEK 680 (610). The acquisition of HC Etiketter's customers affected revenue by MSEK 8, while currency fluctuations had a negative effect on revenue by MSEK 20. This means that the underlying organic growth increased revenue by 13 percent.

Profit
Operating profit, not including costs for changing listing of MSEK 3.7, amounted to MSEK 86.1 (75.0), which gives an operating margin of 12.7 (12.3) percent. Operating profit, including costs for changing listing, amounted to MSEK 82.4 (75.0), for an operating margin of 12.1 (12.3) percent.

Raw materials and goods for resale relative to revenue was 54 (53) percent. External costs grew to MSEK 96.5 (84.5), of which MSEK 3.7 is attributable to the change in listing, and personnel costs increased to MSEK 133.3 (123.7). The increase in personnel costs is explained by an enhanced organisation, especially in the area of sustainability, Retail Information Services (labels with variable data) and Client Services in order to be able to offer a maintained service level to the customers when volumes grow, and sharper focus on sustainability, both of which are in the best interest of the customer. Other external costs amounted to MSEK 14 (14) percent of revenue and personnel costs accounted for 20 (21) percent.

Depreciation increased to MSEK 6.3 (4.6) as a consequence of investments in a Bangladesh plant and acquisition of customer relationships from HC Etiketter AS.

The tax expense was MSEK 17.2 (17.7), equivalent to a tax rate of 21 (24) percent. Profit after taxes amounted to MSEK 65.0 (56.2).

Tied up capital
Capital tied up in inventories increased by MSEK 21 to MSEK 110 (89) and trade receivables increased by MSEK 14 to MSEK 76 (73). A large art of Nilorn's business is based in Asia, where both trade receivables and inventories are recorded in Hong Kong Dollar (HKD), which means that currency fluctuations will have considerable effect on capital tied up when converted to SEK. Assets are financed in local currency, however, so the effect on profit is marginal.

Cash flow, capital expenditures and financial position
Cash flow from operating activities amounted to MSEK 66 (55).

Cash flow from investment activities amounted to MSEK –23 (–17), most of which relates to investment in an enterprise system, assets and liabilities HC Etiketter and production machinery. Most of last year's capital expenditures related to the factory in Bangladesh. Net interest-bearing assets amounted to MSEK 8 at year-end ((10). Cash and cash equivalents amounted to MSEK 45 at year-end (32). In addition hereto there were unutilised bank credit facilities totalling MSEK 51 (50).

Equity amounted to MSEK 154 at year-end (138). The difference is made up of the year's profit of MSEK 65 (59), dividend paid MSEK –41 (–34) and translation differences of MSEK –8 (3).

The equity ratio at year-end stood at 49 percent (51).

Reporting of segments
The Group's segments are geographic areas. The table in Note 3 shows revenue and results. During the year external revenue restated to SEK grew by 16 percent in Asia, by 5 percent in other Europe and by 6 percent in the Nordic region. The relatively large increase in Asia is a function of large customers having a growing share of their deliveries in Asia.

Operating profit increased in Asia by MSEK 4.0, equivalent to 12 percent to MSEK 37.4, Other Europe by MSEK 5.4 equivalent to 17 percent to MSEK 37.4and the Nordic Region by MSEK 1.0 equivalent to 7 percent to MSEK 15.3.

Personnel
The average number of employees in the Group at year-end 2017 was 444 (358), of whom 208 (173) were women. 257 (167) were engaged in production and warehousing. For additional details refer to Note 7.

Since May 2017 there is a compensation committee for handling salary levels, pension benefits, incentive matters and other terms of employment for the President and other members of Group management.

Significant events
- The Board of Directors has decided to propose to the Annual General meeting a dividend of SEK 4.00 (3.60) per share.
- Production in Bangladesh was started at the end of the second quarter. After initial start-up costs operations have been recording profitable operations in recent months.
- Nilorn has the 4 April 2018 change the listing from First North Premier to OMX Small Cap.
- Acquisition of inventories and customer register of HC Etiketter A/S for, preliminarily, MDKK 6.5.
- Strong development on the Nordic Region and Germany, while the increase in Britain is more marginal.
- Positive result in all operative Nilorn companies (with the exception of Bangladesh).

Transactions with closely related parties
During the year Nilorn sold services for TSEK 109 (491) to the principal owner, AB Traction with subsidiaries. No transactions with a significant effect on the Group's profit and financial position have occurred during the period. The Parent Company's transactions with subsidiaries relate to design, product development, IT and other services.

For information about salaries and other remuneration to management and the Board of Directors, see Note 7

Research and development
Costs for research and development are expensed and were less than one percent of net revenue for 2017 (<1 percent).

Risks and uncertainty factors
Nilorn is dependent on economic developments in individual markets were the Company conducts business as well as the overall economic development in the world. Political decisions, such as the introduction of quotas and custom duties, may also affect the Company's economic development, at least in the short term.

Nilorn uses external suppliers, primarily in the Far East, which means that price changes of freights, raw materials, wages and salaries, etc. may affect the Company's economic development. Nilorn has built a broad network of suppliers feels that there is no significant risk with respect to the supply of products. Because of its international operations the Group is also affected by currency developments. Such effects are especially significant when converting revenue and profits to SEK, which is the Group's functional currency, although revenue and costs are in relatively close balance in each respective currency.

Financial risks
Nilorn is exposed to risks related to financial instruments, such as cash and cash equivalents, trade receivables, trade payables and debts. Risks related to such instruments are primarily:

- Interest risks relating to cash and cash equivalents and liabilities,
- Financing risks relating to the Group's capital needs,
- Currency risks relating to profits and net investments in foreign subsidiaries, and
- Credit risks relating to financial and commercial activities.

Handling and monitoring the financial risks is centralised to the head office accounting and finance department in Borås, market trends of interest rates and currencies are continuously monitored. The department acts in accordance with the financial policy adopted by the Board of Directors. Also refer to the description of various risks in Note 2.

Sustainability report
The sustainability work at Nilorn is closely related to customers, employees and other stakeholders. For Nilorn sustainability means working to fulfil the needs of people and society, without jeopardising the opportunity for coming generations to fulfil these needs and includes work with the environment, anticorruption, personnel, social conditions and human rights. Nilorn's efforts with sustainability is based on managing risks as well as opportunities in relation to these areas. The risks deemed to be of great important to the business, and how they are handled, are reported in Note 2. In other respects, risks are included as a part of which sustainability issues we should prioritise.

Our sustainability efforts are governed by a Group-wide Sustainability Manager based at the Swedish head office and a Supply, Sourcing and CSR Manager based in Hong Kong, both of whom report to the Company's management.

The policies and guidelines that primarily concern sustainability efforts are our sustainability policy, our overall HR policy, the equality policy, the code of conduct with ethical guidelines for personnel, and the supplier behaviour code together with other documented requirements that Nilorn's suppliers are expected to comply with. With these we cover the environment, anti-corruption, personnel, social conditions as well as human rights.

In accordance with ÅRL 6, Chapter 11§, Nilorn has chosen to establish the statutory sustainability report as a separate report from the Annual Report. The sustainability report is available at http://www.nilorn.com/sv/hallbarhet.

The Group's outlook for 2018

Nilorn's order bookings were at satisfactory levels in 2017 with particularly strong growth in the German and Scandinavian markets. The sales organisations have been strengthened in several countries, which has had a positive effect and these efforts will continue in 2018. The pace of change is dependent on the business cycle and earnings performance. During 2017 expansion of the production facility in Bangladesh was completed and during 2018 the production capacity is expected to grow gradually. The aim of the investment is to ensure the quality of deliveries in Bangladesh, which is a market that is growing all the faster, and to ensure good corporate social responsibility.

Nilorn will continue to invest in sustainability with the goal of offering the Market's best solutions in the area. Nilorn will also add more resources to RFID (intelligent labels), where we are working on several customer projects that hopeful will lead to concrete orders.

The Parent Company's business

The Parent Company's business consists essentially consists of managing group-wide functions such as branding and design, product development, finance, administration, information and IT. The number of employees at year-end was 21 (18).

Dividends from subsidiaries were received during the year in the amount of MSEK 52 (26).

Net revenue for the period January-December was MSEK 21 (16). The operating result was MSEK –7.4 –4.3) and profit after net finance items was MSEK 44 (22).

Proposed allocation of profit (TSEK)

The Company's annual accounts will be presented for adoption at the Annual General Meeting to be held 16 May 2018.

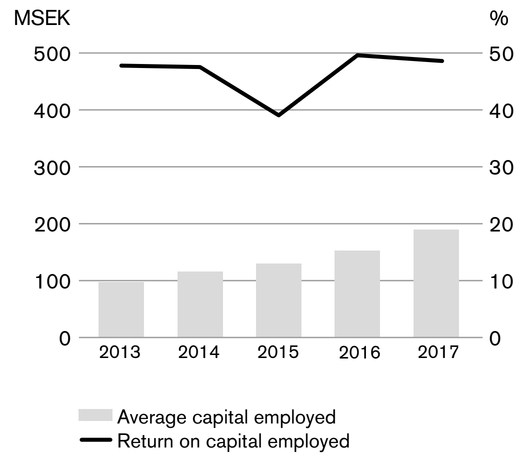
The following earnings in the Parent Company are available for allocation:

Retained earnings	**63,934**
Dividend 2017	-41,047
Profit for the year	51,256
Distributable funds	**74,143**

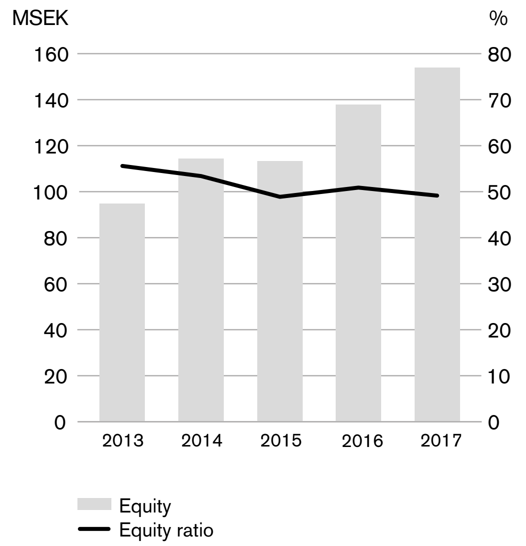
The total dividend proposed by the Board of Directors amounts to MSEK 45.6, equivalent to SEK 4.00 (3.60) per share. The consolidated equity attributable to the Parent Company's shareholders amounts to MSEK 153.9 as of 31 December 2017 and unrestricted equity in the Parent Company was MSEK 74.1. Taking the above into account, and what has otherwise come to the knowledge of the Board of Directors, the assessment of the Board of Directors is that the proposed dividend is justifiable considering the demands that the nature, scope and risks of the business poses on the size of the Company's and the Group's equity, as well as on the Group's consolidation needs, liquidity and financial position in other respects.

Regarding the Group's and the Parent Company's results and financial position in other respects, reference is made to the following income statements, balance sheets and accompanying notes to the financial statements.

CAPITAL EMPLOYED



EQUITY RATIO



NORKA
Product development

Consolidated Income Statement

Amounts in SEK thousand	Note	2017	2016
	1, 2		
Net revenue	3, 32	680,388	610,477
Other operating income	5	6,139	5,616
Total operating revenue		**686,527**	**616,093**
Raw materials, supplies and goods for resale		–364,600	–324,372
Other external costs	28	-96,462	-84,500
Personnel costs	7	–133,311	–123,714
Depreciation and amortisation	9, 10	–6,287	–4,622
Other operating expenses	6	–3,458	–3,873
Operating profit	**3**	**82,409**	**75,012**
Financial income	3, 26	925	347
Financial expense	3, 27	–1,092	–1,420
Net finance items		**–167**	**–1,073**
Profit before taxes		**82,242**	**73,939**
Taxes	3, 8	–17,219	–17,717
Profit for the year		**65,023**	**56,222**
Attributable to:			
The Parent Company's equity holders		65,023	56,222
Average number of shares outstanding in thousands		11,402	11,402
Average number of shares outstanding in thousands after dilution		11,402	11,402
Earnings per share, SEK		5.70	4.93
Earnings per share, SEK, after dilution		5.70	4.93
Dividend per share, SEK (for 2017, as proposed by the Board of Directors)		4.00	3.60

Consolidated Report on Comprehensive Result

Amounts in TSEK	2017	2016
Profit for the year	65,023	56,222
Other comprehensive result that can be included in profit for the year		
Translation differences	–7,832	2,660
Items not attributable to profit for the year		
Revaluation of defined benefit pension scheme	–22	–222
Comprehensive result for the period	**57,169**	**58,660**
Comprehensive result for the period attributable to the Parent Company's		
equity holders	57,169	58,660

Consolidated Balance Sheet

Amounts in SEK thousand	Note	2017	2016
ASSETS	1, 2		
Non-current assets			
Intangible non-current assets	9, 32	14,673	2,886
Tangible non-current assets	10	43,106	40,766
Shares in associated companies	12	482	485
Long-term receivables	13	2,307	2,084
Deferred tax assets	8	2,298	3,307
Total non-current assets		**62,866**	**49,528**
Current assets			
Inventories	15	110,017	88,891
Trade receivables	16	76,238	73,370
Other receivables	16	4,627	6,767
Current tax assets		5,182	5,261
Prepaid expenses and accrued income	17	8,650	12,048
Derivative instruments	30	199	206
Cash and cash equivalents		44,837	35,210
Total current assets		**249,750**	**221,753**
TOTAL ASSETS		**312,616**	**271,281**
EQUITY AND LIABILITIES	1, 2		
Equity			
Share capital		2,850	2,850
Other contributed capital		43,231	43,231
Reserves		–5,760	2,072
Retained earnings, including profit for the year		113,592	89,638
Equity attributable to the Parent Company's equity holders		**153,913**	**137,791**
Total equity		**153,913**	**137,791**
Long-term liabilities			
Long-term provisions	19	760	1,060
Deferred tax liabilities	8	482	1,157
Other non-interest-bearing liabilities		-	2,818
Total long-term liabilities		**1,242**	**5,035**
Current liabilities			
Short-term interest-bearing liabilities	18, 31	35,677	25,500
Trade payables	31	61,721	52,783
Current tax liabilities		4,509	3,322
Other non-interest-bearing liabilities		10,703	4,597
Accrued expenses and prepaid income	20	44,851	42,253
Total current liabilities		**157,461**	**128,455**
TOTAL EQUITY AND LIABILITIES		**312,616**	**271,281**

Changes in Consolidated Equity

Amounts in SEK thousand	**Share capital**	**Other contributed capital**	**Reserves**	**Retained earnings incl. Profit for the year**	**Total**	**Total equity**
EQUITY 2015-12-31	2,850	43,231	–588	67,844	113,337	113,337
Profit for the year				56,222	56,222	56,222
Other comprehensive result						
Translation differences during the period			2,660		2,660	2,660
Revaluation of planned benefit pension scheme				–222	–222	–222
Transactions with shareholders						
Dividend				–34,206	–34,206	–34,206
EQUITY 2016-12-31	2,850	43,231	2,072	89,638	137,791	137,791
Profit for the year				65,023	65,023	65,023
Other comprehensive result						
Translation differences during the period			–7,832		–7,832	–7,832
Revaluation of planned benefit pension scheme				–22	–22	–22
Transactions with shareholders						
Dividend				–41,047	–41,047	–41,047
EQUITY 2017-12-31	2,850	43,231	–5,760	113,592	153,913	153,913

Classification of equity

Share capital

The share capital item includes the Parent Company's registered share capital. The share capital consists of 960,000 Class A share (quotient value, SEK 0.25 each) and 10,441,988 Class B shares (quotient value, SEK 0.25 each). The number of shares outstanding increased during 2015 through a split 4:1, i.e. for new shares for each one old share. There was no change in the distribution of Class A shares and Class B shares during the year.

Other contributed capital

Transactions during the year consist of issuing shares at a premium. The amount included in Other contributed capital thus includes capital received in excess of the nominal amount of the issue in its entirety.

Reserves

Reserves consist in their entirety of translation differences attributable to restatement of foreign subsidiaries in accordance with IAS 21.

Retained earnings

Retained earnings are the accumulated profits and losses generated in total by the Group, less dividends paid.

Capital management

The Group's equity, which is attributable to the equity holders of the Parent Company in its entirety, at year-end amounted to SEK 153,913,000 (137,791,000). Nilorn's financial strategy is to create to create sound financial conditions for the Group's operations and development. For 2017 the return on equity was 44.6 percent (44.8) and the equity ratio was 49.2 percent (50.8).

The Board of Directors proposes a dividend of SEK 4.00 per share, a total of SEK 47,888,000 for 2017.

Consolidated Cash Flow Statement

Amounts in SEK thousand	**2017**	**2016**
Operating activities		
Operating profit	82,409	75,012
Adjustment for items not included in cash flow		
Depreciation/amortisation/impairment charges	6,287	4,622
Capital gains/losses on non-current assets	481	-
Other items not affecting cash and cash equivalents	2,566	38
	91,743	**79,672**
Interest income	1,051	347
Interest expense	−1,218	−1,420
Taxes paid	−19,831	−17,563
Cash flow from operating activities before changes in working capital	**71,745**	**61,036**
Cash flow from changes in working capital		
Inventories	−28,513	−5,529
Trade receivables	−10,267	−12,136
Other short-term receivables	6,634	1,253
Trade payables	18,277	3,819
Other liabilities	8,352	6,071
Cash flow from operating activities	**66,228**	**54,514**
Investment activities		
Acquisition of intangible non-current assets	−12,493	−2,526
Acquisition of tangible non-current assets	−10,844	−15,264
Acquisition of financial non-current assets	13	53
Received on sale of tangible non-current assets	887	353
Change in long-term receivable	−223	−13
Cash flow from investment activities	**−22,660**	**−17,397**
Financing activities		
Repayment of/raising loans	10,177	−1,012
Dividend paid	−41,047	−34,206
Cash flow from financing activities	**−30,870**	**−35,218**
Cash flow for the year	**12,698**	**1,899**
Cash and cash equivalents at beginning of year	35,210	31,548
Translation difference in cash and cash equivalents	−3,071	1,763
Cash and cash equivalents at year-end	**44,837**	**35,210**

** Cash and cash equivalents are defined as bank deposits and short-term investments with a maturity of less than three months.*

Parent Company Income Statement

Amounts in SEK thousand	Note	2017	2016
	1, 2		
Net revenue	4	20,716	16,397
Other operating income	5	6,906	5,854
		27,622	**22,251**
Raw materials, supplies and goods for resale	4	–156	–180
Other external costs	28	–13,480	–7,312
Personnel costs	7	–20,688	–18,512
Depreciation, amortisation and impairment charges	9, 10	-663	–536
Operating result		**–7,365**	**–4,289**
Result from financial investments			
Result from shares in Group companies	29	51,670	25,962
Interest income and similar items	26	1,393	1,129
Interest expense and similar items	27	–1,969	–1,216
Profit after finance items		**43,729**	**21,586**
Year-end appropriations	24	7,500	2,384
Taxes on the year's profit	8	27	302
Profit for the year		**51,256**	**24,272**

Profit for the year coincides with comprehensive result for the year.

Parent Company Balance Sheet

Amounts in SEK thousand	Note	2017	2016
ASSETS	1, 2		
Non-current assets			
Intangible non-current assets	9	8,857	2,769
Tangible non-current assets	10	1,940	1,244
Financial non-current assets			
Shares in Group companies	11	98,376	98,142
Due from Group companies	14	82	1,048
Deferred tax assets	8	446	390
Total financial non-current assets		*98,904*	*99,580*
Total non-current assets		**109,701**	**103,593**
Current assets			
Short-term receivables			
Due from Group companies		92,193	51,657
Other receivables		3,920	4,227
Prepaid expenses and accrued income	17	901	694
Derivative instruments	30	199	206
Total short-term receivables		*97,213*	*56,784*
Cash and cash equivalents		-	186
Total current assets		**97,213**	**56,970**
TOTAL ASSETS		**206,914**	**160,563**
EQUITY AND LIABILITIES	1, 2		
Equity			
Restricted equity			
Share capital		2,850	2,850
Total restricted equity		*2,850*	*2,850*
Unrestricted equity			
Retained earnings		22,887	39,662
Profit for the year		51,256	24,272
Total unrestricted equity		*74,143*	*63,934*
Total equity		**76,993**	**66,784**
Untaxed reserves	23	**2,186**	**5,186**
Current liabilities			
Interest-bearing liabilities to credit institutions		40,454	22,242
Trade payables		1,485	973
Due to Group companies		75,336	57,240
Other non-interest-bearing liabilities		1,137	1,156
Accrued expenses and prepaid income	20	9,323	6,982
Total current liabilities		**127,735**	**88,593**
TOTAL EQUITY AND LIABILITIES		**206,914**	**160,563**

HARRY FITZROY

Product development

Changes in Parent Company Equity

Amounts in SEK thousand	Share capital	Unrestricted equity	Total equity
EQUITY 2015-12-31	**2,850**	**73,868**	**76,718**
Profit for the year	-	24,272	24,272
Dividend	-	–34,206	–34,206
EQUITY 2016-12-31	**2,850**	**63,934**	**66,784**
Profit for the year	-	51,256	51,256
Dividend	-	–41,047	–41,047
EQUITY 2017-12-31	**2,850**	**74,143**	**76,993**

Profit for the year coincides with comprehensive result for the year.

Parent Company Cash Flow Statement

Amounts in SEK thousand	**2017**	**2016**
Operating activities		
Operating result	–7,365	–4,289
Adjustment for items not included in cash flow		
Depreciation/amortisation/impairment charges	663	536
Other items not affecting cash and cash equivalents		
	–6,702	**–3,753**
Interest income	1,393	1,129
Interest expense	–1,969	–1,216
Paid taxes	963	18
Cash flow from operating activities before changes in working capital	**–6,315**	**–3,822**
Cash flow from changes in working capital		
Other short-term receivables	–40,429	–14,395
Trade payables	512	187
Other current liabilities	20,418	37,355
Cash flow from operating activities	**–25,814**	**19,325**
Investment activities		
Acquisition of in tangible non-current assets	–6,306	–2,412
Acquisition of tangible non-current assets	–1,143	–379
Acquisition of and contributions to Group companies	–234	–3,693
Change in long-term receivables	966	–51
Cash flow from investment activities	**–6,717**	**–6,535**
Financing activities		
Net change in interest-bearing short-term loans	18,212	–6,164
Dividend income	51,670	25,962
Group contributions, net	3,510	378
Paid dividend	–41,047	–34,206
Cash flow from financing activities	**32,345**	**–14,030**
Cash flow for the year	**–186**	**–1,240**
Cash and cash equivalents at beginning of year	186	1,426
Cash and cash equivalents at year-end	**0**	**186**

NOTES

Contents

1) Accounting policies

The consolidated financial statements for Nilörngruppen AB for the financial year ending 31 December 2017 have been approved by the Board of Directors and the President for publication on 12 April 2018 and will be presented to the 2018 Annual General Meeting for adoption. The Parent Company is a Swedish corporation (publ.), domiciled in Borås, Sweden.

Regulations applied

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as approved by the EG Commission for application within EU. In addition, RFR 1 Supplementary Accounting Rules for Groups of The Swedish Financial Reporting Board (RFR) has been applied, which means that certain supplementary information is provided in the consolidated financial statements. The principles have also been applied consistently within the corporate group. The consolidated financial statements are mainly based on acquisition values, except in the case of certain financial assets and liabilities, which are valued at fair values. The financial reports have been prepared using Swedish kronor (SEK), which is Nilorn's functional currency and also its reporting currency.

Preparation of financial reports according to IFRS requires management to make assessments, estimates and assumptions. Critical estimates and assessments are usually based on historical experience and on future expected events. Information about areas estimates and assessments applied include uncertainty is found in note 1.

Non-current assets, long-term liabilities and provisions essentially consist of amounts expected to be recovered or paid more than twelve months after the balance sheet date. Current assets, current liabilities and provisions essentially consist of amounts expected to be recovered or paid within twelve months of the balance sheet date.

Group

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Since Nilörngruppen AB is a company within EU, only IFRS approved by EU are applied. Supplementary information in accordance with RFR 1 of the Swedish Financial Reporting Board has been taken into account.

Shareholder contributions are carried directly to the recipient's equity and are capitalised as shares with the donor, to the extent impairment is not required.

New IFRS had no effect on the financial reports for 2017. A number of new and amended IFRS will not take effect until the next following financial year and have not been pre-applied when preparing the financial reports.

At the time when the consolidated financial statements as of 31 December 2017, several standards, interpretations and amendments have not yet come into force, or been adopted by EU. None of these are expected to have any significant impact on the Group' financial reports, except for:

• IFRS 15 ”Revenue from contracts with customers” is a new framework for reporting revenue and related disclosure requirements. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and shall be applied from 1 January 2018. The basic premise is that everything begins with an agreement between two parties to sell a good or service. Initially, a customer agreement must be identified, which with the seller generates an asset (rights, a promise to receive compensation) and a liability (an undertaking, promise, to transfer goods/services). According to this model the company then reports revenue and thereby demonstrates that the company will fulfil a commitment to deliver the promised goods to the customer. In reviewing the five-step model, management has come to the conclusion that IFRS 15 has a marginal effect on Nilorn. The customer contracts stipulate that Nilorn has fulfilled its commitment upon delivery of the goods. Control is not transferred gradually but only upon sale and the transaction cost also arises contemporaneously with the transfer. The product is also not divisible, which means that it is not possible to distinguish different elements in terms of revenues or costs.

• IFRS 9 Financial Instruments consists of three parts: Classification and Measurement, Impairment and Hedging, and replaces IAS 39 Financial Instruments: Recognition and Measurement. Application of IFRS 9 will affect the Group's financial reports to a limited extent. The new standard will facilitate application of hedge accounting because it will make it easier to reflect the Company's risk management activities in the financial reporting. Hedging of future currency flows have so far been marginally applied by Nilorn and the new standard will therefore only have a marginal effect on Nilorn. The standard will take effect 1 January 2018.

• IFRS16 Leases will replace IAS 17. This standard requires that, with a few exceptions, assets and liabilities related to all leases are reported in the balance sheet and is applicable for financial years starting 1 January 2018 or later. For Nilorn the largest item is attributable to rent of office and warehouse space. However, it is only a rather brief term of the contracts in Hong Kong that accounts for a relatively large portion of the Group's rental cost. The sum total of future lease payments amounts to MSEK 25 (refer to Note 25), with an estimated present value of MSEK 23 calculated with 3 percent discount interest.

The Parent Company

The Parent Company's annual accounts are prepared in accordance with the Swedish Annual Accounts Act and application of RFR 2. In accordance with this recommendation, the Parent Company shall prepare its reports in accordance with IFRS as issued by IASB and interpretations (IFRIC) adopted by EU to the extent they are not in conflict with the Swedish Annual Accounts Act. Unless otherwise stated, the accounting principles have been applied consistently on all periods.

In Sweden group contributions are deductible as opposed to shareholder contributions. Group contributions are reported in such a manner that they essentially reflect the transaction's economic substance, which means that group contributions received and rendered and their current tax effect are reported in the income statement. The Parent Company reports all holdings in subsidiaries at cost after deduction of any accumulated impairment.

Due to the relationship between the accounting and taxation, the deferred tax liability on untaxed reserves is reported as a part of untaxed reserves.

Bases for consolidation

The consolidated financial statements include Nilörngruppen AB and its subsidiaries. The financial reports for the Parent Company and the subsidiaries included in the consolidated financial statements refer to the same period and are prepared in accordance with the accounting policies the apply to groups. All intra-group transactions, revenue, costs, gains and losses arising in transactions between companies included in the consolidated financial statements are eliminated in their entirety.

A subsidiary is included in the consolidated financial statements from the time of acquisition, which is the day when the Parent Company the date when the Parent Company acquires a controlling influence, and is included in the consolidated financial statements until the day when the controlling influence ceases. Subsidiaries are included in the consolidated financial statements according to the purchase method of accounting. Inter alia, this means that the acquisition value is allocated to acquired assets, assumed commitments and liabilities at the acquisition date on the basis of their fair values. The Group's equity includes the Parent Company's equity and the portion of the subsidiaries" equity added after the time of acquisition. Foreign subsidiaries report their financial position and results to the Parent Company in its own currency. Translation then takes place in accordance with the current rate method, which means that the balance sheet is converted at the exchange rate prevailing on the balance sheet date and the income statement is converted using the average for the financial year. Transactions in foreign currency converted to functional currency at the exchange rate prevailing on the transaction day. Foreign exchange gains and losses arising in transactions in foreign currency, and upon translation of monetary assets and liabilities in foreign currency at the rate prevailing on the balance sheet date are reported in the income statement. The income statements and balance sheets of all Group companies using another functional currency than the reporting currency are translated to the Group's currency by translating all balance sheet items except for the net result at the rate prevailing on the balance sheet date and the net result is translated using the average rate of exchange. All arising exchange rate differences are reported as part of other comprehensive result.

The consolidated financial statements contain no year-end allocations in the income statement or any untaxed reserves in the balance sheet. The tax portion of year-end allocations is treated as tax on the year's result, with the rest carried to the year's result. The tax potion of untaxed reserves is dealt with in a similar way, while the remainder is included in profit for the year. The tax portion of untaxed reserves is dealt with in a similar manner as a deferred tax liability, while the remaining portion is included in consolidated equity. The deferred tax liability has been calculated using current tax rates in each respective country.

The Group's accounting principles are consistently applied to all reporting and consolidation of subsidiaries.

Note 1 continued

Non-current assets

Intangible and tangible non-current assets

Intangible and tangible non-current assets are reported as assets in the balance sheet if it is likely that future economic benefits will accrue to the company and if the cost of the asset can be calculated in a reliable manner.

Intangible and tangible non-current assets are valued at cost, less depreciation according to plan and any impairment. Depreciation according to plan is calculated based on the acquisition value and is effected after a for each asset individually assessed period of use. Residual values have been deemed irrelevant and are not taken into account. Depreciation commences from the date of acquisition.

Depreciation commences on the date of acquisition. The following intervals shows the assessment made for each asset class.

Intangible assets	*10-20 %*
Buildings	*1.25-10 %*
Plant and machinery	*10-20 %*
Equipment, tools fixtures and fittings	*20-33.3 %*

Gains or losses arising upon sale or disposal of intangible and tangible non-current assets consist of the difference between the selling price and the carrying value. The result is reported as other operating income /-expense.

Impairment of intangible and tangible non-current assets

The Group continuously evaluates the book values of non-current assets. If there is any indication that a non-current asset's value has declined, the recovery value of the asset is determined. By recovery value is meant the higher of an asset's net realisable value and its value in use. The asset is depreciated by the amount by which the asset's carrying value exceeds its recovery value and the cost is carried to profit and loss. An asset's value in use is calculated by discounting future cash flows. In order to determine the value in use, assets are grouped to cash-generating units, which is the smallest group of assets which gives rise to current payment surpluses independent of other assets or groups of assets. The basis for grouping into cash-generating units is the geographic segments. The calculation and testing as of 31 December 2017 was performed based on an internal assessment of cash flows five years forward and thereafter using an assumed growth rate of 1 percent. The discount rate before taxes was set at 7-13 percent depending on market.

Financial instruments

Financial instruments are valued in the Group in accordance with the rules in IAS 39. IAS 39 classifies financial instruments in categories. Categorisation depends on the purpose of the acquisition of the financial instrument. Management decides on categorisation at the original time of acquisition of the financial instrument. The categories are as follows: Financial assets measured at fair value via profit and loss, loan receivables and trade receivables, investments held until maturity, financial assets that can be sold, financial liabilities measured at fair value via profit and loss and other financial liabilities.

Nilorn's financial instruments include cash and cash equivalents, long-term receivables and other receivables, trade receivable, leasing commitments and loan liabilities. The carrying value is a reasonable estimate of fair value.

A financial asset is classified either as:

- Financial assets valued at fair value via profit for the year.
- Loans and receivables valued at accrued acquisition value.
- Financial assets held to maturity valued at acquisition value.
- Financial assets available for sale valued at fair value over total profit.

There are no financial assets held to maturity or financial assets available for sale.

A financial liability is classified either as:

- Financial liabilities valued at fair value via profit for the year.
- Financial liabilities valued at accrued acquisition value.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and immediately available balances with banks and similar institutions, and liquid investments maturing no later than three months from the time of acquisition, only minimally exposed to risk of value fluctuations. Cash and cash equivalents belong to the category loan receivables and trade receivables.

Long-term receivables and other receivables

Long-term receivables and other short-term receivables are receivables that arise when the company makes available money without any intention of trading in the receivable. If the expected holding period is longer than one year, they are long-term receivables and if it is shorter they are categorised as other receivables. These receivables belong to the category loan receivables and trade receivables.

Trade receivables

Trade receivables are carried at the amounts expected to be collected, less a deduction for doubtful claims assessed individually. The expected maturity of trade receivables is short so they are carried at nominal value without discounting. Impairment of trade receivables is recognised in operating expenses. Trade receivables are entered in the balance sheet when the relative invoice has been sent. These receivables belong to the category loan receivables and trade receivables.

Liabilities

Liabilities are classified as other financial liabilities, which means that they initially are carried at the amount received after deduction of any transaction costs. After the acquisition date loans are valued in accordance with the effective compound rate method. Long-term liabilities have an expected maturity of more than one year, while short-term liabilities have an expected maturity of less than one year. Financial liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if an invoice has not yet been received. Trade payables are recognized when an invoice is received. Liabilities are removed from the balance sheet when the contractual obligation is fulfilled or otherwise ceases. These liabilities belong to the category other financial liabilities.

Derivative instruments

Nilorn's derivative instruments consist of forward foreign exchange contracts that are valued at market value. They belong to the category financial assets valued at fair value via profit and loss and financial liabilities valued at fair value via profit and loss, respectively. Also refer to Note 30.

Measurement
Impairment of financial assets occurs when there is objective evidence of impairment, such as in the form of cessation of an active market, or if it is unlikely that the debtor will be unable to meet its obligations. In the case of short-term loans and investments fair value is deemed to coincide with book value since a change in the market interest rate will have no material effect on the market value.

Associated companies
Investments in associated companies where the Parent Company, directly or indirectly, owns between 20 and 50 percent of the voting power, or otherwise has significant influence.

Associated companies are reported in accordance with the equity method.

In the consolidated balance sheet shares in associated companies are carried as a separate item among financial non-current assets.

Revenue recognition
A major portion of Nilorn's revenue is obtained from the sale of goods. Sales are recognised when significant risks and benefits have been transferred to the buyer, when the seller no longer has any control over the goods sold, when the value of the transaction can be measured in an accurate manner and it is probable that the economic benefits associated with the sale will accrue to the benefit of the Company. The value of the transaction is affected by, inter alia, discounts granted and exchange rate differences.

Revenue from services provided is recognized when the services are performed. Intra-group sales are eliminated in the consolidated financial statements.

Leasing
Leasing agreements are classified in the consolidated financial statements either as financial or operating leases. Financial leasing exists when the economic risks and benefits associated with ownership essentially have been transferred to the lessee. In all other cases it is a matter of operating leasing. Nilorn has no significant financial leasing agreements as lessee. Operating leases include rental of premises.

Financial income and expense
Financial income and expense consists of interest income on bank deposits and receivables, as well as interest-bearing securities, interest expense on loans, exchange rate differences, and changes in the value of financial investments. Commissions received or paid in connection with issuance/raising of loans are allocated over the life of the loan. Payments under financial leases area are allocated as either interest expense or repayment of principal. The interest expense is recognized as a financial cost. Interest income on receivables and interest expense on liabilities are calculated using the effective rate method. The effective interest rate is the rate that discounts the estimated future receipts and payments over a financial instrument's expected maturity to the financial asset's or liability's net value. Transaction costs, including issuing costs, are expensed directly when receivables and liabilities are valued at fair value via profit and loss and are allocated over the maturity when measured at amortised cost.

Segment reporting
Geographic markets provide products or services within a special economic environment subject to risks and returns that differ from the risks and the returns that apply to units active in other economic environments. Nilorn's geographic areas constitute segments. The market grouping made reflects the natural boundary of the markets in the Group. The markets are the Nordic Region, Other Europe and Asia. The Nordic Region and Other Europe consists of sales units. Segment Asia has no sales unit, but consists primarily of sourcing, warehousing and distribution. The grouping reflects the Company's internal organisation and reporting system. Operating expenses not included in the segments are recognised as Group-wide costs and include primarily costs for Group management, central staffing, etc. Intra-segment sales are on market terms and at market prices.

Inventories
Inventories are valued at the lower of cost and market, i.e. at the lower of cost and fair value. The first-in-first-out principle is applied for determining cost. Fair value consists of estimated selling value, less estimated selling cost.

Taxes
The Group uses the balance sheet method to calculate deferred tax assets and tax liabilities. The balance sheet method means that calculations are made based on the tax rates prevailing on the balance sheet date applied to temporary differences between and asset's or a liability's book and tax value, and tax loss carryforwards. Deferred tax assets are recognised in the balance sheet only up to the value that can probably be utilised within the foreseeable future. An individual review is made for each company. When calculating deferred taxes the current nominal tax rate in each country is used.

The individual companies' untaxed reserves, split between equity and deferred taxes, are recognized in the consolidated balance sheet. The taxes attributable to the year's change in untaxed reserves is recognised in the consolidated income statement as deferred taxes.

The tax legislation in certain countries allows provision to separate reserves and funds. In this way companies can within certain limits use and retain reported profits in the business without making them subject to immediate taxation. Such untaxed reserves become subject to taxation only when utilised for a purpose other than covering losses.

The Group's total taxes in the income statement consist of current taxes on the taxable profit for the period and deferred taxes. The deferred taxes essentially consist of changes in deferred tax assets relating to tax loss carryforwards and other temporary differences, and any change in untaxed reserves.

Contingent liabilities
A contingent liability is recognised when there is a possible undertaking due to events that have occurred and the existence of which are confirmed only by one or more future events, or when there is an undertaking not recognised as a liability or provision because it is improbable that an outflow of resources will be required.

CLEAR AS MUD

Product development

Note 1 continued

Provisions

Provisions are carried in the balance sheet when the company has a legal or informal undertaking as a result of an event and when it is probable that an outflow of resources will be demanded to settle the commitment and that a reliable estimate if the amount can be made. The provision is recognised in the amount corresponding to the best estimate of the payment required to settle the commitment. Provisions are carried in the balance sheet as other short-term and long-term liabilities.

Pensions

In Nilorn there are mostly defined contribution pension schemes. The Swedish companies switched during the year from a planned benefit ITP plan to a defined contribution ITP plan. There are planned benefit pension schemes in Turkey. The year's pension cost and the present value of defined benefit obligations for the employees in Turkey have been calculated using the Projected Unit Credit Method. For further information, refer to Note 19.

The Group's payments for defined contribution pension schemes are expensed in the period during which the employees have performed the services the fee relates to. The Group's total cost for defined contribution pension schemes is TSEK 6,474 (5,195), of which premiums paid in Sweden amount to TSEK 3,813 (2,503).

Transactions with closely related parties

During 2017 Nilörngruppen AB sold services to AB Traction and its subsidiaries for TSEK 109. From the perspective of the Group, there are no other transactions with closely related parties during 2017. The Parent Company's transactions with subsidiaries relate to design, product development, IT and other services.

For information about salaries and fees to management and the Board of Directors, refer to Note 7.

Important assessment and judgments

Estimates and assumptions regarding the future that affect the balance sheet and income statement are made when preparing the accounts according to IFRS.

These assessments are based on historical experience and the various assumptions that management and the Board of Directors deem to be reasonable under prevailing conditions. In cases when it is not possible to determine the carrying amount of assets and liabilities through information from other sources, such assessments and judgments constitute the basis for the valuation. It other assumptions are made, or other circumstances arise, the actual outcome may differ from these judgments.

Judgments may have a significant effect on Nilorn's profits and financial position especially in the area of taxes and disputes, and in measuring trade receivables.

Valuation of tax loss carryforwards

As of 31 December 2017 the group has tax loss carryforwards amounting to TSEK 30,198. These tax loss carryforwards have been investigated and it has been judged that tax loss carryforwards amounting to TSEK 3,179 can be offset against future taxation. Deferred tax assets attributable to these tax loss carryforwards amount to TSEK 699 and refer to tax loss carryforwards in Sweden, which can be utilized indefinitely. The businesses in Sweden are expected to generate future profits. Nilorn is therefore is therefore of the opinion that factors which convincingly suggest that these tax loss carryforwards can be used to offset future taxable surpluses. The remaining tax loss carryforwards amounting to TSEK 27,019 have not been taken into account when calculating the deferred tax asset. At present the judgment is that it will not be possible to utilise these tax loss carryforwards for the foreseeable future.

Disputes

Nilorn is not involved in any disputes.

Trade receivables

Receivables are reported net after making a provision for doubtful claims. The net value reflects the amounts expected to be collected based on circumstances known on the balance sheet date. Changes in circumstances, for example an increase in defaults, or changes in significant customer's financial position, may entail significant discrepancies in the valuation. At year-end 2017 trade receivables amounted to TSEK 76,238, net after reserves for doubtful claims. The reserve for doubtful claims amounted to TSEK 76,238 at year-end 2017. The reserve for doubtful claims amounted to TSEK 7,908 at the end of 2107 (7,486).

Receivables from Group companies and shares in Group companies (Parent Company)

If the economic development in a subsidiary deteriorates beyond the Company's assessments, an impairment charge against shares and an increase in the reserve for receivables may become necessary, with a resultant negative effect on profit. There were no provisions in the Parent Company attributable to Group companies.

2) Financial risks and risk management

The Group is exposed through its operations to different kinds of financial risk. By financial risks is meant fluctuations in the Company's profits and cash flow due to changes in foreign exchange rates, interest rate levels, refinancing and credit risks. Management of the Group's financial risks is concentrated to a central finance function that operates based on a finance policy adopted by the Board of Directors.

The Group's finance function is responsible for capital procurement as well as currency and risk management for the Group as a whole. The overarching goal for the finance function is to provide cost-effective financing and to minimise negative effects on the Group's profit due to market fluctuations.

Currency risk

Transaction exposure

Commercial flows of receipts and payments in different currencies give rise to transaction risk.

Commercial flows are mainly denominated in the subsidiaries' own currency and the transaction risk is therefore deemed to be low and is not hedged. In companies where purchases and sales are in different currencies, there is the possibility of currency hedging through forward contracts, however. Most of the Nilorn revenue – about 90 percent – is in currencies other than the Group's functional currency. Thanks to local purchases and sales there is matching among the subsidiaries

Note 2 continued

within the same currency area, however. That means that the impact of that currency on consolidated net profit is limited, but has major effect on individual items in the consolidated income statement, such as net revenue, raw materials and supplies, goods for resale, etc. The effect hereof is that a 10 percent stronger Swedish krona impacts consolidated revenue negatively by approximately MSEK 70 and net profit by approximately MSEK 4.

Counterparties in derivative transactions are only creditworthy banks, with a long-term rating of AA– according to S&P. There is no hedge accounting of forward contracts. Market valuation according to IAS 39 Financial Instruments: Recognition and measurement takes place on a continuous basis, which means that unrealised gains and losses are reported in the income statement.

Balance exposure

Aside from the transaction exposure described above, the Group is affected by currency movements thanks to the receivable and liabilities that continuously arise in foreign currencies. A major portion of the risks that arise must be covered by financing in each respective company's currency, or by hedging.

Translation exposure

Nilorn's income statement and balance sheet are denominated in SEK. Most of the Group's subsidiaries report in currencies other than SEK, which means that Nilorn's consolidated profit and equity is exposed to currency fluctuations. This currency risk called translation exposure.

Expected future results and equity in foreign subsidiaries are not hedged. Upon sale of a foreign subsidiary the translation difference is carried to profit and loss and thus affects the result.

Interest risk

Interest risk refers to the risk that the Group's exposure to changes in market interest rates can have a negative effect on net profit. Management of the Group's interest rate exposure is centralised, which means that the central financial function is charged with responsivity for handling this exposure. The duration and loan terms for loans raised are determined based on Nilorn's future liquidity needs, the interest rate situation and other factors in the credit market, which may be relevant at the time of a need for borrowing. The interest rate on loans raised in the Group is never fixed for more than one year on loans longer than one year and for shorter loans the rate is never fixed for less than three months. Nilorn is well capitalised and the need for loan financing is basically limited to working capital financing in countries where overdraft checking account facilities are not available. Interest costs is estimated to increase by about 0.4 percent if the loan interest rate rises by 1 percent.

Surplus liquidity is used primarily to reduce the external loan debt. The security of principal is the first priority. When choosing between equally secure investments, the higher interest rate will be the deciding factor.

Financing risk

Nilorn has an overdraft checking account facility in a total approved amount of MSEK 87, of which MSEK 36 was utilised as of 31 December 2017. The Company's need for external financing may increase over time. The Company's ability to pay its debt and fulfil its obligations and live up to the terms and conditions for the overdraft checking account facility, and also the Company's ability to raise loans on favourable terms and conditions, or to obtain credit at all and to make payments in accordance with its obligations, rests the Company's future profits, among other things. Certain aspects of the Company's results depend on economic, financial, competition-related and other factors beyond the control of Nilorn. If the Company does not succeed in fulfilling its obligations under the checking account overdraft facility, or in the future breeches any of the terms and conditions for the credit, this may have a significant negative impact on the Company's business, results and financial position.

A continuous dialogue is conducted with the Groups main bank about the financing of the Group. Covenants exist with the Company's lenders.

Raw materials risk

Price risk

Raw materials price risk refers to the risk that the costs for direct and indirect materials rise when raw material prices rise on the word market. The Group does not hedge any of its purchases of raw materials as this is judged to have limited impact on the result.

Supplier dependence

There are alternative suppliers for all goods the Nilorn procures. For this reason the assessment is that Nilorn would not be seriously injured if an individual supplier were to be unable to meet all requirements.

Credit risk

The risk that the Group's customers do not fulfil their obligations, i.e. that Nilorn does not receive payment for its trade receivables, is a customer credit risk. Nilorn checks the credit of its customers which involves obtaining information about customers' financial position from different credit reporting agencies. Monitoring of outstanding receivables is ongoing and reminders and interest invoices are sent out whenever necessary. The Group's outstanding trade receivables are reviewed and individual risk assessment is made based on guarantees from clients, due dates and history.

IT security

Nilorn works actively with IT security and has taken a variety of measures to prevent IT problems from occurring. To the extent problems would still arise, immediate action is taken to ensure that production, deliveries, etc. are minimally affected. Nilorn has an IT department that works to ensure operations, develop the Group's enterprise systems and give the customers first class service when integrating IT and logistics solutions.

3) Reporting by Geographic Areas

PRIMARY SEGMENTS – GEOGRAPHIC AREAS

	Nordic Region	Other Europe	Asia	Group activities	Total
2017 Financial Year					
Revenue					
External revenue	68,893	218,752	392,743	-	680,388
Total revenue	**68,893**	**218,752**	**392,743**	**0**	**680,388**
Profit					
Operating profit	15,295	37,090	37,391	−7,367	82,409
Interest income				1,051	1,051
Interest expense				−1,218	−1,218
Taxes on the year's profit				−17,219	−17,219
Profit for the year	**15,295**	**37,090**	**37,391**	**−24,753**	**65,023**
2016 Financial year					
Revenue					
External revenue	64,883	207,614	337,980	-	610,477
Total revenue	**64,883**	**207,614**	**337,980**	**0**	**610,477**
Results					
Operating result	14,254	31,656	33,394	−4,292	75,012
Interest income				347	347
Interest expense				−1,420	−1,420
Taxes on the profit for the year				−17,717	−17,717
Profit for the year	**14,254**	**31,656**	**33,394**	**−23,082**	**56,222**

All sales are sales of goods and none of the Groups customers account for 10 percent or more of external sales. External sales refer to invoicing for goods. The Nordic Region refers to: Sweden, Denmark, Norway and Finland. Other Europe essentially refers to: England, Germany, Belgium, Holland, France, Spain, Portugal, Turkey and Italy. Asia essentially refers to: Hong Kong, China, India, Bangladesh and Pakistan. In Sweden revenue amounted to MSEK 44.

4) Intra-Group purchases and sales

During the year Nilorn sold services for TSEK 109 (491) to the principal owner, AB Traction and its subsidiaries. There were no transactions during the period between Nilorn and closely related parties that substantially affected Thed Group's profit and financial position.

Moderbolaget Nilörngruppen AB does not conduct any sales or purchases from its subsidiaries. The Parent Company's net revenue refers exclusively to compensation from subsidiaries in the form of design and IT services, and other administrative compensation. Sales and purchases among Group companies are at market prices.

Refer to note 7 for information on salaries and remuneration to managment and the Board of Directors.

5) Other operating income

	Group		Parent Company	
	2017	2016	2017	2016
Gains on sale of non-current assets	335	207	-	-
Exchange rate gains on receivables/liabilities of an operating nature	4,584	4,504	-	-
Advertising revenue from Group companies	-	-	3,594	3,079
Other revenue from Group companies	-	-	2,392	2,212
Other	1,220	905	920	563
Total other operating revenue	**6,139**	**5,616**	**6,906**	**5,854**

6) Other operating expenses

	Group	
	2017	2016
Capital losses	18	376
Exchange rate losses on receivables/liabilities of an operating nature	3,440	3,320
Other	-	177
Total other operating expenses	**3,458**	**3,873**

7) Employees, salaries and other compensation

AVERAGE NUMBER OF EMPLOYEES (WHEREOF WOMEN)

	Group				Parent Company			
	2017		2016		2017		2016	
Sweden	40	(18)	37	(17)	21	(4)	18	(3)
Denmark	9	(5)	7	(3)				
Germany	29	(17)	26	(13)				
Belgium	10	(6)	9	(6)				
Turkey	23	(9)	21	(7)				
Great Britain	38	(21)	37	(19)				
Portugal	61	(34)	56	(31)				
India	20	(6)	19	(6)				
Bangladesh	63	(3)	27	(0)				
China	29	(16)	19	(12)				
Pakistan	11	(4)	6	(-)				
Hong Kong	111	(69)	94	(59)				
Total average number of employees	**444**	**(208)**	**358**	**(173)**	**21**	**(4)**	**18**	**(3)**

NUMBER OF DIRECTORS AND EMBERS OF SENIOR MANAGEMENT ON THE BALANCE SHEET DATE (OF WHOM WOMEN)

	Group				Parent Company			
	2017		2016		2017		2016	
Directors	4	(2)	4	(1)	4	(2)	4	(1)
Presidents and other members of senior management	14	(2)	15	(2)	2	(-)	2	(-)
Total number of directors and members of senior management	**18**	**(4)**	**19**	**(3)**	**6**	**(2)**	**6**	**(1)**

SALARIES, OTHER COMPENSATION AND SOCIAL BENEFITS

	Group		Parent Company	
	2017	2016	2017	2016
Salaries and other compensation	104,486	97,951	12,816	12,267
Social benefits	16,531	15,363	4,844	4,480
Pension costs	6,691	5,311	2,655	2,086
Total compensation	**127,708**	**118,625**	**20,315**	**18,833**

Note 7 continued

COMPENSATION TO DIRECTORS

Directors' fees are paid to the Chairman of the Board of Directors and Directors in accordance with the decision of the Annual General Meeting. Total compensation to the Board of Directors was as follows:

	Parent Company	
	2017	2016
Chairman Petter Stillström	180	180
Gunilla Brisinger	100	-
Jan Kjellman	-	100
Vilhelm Schottenius	100	100
Marie Nilsson Peterzén	100	100
Total compensation to the Board of Directors	**480**	**480**

COMPENSATION AND OTHER BENEFITS
TO OTHER MEMBERS OF SENIOR MANAGEMENT

	Basic salary	Variable compensation	Other benefits	Pension cost	Total
2017					
President	1,640	1,554	-	401	3,595
Other members of senior management, Parent Company	925	793	102	258	1,915
Total	**2,565**	**2,347**	**102**	**659**	**5,510**
Presidents, subsidiaries	10,061	1,156	660	278	12,155
Group total	**12,626**	**3,503**	**762**	**937**	**17,665**
2016					
President	1,585	1,554	-	401	3,540
Other members of senior management, Parent Company	918	624	100	253	1,732
Total	**2,503**	**2,178**	**100**	**654**	**5,272**
Presidents, subsidiaries	10,320	1,609	661	155	12,745
Group total	**12,823**	**3,787**	**761**	**809**	**18,017**

President

Compensation to Nilörngruppen's President for 2017, Claes af Wetterstedt, was decided by the Board of Directors and for the financial year amounted to TSEK 3,194 (3,139), TSEK 1,554 of which (1,554) was paid in the form of bonus. The notice period for the CEO is mutual twelve months. There is no agreement on severance payment.

Other member of senior management

Compensation to other members of senior management in the Parent Company was decided by the President in consultation with the Chairman of the Board of Directors. Salaries and other compensation to other members of senior management in the Parent Company amounted to TSEK 1,555 during the 2017 financial year (1,379). By other members of senior management in the Parent Company is meant the persons who together with the President constitute Nilorn's management and are employed by Nilörngruppen AB. During 2017 Group management consisted of three persons, including the President: Claes af Wetterstedt, Krister Magnusson and Andrew Hoppe. Andrew Hoppe is employed by Nilorn East Asia Ltd.

The variable portion to other members of senior management in the Parent Company, and to the presidents of subsidiaries, is based on the Group's and each respective subsidiary's profit and revenue trend and is maximised to between 0 and 12 monthly salaries, depending on country and position. There are no severance payment agreements.

Pension commitments

There are defined benefit pension commitments in the Group in Turkey, calculated according to the Projected Unit Credit Method. See also note 19.

8) Taxes

TAXES ON THE YEAR'S PROFIT

	Group		Parent Company	
	2017	2016	2017	2016
Current taxes	16,609	14,856	29	−265
Deferred taxes	276	2,590	−56	-
Current taxes attributable to prior years	334	271	-	−37
Total taxes on the year's profit	**17,219**	**17,717**	**−27**	**−302**

RECONCILIATION OF REPORTED TAXES

	Group		Parent Company	
	2017	2016	2017	2016
Profit before taxes	82,242	73,939	51,229	23,970
Tax according to current tax rate of 22%	18,093	16,267	11,270	5,273
Non-deductible expenses	665	1,053	45	53
Non-taxable income	−1,241	−418	−11,367	−5,716
Group company profits for which tax expenses are not reported	−487	−353	-	-
Losses in Group companies for which deferred tax assets are not reported	21	390	-	-
Adjustment in last year's tax return	−334	−308	−3	37
Revaluation of deferred tax asset	−1,347	−180	-	-
Foreign tax rates	−435	−657	-	-
Other taxes	2,284	1,923	28	51
Reported effective taxes	**17,219**	**17,717**	**−27**	**−302**

DEFERRED TAX ASSET

	Group	
Change	2017	2016
Opening balance	3,307	6,315
Internal profit	-	6
Revaluation of deferred tax asset	104	−2,933
Utilisation of deferred tax assets	−2,107	-
Other temporary differences	−1,067	−102
Effect of foreign exchange rate changes	−73	21
Closing balance	**2,298**	**3,307**
Specification		
Internal profit	117	117
Tax loss carryforwards	700	2,702
Other temporary differences	1,481	488
Total deferred tax asset	**2,298**	**3,307**

DEFERRED TAX LIABILITY

	Group	
Changes	2017	2016
Opening balance	1,157	1,560
Other temporary differences	−15	15
Untaxed reserves	−660	−418
Closing balance	**482**	**1,157**
Specification		
Other temporary differences	1	16
Untaxed reserves	481	1,141
Total deferred tax liability	**482**	**1,157**

BILL CASSADY
Product development

Note 8 continued

As of 31 December 31 2017 the Group had tax loss carryforwards in the amount of TSEK 30,198. These tax loss carryforwards have been tested on the closing date and it is deemed probable that loss carryforwards in the amount of TSEK 3,179 can be applied to offset future taxes. Deferred tax assets attributable to the loss carry forwards amount to TSEK 699 relating to tax loss carryforwards in Sweden, which may be utilised indefinitely. Operations in Sweden are expected to generate future surpluses. Nilorn therefore believes that there are factors indicating strongly that it will be possible to utilise these tax loss carryforwards to which the tax assets are attributable to offset future taxable surpluses. The remaining tax loss carryforwards amounting to TSEK 27,019 have not been taken into consideration when calculating the amount of deferred tax assets. It is currently estimated that these cannot be utilized in the foreseeable future.

9) Intangible non-current assets

INTANGIBLE NON-CURRENT ASSETS, ACQUIRED EXTERNALLY

	Group		Parent Company	
	2017	2016	2017	2016
Opening cost	7,099	4,620	5,401	2,989
Capital expenditures during the year	12,370	2,529	6,306	2,412
Sales and disposals during the year	-	–120	-	-
Effect of exchange rate changes	176	70	-	-
Closing cost	**19,645**	**7,099**	**11,707**	**5,401**
Opening accumulated depreciation and amortisation according to plan	4,213	4,030	2,632	2,424
Depreciation and amortisation according to plan during the year	705	231	218	208
Depreciation and amortisation according to plan on assets sold and disposed of during the year	-	–120	-	-
Effect of exchange rate changes	54	72	-	-
Closing accumulated depreciation and amortisation according to plan	**4,972**	**4,213**	**2,850**	**2,632**
Carrying value at year-end	**14,673**	**2,886**	**8,857**	**2,769**

OTHER INTANGIBLE NON-CURRENT ASSETS, INTERNALLY GENERATED

	Group		Parent Company	
	2017	2016	2017	2016
Opening cost	9,064	9,064	9,064	9,064
Closing cost	**9,064**	**9,064**	**9,064**	**9,064**
Opening accumulated depreciation and amortisation according to plan	9,064	9,064	9,064	9,064
Closing accumulated depreciation and amortisation according to plan	**9,064**	**9,064**	**9,064**	**9,064**
Carrying value at year-end	**0**	**0**	**0**	**0**

CARRYING VALUES OF INTANGIBLE NON-CURRENT ASSETS

	Group		Parent Company	
	2017	2016	2017	2016
Other intangible non-current assets, acquired externally	14,673	2,886	8,857	2,769
Total	**14,673**	**2,886**	**8,857**	**2,769**

Externally acquired intangible non-current assets consist of, among other things, customer relationships, pattern programmes and other acquired software.
Costs for in-house development of an enterprise system adapted to operations are carried as an internally generated intangible asset.

10) Tangible non-current assets

BUILDINGS AND LAND

	Group	
	2017	2016
Opening cost	19,485	18,450
Investments during the year	656	855
Reclassification	–528	-
Effect of exchange rate changes	133	180
Closing cost	**19,746**	**19,485**
Opening accumulated depreciation according to plan	2,503	1,903
Depreciation according to plan during the year	551	513
Reclassification	42	-
Effect of exchange rate changes	61	87
Closing accumulated depreciation according to plan	**3,157**	**2,503**
Carrying value at year-end	**16,589**	**16,982**

PLANT AND MACHINERY

	Group	
	2017	2016
Opening cost	71,244	63,440
Investments during the year	582	8,422
Sales and disposals during the year	–744	–503
Effect of exchange rate changes	–238	–115
Closing cost	**70,844**	**71,244**
Opening accumulated depreciation according to plan	58,682	58,511
Depreciation according to plan during the year	1 739	953
Depreciation according to plan on assets sold and disposed of	–744	–503
Effect of exchange rate changes	221	–279
Closing accumulated depreciation and impairment charges	**59,898**	**58,682**
Carrying value at year-end	**10,946**	**12,562**

EQUIPMENT TOOLS AND FITTINGS

	Group		Parent Company	
	2017	2016	2017	2016
Opening cost	34,995	30,585	5,726	5,347
Investments during the year	8,465	6,141	1,143	379
Sales and disposals during the year	–4,369	–2,932	–3,402	-
Reclassification	525	-	-	-
Effect of exchange rate changes	–1,548	1,201	-	-
Closing cost	**38,068**	**34,995**	**3,467**	**5,726**
Opening accumulated depreciation according to plan	23,773	22,187	4,482	4,154
Depreciation according to plan during the year	3,292	2,922	445	328
Depreciation according to plan on assets sold and disposed of	–3,971	–2,099	–3,400	-
Reclassification	-	–37	-	-
Effect of exchange rate changes	–597	763	-	-
Closing accumulated depreciation according to plan	**22,497**	**23,773**	**1,527**	**4,482**
Carrying value at year-end	**15,571**	**11,222**	**1,940**	**1,244**

CARRYING VALUES OF TANGIBLE NON-CURRENT ASSETS

	Group		Parent Company	
	2017	2016	2017	2016
Buildings and land	16,589	16,982	-	-
Plant and machinery	10,946	12,562	-	-
Equipment, tools, fixtures and fittings	15,571	11,222	1,940	1,244
Total	**43,106**	**40,766**	**1,940**	**1,244**

11) Shares in Group companies

GROUP COMPANIES – SCOPE OF HOLDING

Company	Currency	Nominal value	Number	Capital stake	Carrying value 2017	2016
Nilörn AB	TSEK	100	1,000	100	3,150	3,150
Nilörn Produktion AB	TSEK	100	1,000	100	-	-
Nilorn Denmark A/S	TDKK	1,800	3,600	100	7,375	7,375
Nilorn Belgium N.V.	TEUR	1,583	17,403	100	6,975	6,975
Nilorn Germany GmbH	TEUR	540	-	100	20,155	20,155
Nilorn UK Ltd	TGBP	2,176	2,176,000	100	30,200	30,200
Nilorn East Asia Ltd	THKD	-	2	100	-	-
Nilorn Etiket Sa. Ve Tic. Ltd Sti.	TTRY	10	-	100	5,835	5,835
Nilorn India Pvt Ltd	TINR	8,000	10,000	100	1,156	1,156
Nilorn Pakistan Ltd	TPKR	1,000	2,468	100	-	13
Nilorn Bangladesh	BDT	3,400	3,400,000	100	4,904	4,895
Nilörn Branding AB	TSEK	1	900,000	100	16,399	16,399
Nilorn Distribution Center Gmbh	TEUR	1	25,000	100	238	
Nilorn Property Development AB	TSEK	100	100,000	100	1,989	1,989
					98,376	**98,142**

	Parent Company 2017	2016
Carrying value at the beginning of the year	98,142	94,449
Acquisition	238	-
New issue	9	3,993
Shareholders contribution	88	-
Impairment	–101	–300
Carrying value at year-end	**98,376**	**98,142**

SUBSIDIARIES' SHARES IN SUBSIDIARIES

Company	Currency	Nominal value	Number	Capital stake	Carrying value 2017	2016
Nilorn UK Ltd						
Nilorn Portugal Indústria de Etiquetas Lda, Portugal	TEUR	50	-	100	400	400
Lee & Ferreira Lda, Portugal	TEUR	2	-	100	24	24
					424	**424**
Nilorn East Asia Ltd						
Nilorn Shanghai	TCNY	1,336	-	100	1,749	1,749
					1,749	**1,749**

12) Shares in associated companies

	Group 2017	2016
Opening value	485	537
Effect of exchange rate changes	–3	–52
Carrying value at year-end	**482**	**485**

Company	Domicile	Stake	Carrying value	Proportion of equity
Calmon Abacus Textiles Private Ltd	India	49%	482	905
			482	**905**

The value of the shares in Calmon Abacus Textiles Private Ltd is carried at Nilorn's 49 percent share of adjusted equity.

13) Long-term receivables

	Group	
	2017	2016
Opening balance	2,084	2,072
New lending	428	169
Repayments	-	–9
Reclassification	-	–291
Effect of exchange rate changes	-205	143
Closing balance	**2,307**	**2,084**

Of the long-term receivables as of 31 December 2017 TSEK 2,178 (1.954) deposits.

14) Due from Group companies

LONG-TERM RECEIVABLES

	Parent Company	
	2017	2016
Opening balance	1,048	997
Repayments	–963	-
Effect of exchange rate changes	–3	51
Closing balance	**82**	**1,048**

15) Inventories

	Group	
	2017	2016
Raw materials and supplies	7,028	5,914
Work in progress	261	889
Finished products and goods for resale	102,728	82,088
Total inventories	**110,017**	**88,891**

The reserve attributable to inventories amounts to TSEK 5,340 (5,869).

	Group	
Change in obsolescence reserve	2017	2016
Opening balance	5,869	5,796
Reserves added during the year	898	1,271
Utilised reserves	–1,427	–1,198
Carrying value at year-end	**5,340**	**5,869**

16) Trade receivables

Trade receivables

The provision of trade receivables is made after individual assessment. As of 31 December 2017 the carrying value of the reserve for doubtful accounts receivable amounted to TSEK 7,908 (7,846). The carrying value of the reserve has evolved as follows:

RESERVE FOR DOUBTFUL TRADE RECEIVABLES	Group	
	2017	2016
Opening balance	7,486	6,945
Reserves added during the year	1,290	1,150
Utilised reserves	–778	–803
Effect of exchange rate changes	–90	194
Carrying value at year-end	**7,908**	**7,486**

THE AGE DISTRIBUTION OF THE NET WORTH OF TRADE RECEIVABLES IS DISTRIBUTED AS FOLLOWS:	Group	
	2017	2016
Receivables not past due	41,459	35,537
Receivables past-due <30 days	18,183	22,447
Receivables past-due 30-60 days	10,051	9,048
Receivables past-due 60-90 days	4,868	4,548
Receivables past-due 90-120 days	941	1,651
Receivables due in >120 days	736	139
Net total value of trade receivables	**76,238**	**73,370**

17) Prepaid expenses and accrued income

	Group		Parent Company	
	2017	2016	2017	2016
Prepaid rents	2,559	5,604	279	51
Prepaid insurance	801	921	22	169
Prepaid licence fees	208	405	164	350
Prepaid cost of goods	3,259	2,056	-	-
Prepaid consulting fees	339	242	-	-
Other prepaid expenses	1,454	2,470	296	58
Accrued income	30	350	140	66
Total prepaid expenses and accrued income	**8,650**	**12,048**	**901**	**694**

IN:MOTION
Product development

18) Interest-bearing liabilities

Group

Total approved credit facilities as of 31 December 2017 amount to MSEK 87.1 (of which MSEK 35.7 was utilised). For more information about Nilorn's exposure to interest rate risk, reference is made to Note 2.

Parent Company

Total approved credit facility in the Parent Company as of 31 December 2017 amounts to MSEK 60.0 (of which MSEK 40.5 was utilised).

19) Long-term provisions

	Group	
	2017	2016
Defined benefit pension schemes	760	1,060
Total provisions	**760**	**1,060**

DEFINED BENEFIT PENSION SCHEMES

	Group	
	2017	2016
Opening balance	1,060	587
Benefits earned during the year	103	584
Benefits paid	−248	-
Effect of exchange rate changes	−155	−111
Carrying value of provision for pensions at year-end	**760**	**1,060**

20) Accrued expenses and prepaid income

	Group		Parent Company	
	2017	2016	2017	2016
Accrued salary and holiday pay liabilities	16,642	19,189	4,319	4,174
Accrued social benefits	5,372	4,444	3,385	2,142
Accrued audit expenses	882	865	153	115
Accrued commission expenses	8,543	8,394	-	-
Accrued freight costs	1,854	828	-	-
Accrued cost of goods	6,698	5,680	-	-
Other	4,860	2,853	1,466	551
Total accrued expenses and prepaid income	**44,851**	**42,253**	**9,323**	**6,982**

21) Pledged assets

	Group		Parent Company	
	2017	2016	2017	2016
For liabilities to credit institutions				
Shares in Group companies	-	-	3,150	3,150
Corporate mortgages and the like	6,000	6,000	-	-
Total pledged assets	**6,000**	**6,000**	**3,150**	**3,150**

22) Contingent liabilities

	Group		Parent Company	
	2017	2016	2017	2016
Guarantees for subsidiaries	-	-	10,310	10,615
Other contingent liabilities	297	288	-	-
Total contingent liabilities	**297**	**288**	**10,310**	**10,615**

23) Untaxed reserves

	Parent Company	
	2017	2016
Accrual reserve, fiscal year 2011	-	3,000
Accrual reserve, fiscal year 2012	1,100	1,100
Accrual reserve, fiscal year 2013	200	200
Accrual reserve, fiscal year 2014	650	650
Accrual reserve, fiscal year 2015	236	236
Total untaxed reserves	**2,186**	**5,186**

Deferred tax in untaxed reserves amounts to TSEK 481 (1,141), which is not carried in the balance sheet.

24) Year-end appropriations

	Parent Company	
	2017	2016
Reversal of accrual reserve	3,000	1,900
Group contributions received/rendered	4,500	484
Total year-end appropriations	**7,500**	**2,384**

25) Leasing

Nilörngruppen as lessee

Operating leases

The Group's cost for rental agreements and leasing commitments of an operating character amounted to TSEK 13,819 during the 2017 financial year (12,341). The Group's future rental payments amounted to TSK 27,023 at year-end (21,888). The Parent Company's rental cost during 2017 amounted to TSEK 1,140 (930) and the future rental payments amounted to TSEK 2,512 at year-end (2,646). The future payments under operating leases are distributed as follows:

	Group	Parent Company
2018	11,346	943
2019	6,693	943
2020	2,988	626
2021	2,261	-
2022	1,931	-
2023	1,804	-
Total future payments from operating leases	**27,023**	**2,512**

Financial leases

The Group has no significant financial leases.

26) Interest income and similar items

	Group		Parent Company	
	2017	2016	2017	2016
Interest income, internal	-	-	764	751
Interest income, external	296	347	-	19
Exchange rate gain on long-term receivables	-	-	-	359
Exchange rate gains on foreign exchange futures contracts	629	-	629	-
Total interest income and similar items	**925**	**347**	**1,393**	**1,129**

27) Interest expense and similar items

	Group		Parent Company	
	2017	2016	2017	2016
Interest expense, internal	-	-	1,486	668
Interest expense, external	600	771	331	353
Exchange rate loss on long-term liabilities	492	454	152	-
Exchange rate loss on foreign exchange futures contracts	-	195	-	195
Total interest expense and similar items	**1,092**	**1,420**	**1,969**	**1,216**

28) Audit fees

FEES AND COST REIMBURSEMENT	Group		Parent Company	
	2017	2016	2017	2016
KPMG				
Audit assignments	442	287	215	146
Tax advice	16	-	16	-
Other auditors				
Audit assignments	689	719	-	-
Tax advice	37	90		
Other assignments	137	74	-	-
Total audit fees and cost reimbursement	**1,321**	**1,170**	**231**	**146**

By audit assignment is meant review of the annual accounts and accounting procedures and the management by the Board of Directors and the President, other duties incumbent upon auditors to perform and advice or other assistance prompted by observations in the course of such review, or the performance of such other tasks. Everything else is other assignments.

29) Result from shares in Group companies

	Parent Company	
	2017	2016
Dividends	51,771	26,262
Impairment of shares	–101	–300
Total result from shares in subsidiaries	**51,670**	**25,962**

30) Derivative instruments

The Group is exposed to changes in foreign exchange rates since a portion of purchases are made in foreign currency.

Aside from the transaction exposure described above, the Group is affected by movements in foreign exchange rates due to the receivables and liabilities in foreign currencies that arise on an ongoing basis. These are covered largely by forward hedging.

The table below shows the Group's foreign exchange forward contracts outstanding as of 31 December 2017. All contracts are in officially traded currencies and the contracts are extended for an average period of three months. Contracts outstanding as of year-end all mature on 16 March 2018. The Group has no other derivative instruments. Outstanding forward contract are valued at market value on the balance sheet date in accordance with IAS 39 Financial instruments. Accounting and valuation at level 2 has been used in accordance with IFRS 7.27. The exchange rate gain and loss, respectively, arising upon valuation of the contracts amounted to TSEK 199 (206) and TSEK 226 (584), respectively, as of 31 December 2017. The forward contracts were valued at fair value based on the exchange rate prevailing on the balance sheet date and the forward rate for each respective contract.

Only the derivatives listed below are carried at fair value.

OUTSTANDING FORWARD EXCHANGE CONTRACTS

Currency	**Hedged volume in thousands**	**Average rate**	**Countervalue SEK**
DKK	736	1.3229	974
EUR	1,265	9.8497	12,455
GBP	918	11.1045	10,193
USD	10	8.2322	82
HKD	15,000	1.0534	15,801

31) Maturity of the Group's financial liabilities

2017	**MSEK**	**0-3 months**	**4-12 months**	**1-2 years**	**Total contractual cash flow**
	Bank loans and committed credit facilities		25.8	9.9	35.7
	Trade payables	61.7			61.7
	Forward currency contracts inflow	28.3			28.3
	Forward currency contracts outflow	28.3			28.3

2016	**MSEK**	**0-3 months**	**4-12 months**	**1-2 years**	**Total contractual cash flow**
	Bank loans and committed credit facilities		15.3	10.2	25.5
	Trade payables	52.8			52.8
	Forward currency contracts inflow	27.4			27.4
	Forward currency contracts outflow	27.4			27.4

NORDBERG
Product development

32) Acquisition of business

On 1 April 2017 Nilorn Denmark AS acquired the assets and liabilities consisting of inventories and customer relationships of HC Etiketter AS. Approximately 49 percent of the estimated purchase money was paid in cash and the remainder will be settled after 12 months. With this acquisition Nilorn Danmark AS has grown to be a major player on the Danish market. During the period from the acquisition until 31 December 2017 the acquisition contributed MSEK 8 in sales with limited effect on consolidated profit. Had the acquisition taken place on 1 January 2017 management estimates that the acquisition would have affected consolidated revenue by MSEK 10.

TDKK	
HC Etiketter AS net assets at the time of acquisition:	
Intangible assets	4,618
Inventories	2,257
Total estimated purchase money	**6,875**
Of which paid in cash	3,355
Entered as a liability	3,520

Intangible assets
Intangible assets consist of customer relationships amortised over 10 years.

Acquisition-related expenses
No external acquisition expenses arose in connection with the acquisition.

33) Allocation of the Company's profit

The Board of Directors proposes that unrestricted equity, TSEK 74,143 be allocated as follows:

Dividend on 11,401,988 shares, SEK 4.00 per share	45,608
To be carried forward	28,535
Total	**74,143**

34) Shares in the Parent Company

There are 960,000 class A shares outstanding with a quotient value of SEK 0.25 each and 10,441,988 class B shares with a quotient value of SEK 0.25 each in Nilörngruppen AB. Class A shares give their holders the right to ten votes while class B shares give their holders the right to one vote.

35) Events after the balance sheet date

Nilorn has been approved to change its listing to Nasdaq Small Cap. The first day of trading on Small Cap was 4 April 2018.

Definitions of alternative key financial indicators

Guidelines for alternative key financial indicators for companies with securities listed on a regulated market in EU have been issued by ESMA (The European Securities and Markets Authority). These guidelines are to be applied to alternative key financial indicators used starting 3 October 2016. Reference is made in the annual report to a number of non-IFRS performance measures used to help investors as well as management to analyse the Company's business. Since not all companies calculate financial measurements in the same way, they are not always comparable to measurements used by other companies. These financial measurements should therefore not be regarded as replacements for measurements defined by IFRS. We describe below the various non-IFRS performance measures used as a complement to the financial information reported in accordance with IFRS and how these measurements are used.

Definitions of key financial indicators — measures not defined according to IFRS

Non-IFRS measurement	Definition	Reason
Average equity	Equity at the beginning of the year, plus equity at year-end, divided two.	This metric is the difference between the Group's assets and liabilities, which is equivalent to consolidated equity contributed by owners, and the Group's accrued profits. The metric is used to report the capital attributable to the Group's owners.
Average capital employed	Capital employed at the beginning of the year, plus capital employed at the end of the year, divided by two.	Capital employed indicates how much capital is needed to conduct the business irrespective of form of financing (borrowed capital or equity). It is calculated as an average in order to provide a fair picture over the period.
Average number of employees	Average number of yearly employees.	This metric is used to measure how the Group's work force develops.
Revenue growth	Net revenue at the end of the year, less net revenue at the beginning of the year, divided by net revenue at the beginning of the year.	This metric is used to measure how the company's revenue develops over time.
Return on equity	Profit for the year according to the income statement, in percent of average equity.	This metric is used to analyse profitability over time, given the resources attributable to the Parent Company's owners.
Return on capital employed	Profit before taxes, plus financial expenses, in percent of average capital employed.	Return on capital employed is a profitability metric used to put the profit in relation to the capital needed to conduct the business.
Interest-bearing net cash and cash equivalents/liability	Interest-bearing receivables, and cash and cash equivalents, reduced by interest-bearing liabilities.	This metric is used to show the total debt financing and is used as a complement to assess the possibility for a dividend, to make strategic investments and to judge the Group's ability to live up to its financial commitments.
Operating margin	Operating profit in percent of net revenue.	This metric is used to measure operative profitability.
Equity ratio	Equity in percent of balance sheet total.	This metric shows how large a proportion of the company's total assets are financed by the shareholders with equity. A high equity ratio is a measure of financial strength.
Capital employed	Balance sheet total, less non-interest-bearing liabilities, including deferred tax liabilities.	Capital employed indicates how much capital is needed to conduct the business irrespective of form of financing (borrowed capital or equity).
Profit margin	Profit before taxes in percent of net revenue.	This metric makes it possible to compare profitability regardless of corporate tax rate.

CLARIFICATION OF SIGNS
USED IN THE TABLE:

–	=	Minus
No sign before	=	Plus
/	=	Divided by
______________	=	Result line

Calculated as below:

Revenue growth	**Group**	
	2017	**2016**
	12 months	**12 months**
	Jan-Dec	**Jan-Dec**
Net revenue during the period (MSEK)	680.4	610.5
Net revenue previous period (MSEK)	–610.5	–527.2
Net revenue previous period (MSEK)	/610.5	/527.2
Revenue growth (%)	**11.4**	**15.8**

Operating margin	**Group**	
	2017	**2016**
	12 months	**12 months**
	Jan-Dec	**Jan-Dec**
Operating profit (MSEK)	82.4	75.0
Net revenue (MSEK)	/680.4	/610.5
Operating margin (%)	**12.1**	**12.3**

Profit margin	**Group**	
	2017	**2016**
	12 months	**12 months**
	Jan-Dec	**Jan-Dec**
Profit before taxes (MSEK)	82.2	73.9
Net revenue (MSEK)	/680.4	/610.5
Profit margin (%)	**12.1**	**12.1**

Capital employed	**Group**	
	2017	**2016**
	12 months	**12 months**
	Jan-Dec	**Jan-Dec**
Balance sheet total (MSEK)	312.6	271.3
Long-term provisions	–0.7	–1.1
Other non-interest-bearing liabilities (long-term)	-	–2.8
Trade payables	–61.7	–52.7
Current tax liabilities	–4.5	–3.3
Other non-interest-bearing liabilities	–10.7	–4.7
Accrued expenses and prepaid income	–44.9	–42.3
Deferred tax liability	–0.5	–1.2
Capital employed (MSEK)	**189.6**	**163.2**

Average capital employed	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Capital employed at beginning of year (MSEK)	163.3	139.8
Capital employed at end of year (MSEK)	189.6	163.2
	/2	/2
Average capital employed (MSEK)	**176.5**	**151.5**

Return on capital employed	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Profit before taxes (MSEK)	82.2	73.9
Financial expenses (MSEK)	1.2	1.4
Average capital employed (MSEK)	/176.5	/151.5
Return on capital employed (%)	**47.3**	**49.7**

Average equity	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Equity at beginning of year (MSEK)	137.8	113.3
Equity at end of year (MSEK)	153.9	137.8
	/2	/2
Average equity (MSEK)	**145.9**	**125.6**

Return on equity	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Profit for the year (MSEK)	65.0	56.2
Average equity (MSEK)	/145.9	/125.6
Return on equity (%)	**44.6**	**44.8**

Equity ratio	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Equity (MSEK)	153.9	137.8
Total assets (MSEK)	/312.6	/271.3
Equity ratio (%)	**49.2**	**50.8**

Interest-bearing net cash and cash equivalents	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Cash and cash equivalents (MSEK)	44.8	35.2
Current interest-bearing liabilities (MSEK)	–35.7	–25.5
Interest-bearing net cash and cash equivalents (MSEK)	**9.1**	**9.7**

Equity per share	Group	
	2017	2016
	12 months	12 months
	Jan-Dec	Jan-Dec
Equity (MSEK)	153.9	137.8
Number of shares outstanding	/11,402	/11,402
Equity per share (MSEK)	**13.5**	**12.1**

BEDROCK MILLS
Product development

Affirmation by the Board of Directors and the President

The undersigned hereby confirm that the annual accounts and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and good accounting practice and provide a true and fair view of the Company's and the Group's operations, financial position and results, and that the administration report provide a fair overview of the Group's and the Company's operations, financial position and results, and describe significant risks and factors of uncertainty facing the companies in the Group.

Borås, 12 April 2018

Petter Stillström
Chairman

Gunilla Brisinger
Director

Marie Nilsson Peterzén
Director

Vilhelm Schottenius
Director

Claes af Wetterstedt
President and CEO

Our audit report relating to these annual accounts and consolidated financial statements was submitted on 12 April 2018.

KPMG AB

Thomas Bohlin
Authorised Public Accountant

Board of Directors

Petter Stillström
Born 1972
Chairman since 2009
M. Sc. (Business Administration)
President of AB Traction.
Director of Nilörngruppen since 2007.
Director of OEM International (Chairman), Softronic (Chairman), BE Group AB (Chairman), and AB Traction. Shareholdings: Major shareholder in AB Traction, which through subsidiaries owns 960,000 Class A shares and 1,830,000 Class B shares.

Gunilla Brisinger
Born 1965
Director
President of Linum Aktiebolag.
Director of Nilörngruppen since 2017.
Shareholding: -

Marie Nilsson Peterzén
Born 1956
Director
Co-founder, creative manager and EVP of Vagabond International AB.
Director of Nilörngruppen since 2016.
Shareholding: 10,000

Vilhelm Schottenius
Born 1956
Director
B.Sc.
Works with business development in own and external companies.
Director of Nilörngruppen since 2009.
Director of i.a. Yellow Brand Protection AB, Vertiseit AB, RCL Holding, Saddler Scandinavia, Handelsbanken Västra Sverige and Golfstore Group.
Shareholding: 10,000

Management

Claes af Wetterstedt
Born 1962
President and Chief Executive Officer since 2009. Responsible for market and sales.
Economist
Claes af Wetterstedt was hired by Nilörngruppen in 1989, then Svenska Bandfabriken, where he worked, was acquired by Nilörngruppen. He has worked with branding and labels since the mid-1980s.
Shareholding: 130,400

Krister Magnusson
Born 1966
CFO
B.Sc.
Krister Magnusson was hired by Nilörngruppen in 2008. Previously CFO of New Wave Group.
Shareholding: 60,000

Andrew Hoppe
Born 1963
Asian Manager
Andrew Hoppe was hired by Nilörn UK Ltd (formerly H.H Calmon) in 1996 and is since 2000 President of Nilorn East Asia Ltd and Asia Manager.
Shareholding: -

Auditors

KPMG
Lead auditor:

Thomas Bohlin
Born 1959
Authorised Public Accountant, Partner.
Nilörngruppen's auditor since 2013.
Other assignments include Eton System, Starsprings, Teknos, NLY Scandinavia and Finepart.

Board of Directors

Petter Stillström
Chairman

Gunilla Brisinger
Director

Marie Nilsson Peterzén
Director

Vilhelm Schottenius
Director

Management

Claes af Wetterstedt
President and
Chief Executive Officer

Krister Magnusson
CFO

Andrew Hoppe
Asian Manager

Auditor's Report

To the Annual General Meeting of Nilörngruppen AB, corporate ID number 556322-3782

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Nilörngruppen AB for 2017 with the exception of the sustainability report on pages 29-30. The annual accounts and consolidated accounts of the company are included on pages 28-68 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Swedish Annual Accounts Act. Our statements do not cover the sustainability report on pages 29-30. 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.

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.

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

Other Information than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and consolidated accounts as found on pages 3-27 and 72-73. Such other information consists of Nilörngruppen in Brief, Year 2017 in brief, President's Statement, Nilörngruppen in brief, Year 2017 in brief, Multi-year Survey, Sustainability work, Corporate governance report, Nilörngruppen's share 2017 and history (but does not include the annual accounts and the consolidated financial statements and our auditor's report relating thereto. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated financial statements does not cover this other information and we do not make a statement of corroboration regarding this other information.

In connection with our audit of the annual accounts and consolidated financial statements it is our responsibility to read the information identified above and to consider whether the information to a significant degree is inconsistent with the annual accounts and consolidated financial statements. In performing this review we also take into consideration any other knowledge we have acquired in the course of our audit and we assess whether the information in other respects appears to contain significant errors.

If we, based on the work performed with respect to this information, draw the conclusion that the other information contains significant errors, we are required to report this. We have nothing to report in this respect.

Responsibilities of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is 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 President 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 intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Among the tasks of the audit committee is to monitor the Company's financial reporting without prejudice to the responsibility of the Board of Directors and information in general.

Auditor's 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.

- Conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated financial statements, we have also audited the administration of the Board of Directors and the President of Nilörngruppen AB for 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President 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 President

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 President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Responsibility of the auditor

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 President 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 Swedish 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 Swedish 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 Swedish Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Statement of the auditor relating to the statutory sustainability report

The Board of Directors bears responsibility for the sustainability report on pages 29-30 and that it has been prepared in accordance with the Annual Accounts Act.

Our review has been conducted in accordance with FAR recommendation RevR 12 opinion of the auditor on the statutory sustainability report. This means that our review of the sustainability report has a different orientation and is substantially narrower in scope than an audit in accordance with International Standards on Auditing and good auditing practice in Sweden. We believe that this review provides sufficient basis for our opinion.

A sustainability report has been prepared.

Borås, 12 April 2018

KPMG AB

Thomas Bohlin
Authorised Public Accountant

Annual General Meeting

The Annual General Meeting will be held at 5:00 p.m. on Wednesday 16 May 2018 at Nilörngruppen's head office, Wieslanders väg 3, SE-504 31 Borås, Sweden.

Registration

Shareholders who wish to participate in the proceedings of the Annual General Meeting must be entered in the share register maintained by Euroclear Sweden AB not later than Wednesday 9 May 2018 and also notify the Company by mail under address Nilörngruppen AB, Box 499, SE-503 13 Borås, Sweden, by telephone +46 33 700 88 88, by telefax +46 33 700 88 19, or by e-mail to reception@nilorn.com not later than by 4:00 p.m., Wednesday 9 May 2018. Upon registration, name, personal registration number / corporate ID number, address, telephone number and registered shareholding must be stated. Shareholders represented by a proxy must issue a power of attorney for the proxy. The power of attorney should be dispatched to the Company at the above address well before the Annual General Meeting.

If the power of attorney is issued by a legal entity, certified copy of registration certificate of the legal person must be attached. Shareholders who have their shares registered in the name of a custodian must temporarily re-register their shares in their own name in order to be entitled to attend the meeting. Such registration must be completed by Euroclear Sweden AB not later than by Wednesday, 9 May 2018. This means that the shareholder must notify the custodian thereof well in advance of that day.

Dividend

The Board of Directors proposes a dividend of SEK 4.00 per share for the 2017 financial year.

The companies in Nilorn

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