

Annual Report

# NIBE Industrier AB



**NIBE**  
INDUSTRIER

# 1998



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## Dividend

The Board of Directors has resolved to propose to the Annual General Meeting a dividend of SEK 2.50 per share for 1998, which corresponds to a total amount of SEK 14.7 million. If this proposal is duly accepted by the Annual General Meeting, it is anticipated that the dividend will be sent out by the Swedish Securities Register Centre (Värdepapperscentralen VPC AB) on Wednesday, 19 May 1999.

The record day for the share dividend is 11 May 1999.

## Annual General Meeting

The Annual General Meeting takes place on Thursday 6 May 1999 at 6 p.m. at NIBE's Marknadscenter in Markaryd, Sweden.

## Information plan

The complete Annual Report, together with the notice of the Annual General Meeting, is distributed to all shareholders.

Annual General Meeting; 6 May 1999.  
Interim Report Jan–March; 6 May 1999.  
Interim Report Jan-June; August 1999.  
Interim Report Jan-Sept; November 1999.

# The NIBE Group – A Summary

- **Turnover increased to SEK 1,027 million (1997: 736 million)**
- **Profit after tax and allocations improved to SEK 73 million (SEK 59 m)**
- **Profit per share rose to SEK 8.26 (SEK 7.80)**
- **Four new corporate acquisitions were implemented during the year**

## Group Operations

The NIBE Industrier Group's operations are divided into three Business Areas:

***NIBE Element, NIBE Heating and NIBE Stoves.***

### *NIBE Element*

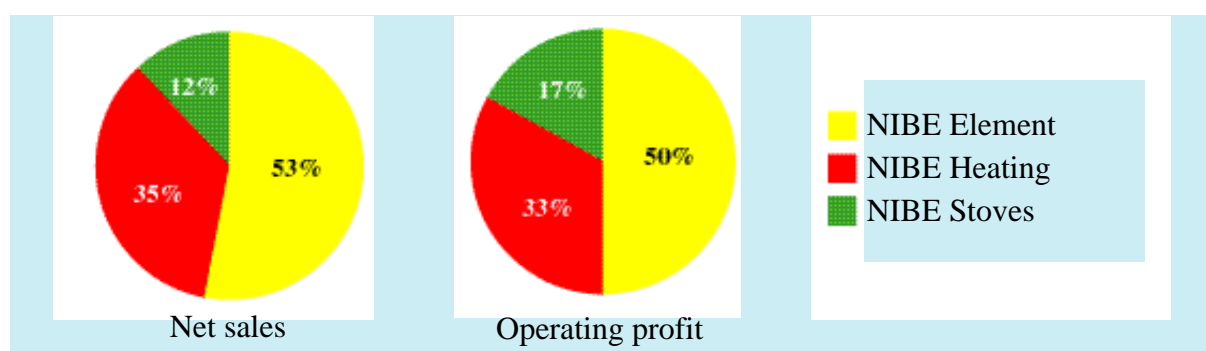
The NIBE Element Business Area develops and produces, or purchases, electric heating components under the Backer and Loyal trademarks and, from 1998, also under those of Bröderna Håkansson, Meyer, Brakon, JEVI and Calesco. As a complement to these activities, the division also produces and markets system components, control equipment, welded tubes and machinery for producing tubular elements. These products are used, for example, for heating applications in dishwashers, radiators, plastic extrusion machines and car rear mirrors. The market comprises industrial consumers and component users in Europe. NIBE Element is the premier name in Scandinavia and ranks among the leading contenders in the rest of Europe. Sales outside Sweden accounted for 74 percent of the division's total sales, which, during 1998, totalled SEK 552.4 million or 53 percent of the group's total sales. The division recorded an operating profit of SEK 45.5 million, corresponding to 50 percent of group profit as a whole.

### *NIBE Heating*

The NIBE Heating Business Area develops, manufactures and sells electric boilers, water heaters and heat pumps as well as spares for these products under the NIBE, TMV, Vølund and Haato trademarks.

The division is also extensively engaged in the sub-contracted production of anti-corrosion pressure vessels. NIBE Heating is the market leader in every one of its priority segments in Sweden. Most demand in Sweden is generated by home improvements (the so called 'Renovation and Conversion' market), where sales tend to remain more or less stable from year to year. As a result of slack demand for new single-family homes, activity in the building sector is currently at an unusually low level in Sweden. Turnover for NIBE Heating as a whole amounted to SEK 356.8 million in 1998 or 35 percent of the group's total sales. NIBE Heating's export sales accounted for 23 percent of the division's total turnover. Operating profit was SEK 30.3 million, which corresponds to 33 percent of the group total.

*Group net sales and group operating profit for 1998 by Business Area*



### *NIBE Stoves*

The NIBE Stoves Business Area develops, manufactures and sells wood-burning stoves and chimney systems under the Handöl and Contura trademarks. The division also has agency agreements in Sweden for the sale of cast-iron stoves from Morsø of Denmark and Vermont Castings of the USA as well as tiled stoves from FinSpis of Finland, and is the market leader in Sweden with the bulk of its sales being made to private homes and holiday cottages. NIBE Stoves' sales for the year totalled SEK 124.8 million, equivalent to 12 percent of the group total. Foreign sales accounted for 11 percent of the division's turnover. Operating profit was SEK 15.2 million, or 17 percent of that for the group as a whole.

## Earnings Trend

NIBE accords great priority to both profitability and growth.

As a result of its unflagging efforts throughout the 1990s to increase productivity, NIBE is today able to offer the market competitive prices and conditions. Bolstered by a successful product development strategy, this has proved to be a guarantor of good organic growth even in times when demand is sluggish and competition intense.

Add to this an expansive acquisitions policy within the group's key areas which has helped to create a marked increase in volumes over recent years and the substantial synergetic effects of these takeovers which are consistently exploited in a systematic manner, and it is clear to see how NIBE has established a leading position for itself in the markets that it has chosen to prioritise.

This dynamic process of change has formed the basis for the enduring profitability that NIBE has shown over the past decade despite what have, at times, been difficult conditions on the market.

The group, which, thanks to its prudently invested assets, stands on a firm financial footing, is committed to fully exploiting its growth potential by continuing to take over suitable companies, investing in new product lines and developing its foreign interests in both manufacturing and product sales.

### *Financial targets*

The group's immediate target is to achieve an average year-on-year growth of 20 percent. Return on the group's equity over a business cycle must be at least 20 percent after standard deductions for tax, while the equity/assets ratio in the group must not fall below 30 percent.

### *Result for 1998*

Group net turnover for 1998 totalled SEK 1,026.8 million (1997: SEK 735.8 million) to produce a profit after tax and allocations of SEK 73.1 million (SEK 59.3 million).

### *Prospects for 1999*

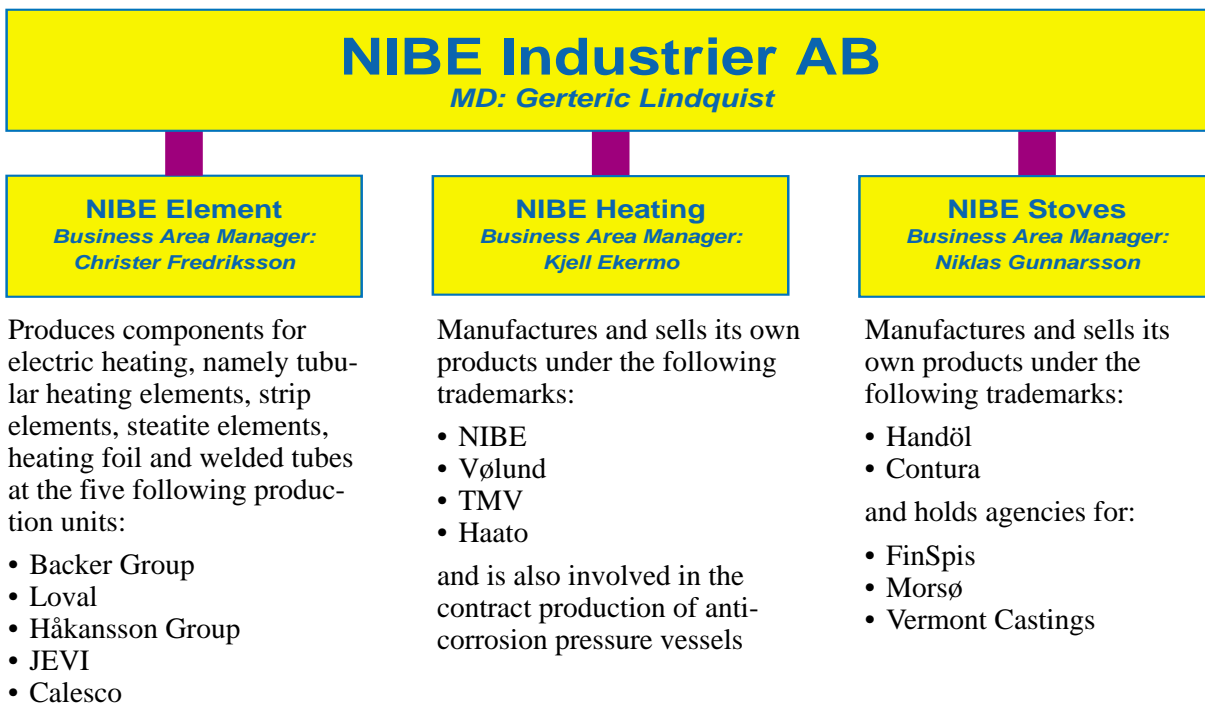
NIBE has a strong position on the markets to which it has chosen to accord priority.

The acquisitions made during the course of 1998 have enabled the group to benefit from substantial synergies at the same time as the steep rates of growth within existing units have opened up new potential for continued rationalisations.

All of which means that, despite the many uncertainties in the world around us, we feel confident in predicting that developments for the group will continue to be positive in 1999.

## Operational structure

The group consists of three separate divisions as shown below. Each division is a business area with its own operational management responsible for sales and results. Issues such as financing, currency management, corporate takeovers, new establishments, financial control, human resources and insurances are dealt with at group level.



# Historical Review

1949

Nils Bernerup establishes Backer in Sösådala, near Håssleholm in southern Sweden, together with the Norwegian inventor Christian Backer, whose patent for electric tubular heating elements forms the basis for production. Share capital is 5,000 Swedish kronor.

1952

Nils Bernerup sets up NiBe-Verken (using his initials to name the company) in Markaryd, southern Sweden, after the acquisition of Ebe-Verken, a company with just three employees. Here too the share capital is just 5,000 Swedish kronor.

1955

NIBE starts to manufacture electric water heaters, partly to meet the demand caused by new legislation which makes it mandatory to provide hot water in all the milking parlours throughout Sweden.

1956

Sven Christensson is appointed Managing Director at Backer. In the years leading up to his retirement in 1982, Sven Christensson is responsible for developing Backer into one of Europe's leading names in the manufacture of tubular elements.

1961

Rune Dahlberg is appointed Managing Director of NIBE-Verken and lays the foundations for the group's current operations with a string of highly successful recruitments and a strong focus on quality and rational production processes. Dahlberg remains MD until his retirement in 1987.

1966

Coronaverken becomes the majority shareholder in the Backer company.

1969

Norske Backer is established to supply the rapidly developing market for convector heaters in Norway.

1980

NIBE buys Handöl, for whom NIBE has been making wood-burning stoves since 1965.

1982

The shares in Backer are acquired by NIBE, and the Backer company once again becomes a wholly owned subsidiary.

1989

After 40 years in the Bernerup family, ownership of NIBE/Backer is transferred to the senior executives of the two companies after a management buy-out in conjunction with two external investors. NIBE Industrier becomes the parent company in the NIBE Group.

1993

NIBE and Backer are both accredited as complying with ISO 9001 quality management standards.

1994

The group takes over operations in the Contura wood stove factory at Skånninge and production is moved to Markaryd.

Backer acquires 32 percent of the shares in the Polish tubular element manufacturer OBR.

Backer Elektro Oy is set up after acquiring the tubular elements business from Backer's former agent in Finland.

1995

Takeover of the Danish water-heater and boiler manufacturer Vølund Varmeteknik. Vølund's production is moved to Markaryd while sales and service are run from a branch office in Denmark.

Acquisition of the tubular element company Loyal Oy in Lovisa.

The Loyal and Norske Backer units receive ISO 9001 quality management accreditation.

1996

Backer increases its stake in OBR to become the majority shareholder.

NIBE takes over TMV-Pannan's boiler manufacturing operations in Trelleborg, Sweden, making NIBE one of the leading names in the Swedish market for domestic boilers.

1997

The Board and owners resolve to issue NIBE Industrier's B-shares on the Stockholm OTC list.

OBR becomes a wholly owned subsidiary of Backer and is ISO 9001 quality accredited.

NIBE takes over the heat-pump manufacturer Energi-Produkter in Diö to add ground-source heat pumps to its range. Production moves to Markaryd.

1998

Takeover of the tubular element manufacturer, Bröderna Håkansson Värme AB, in Tjörnarp.

Acquisition of heat-pump operations in the Danish Lodam company provides another bridgehead on the European market. Production moves to Markaryd.

Takeover of the Danish tubular heating element manufacturer JEV I A/S.

Takeover of the foil element manufacturer Calesco Foil AB.

1999

Takeover of the Finnish water-heater manufacturer Haato Varaajat Oy. Haato becomes a subsidiary of NIBE AB.



*The NIBE Industrier Group has three overriding aims;*

- to achieve an average year-on-year growth of 20 percent.
- to achieve a return on the group's equity over a business cycle of at least 20 percent after standard deductions for tax.
- to ensure that equity/assets ratio does not fall below 30 percent.



*Gerteric Lindquist, the Group's Chief Executive Officer*

During 1998 turnover for the NIBE Group rose from SEK 736 million to SEK 1,027 million, representing an increase of some 40 percent or SEK 291.0 million. Of this total, SEK 183.6 million was acquired and SEK 107.4 million was organic growth.

Group pre-tax profits increased by more than 23 percent from SEK 59 million to SEK 73 million. Return on equity was 19.6 percent, while equity/assets ratio was 43 percent.

An expansion of 40 percent during just twelve months is an extremely demanding process for any industrial company, large or small, to undergo, and the fact that the NIBE Group has more than tripled its turnover over the past five years confirms the dramatic pace of our recent growth.

Pre-tax profits for the same period have increased more than fourfold from SEK 17 million to SEK 73 million.

So, what is the secret behind this rapid development, and will we be able to sustain this expansion in volume and our own targets for profitability over the coming years?

### *The world around us*

In the European market alone the potential for the products that the NIBE Group can now provide is estimated, in round figures, at some SEK 50 billion a year. With current sales of only slightly in excess of SEK 1 billion, our future prospects in Europe alone begin to look extremely promising.

In the long-term it is, of course, natural to turn one's attentions to the even bigger markets which beckon beyond the borders of Europe, but, for our part, there is no immediate rush to do so.



The typical company within all three NIBE divisions is a family business where, in many instances, the family members themselves still take an active interest. However, increasingly fierce competition and an extensive product range make ever greater demands not only on product designs, but on manufacturing and distribution processes as well. There are considerable differences between the various manufacturers and this means that, on many occasions, there is still plenty of potential for rationalisation.

That is why, aware of the possibilities for growth in what remains a fairly fragmented market, we have launched a strategy of consolidation by acquiring competitors, in the first instance in Europe.

Our development is also founded on stable organic growth as well as the improvement in profit margins arising, for example, from coordinated bulk purchases, a more rational approach to production management and shared distribution channels.

Consequently, we can look back on the past twelve months with satisfaction: not only has organic growth remained good but we have also made a further four highly significant strategic acquisitions.

#### *The seeds for success within NIBE*

Over the years eight key principles have assumed an ever-increasing significance for our operations as a whole.

These provide the foundation we need to continue to expand while never losing sight of our profitability requirements and, with these ideas to guide us, we can approach the challenges of organic growth and new acquisitions with confidence. Moreover, when each new company is welcomed into the NIBE Group, no one need ever be in any doubt about the industrial principles which underpin our work.

Our hope is that these fundamental principles, together with the positive historical development of our sales and profits, will create the long-term confidence that the company needs, both among existing shareholders and new ones alike.

#### *Profitability – our number one priority*

*The profitability requirement that the companies' employees endeavour to achieve is a net profit of 10 percent on turnover during a complete business cycle.*

Neither of the two original companies in the NIBE Group, Backer Elektro-Värme AB and NIBE AB, has ever had to report an operating loss in their year-end accounts. This creates respect not only for the fact that it is always possible to earn money even when market conditions are tough, but also for the insight that profitability is less a question of what industry you are working in and more a matter of the people you are working with and their instinct to win.

It is true that, during 1998, NIBE Element's operating margin fell from 9.2 percent to 8.2 percent, but the main reason for this is the fact that, relatively speaking, the companies we acquired during the year had lower margins and had not yet had the benefit of our various rationalisation and improvement programmes. It was much the same situation when we acquired Loyal in the autumn of 1995: then the company was performing clearly below the operating margin set for the business area as a whole, but, during the past three years, Loyal has improved to become NIBE Element's most profitable company.

In much the same way the operating margin for NIBE Heating also slipped from 9.3 percent to 8.5 percent. This can be explained by marketing and start-up costs in connection with commissioning our production plant in Poland as well as by costs incurred in conjunction with moving boiler manufacturing operations from Markaryd to Trelleborg and moving the operations in Lodam Energi from Denmark to Markaryd. Our previous experiences of transferring production, for example, with Contura in 1994 and Vølund in 1995, suggest that the positive effects are not felt fully until the financial year after the move.

NIBE Stoves, on the other hand, which has been able to increase its volumes substantially during the year without the need for new acquisitions or transferring production has increased its operating margin from 12.0 to 12.2 per cent.

### High productivity

*The independence of the NIBE Group and its expansion over the years is, to a great degree, a consequence of high productivity based on rational production processes and a workforce motivated by a flexible wage system.*

While flexible wage systems are not an uncontroversial issue in Sweden, we remain firmly convinced that flexibility is crucial for the continuing success of our entire operation. An efficient production apparatus working at a consistently high pace and motivated by the prospect of improved profits is the impetus behind all the other essential functions in a manufacturing company.

In the companies we take over, the basic payroll costs are often the section of the accounts which differs most from those in other existing NIBE companies, and, as such, this area represents the largest single potential for improvement. The reason for the discrepancy is that the companies tend to adopt a fixed hourly rate or monthly salary instead of a wage form based on performance.

### Our own product development

*The NIBE Group has constantly demonstrated a strong conviction for developing its own products. This approach not only enables us to react to and cope with demands in an ever-changing market, but it also means that we can offer customers the best solution in every market situation.*

A professional, broad-based product development policy is extremely important to maintain the 'soul' of a company. It is also a very important industrial signal to potential takeover candidates.

During 1998, for example, NIBE Element launched a new generation of defrosting elements and its own product development has been complemented with highly interesting new products deriving primarily from the acquisitions of Calesco (superfine foil elements) and JEVI (strip elements).

Among the innovations from NIBE Heating is a new generation of ground-source heat pumps with improved control, improved operating data and a more modern design.

For its part, NIBE Stoves has developed the first in a series of new wood-burning stoves under the Contura trademark where great emphasis has been paid to design, ease of use and, not least, to environmentally sound combustion. The new fire-box will also provide us with the platform we need for more models in the years to come.

### Quality-mindedness

*All the major manufacturing units within the NIBE Group are ISO 9001 accredited, but this is, in practice, little more than the formal acknowledgement of the quality-minded approach which has characterised thinking in these companies ever since they were first set up.*

Quality can never be achieved simply by a one-off bid to get a certificate to hang on the wall. Quality is something that is created day by day by the unflagging efforts of everyone at every level in a company to constantly do things better and by always being receptive to the customers' views on how things can be improved.

Moreover, in future, environmental awareness will be an increasingly important complement to the quality of the products themselves.

The work of ensuring that our operations comply with environmental management systems is already well under way and we estimate that, by May 1999, NIBE AB will be the first company in the group to have received ISO 14 001 accreditation.

### Staff commitment and potential

*The companies within the Group are renowned for having a sterling team spirit. Their non-hierarchical, 'flat' organisations give individual workers considerable freedom with equally considerable responsibility and allow talented people to assume responsible positions early in their careers. Managers should never act solely as executive decision-makers, but retain the direct operational involvement that is crucial for an in-depth understanding of their job and which also helps minimise overall payroll costs. We have always endeavoured to have a low turnover of staff, both to safeguard quality and to prevent anxiety outside the company as a result of an unsettled workforce.*

All too often the adage that 'a company's greatest resource is the people who work for it' has become merely a well-worn phrase trotted out to satisfy the perceived necessity of showing that a company is in tune with the times. On the other hand, a company that can look back on a fifty-year tradition of living and developing in this spirit lends a totally different weight to statements like this.

Being able to keep and develop the skilful co-workers a company already has, is a crucial factor behind success whenever there is a steady influx of new employees into an organisation, both via new recruitment and via corporate acquisitions.

#### *Long-term ownership*

*Continuity in ownership is one of the principal factors behind the success of the companies in the NIBE Group.*

At the same time as it marked a definitive change in the ownership structure, our introduction onto the Swedish stock market infused the group with a substantial portion of the new capital that is absolutely essential to our expansion plans.

It was also especially important to carry out the stock market introduction in a way which still enables us to remain fully independent. The significance of this independence has also made itself felt in a number of subsequent acquisitions, where the sellers have expressed a clear desire to remain under the long-term ownership of the NIBE Group rather than risk seeing their life's work being spread to the four winds.

#### *Concentrating on three core activities*

*Our operations concentrate on heating products. The fact that we have been working with tubular elements since the start in 1949, with domestic heating since 1952 and wood stoves since 1965 has focused attention on what always can and must be improved within the bounds of current operations at the same time as it has kept exposure to risks at a reasonable level.*

In addition to the obvious advantages that this focused approach has for the activities that already form part of the group, it also serves as an exceptionally valuable instrument when analysing potential takeovers of companies within our three core areas.

Right from the initial evaluation stage, it enables us to form a clear picture of what can and must be improved after a possible takeover, by comparing figures with our own key ratios. This is also communicated to the relevant corporate management prior to a takeover to guarantee understanding and facilitate implementation when the time for acquisition is ripe.

Our acquisition of the Håkansson Group, Lodam Energi, JEVI and Calesco during 1998, and of Haato in January 1999 are all examples of takeovers within our core areas, where we have been able to use our key ratios to complement our own extensive experience during the all-important evaluation stage.

As our avowed intention is to continue to acquire companies, in most instances foreign ones, at the current rate, the significance of this analytical instrument will grow even further in the years to come.

#### *First number one at home – then the leap abroad*

*This philosophy is based on experience. Firstly, a strong position on the domestic market is essential for maintaining credibility abroad. Secondly, venturing abroad is an expensive business which takes a long time, so stable finances generated in the home market are crucial for reaching the ultimate goal. And thirdly, there must be some guarantee of delivery capacity to the new export market when orders begin to flow in. Trying to build up markets at home and abroad at the same time all too often ends up with domestic customers receiving preferential treatment.*

Today each of NIBE's three business areas is already the market-leader in its respective field in Sweden, which explains why, in the years to come, we will need to look abroad both for organic growth and for future acquisitions.

We intend to realise this by using the simple 'ripples on water' principle in all our foreign forays: first we will focus on our Scandinavian neighbours, then Europe and, finally, other continents.

## The Future

As always, the vision of the future that we embrace is one where the basic principles nurtured throughout the history of the NIBE Group can be merged with a strategy of acquisitive expansion to create a firm platform for continued growth and good profitability.

Export sales for NIBE Element already represent 74 percent of the business area's turnover and the opportunities for expansion are deemed good, thanks to continued organic growth, new acquisitions outside Scandinavia and the establishment of our own new manufacturing plants, primarily in low-cost countries. NIBE Heating and NIBE Stoves are still only on the threshold of their own international expansion, and the potential for them remains enormous. Moreover, it is our considered opinion that organic growth in conjunction with takeovers of yet more companies active in NIBE Heating's and NIBE Stoves' respective segments of the market can lead to expansion here at home in Sweden as well.

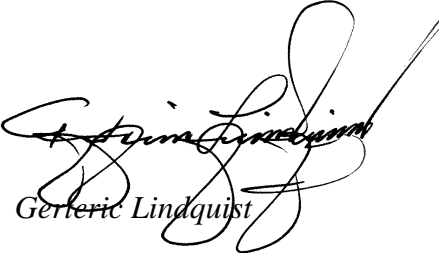
While house-building continues to remain at a very low level in Sweden, it still seems reasonable to assume that within the next few years it will start to rise to a level more on a par with our international neighbours. It is our opinion that, in the longer term, this will bring advantages in all three of the NIBE Group's business areas.

By working resolutely to achieve their aims, the three business areas have created a strong position for themselves on the markets which they have chosen to prioritise, thus providing a springboard towards continued growth and good profitability.

The operations acquired during 1998 are now undergoing our customary rationalisation programmes, the results of which are expected to reveal themselves in dramatically improved profits. At the same time, strong organic growth in our existing units makes improved margins a real possibility as well, thanks to the opportunities this brings for yet more standardisation and coordination and improved rationalisation.

Over recent years developments have been sluggish on NIBE Element's main markets while they have been better than anticipated for both NIBE Heating and NIBE Stoves.

While there is no doubt that our ongoing internal improvement work will have a positive effect on the group's overall result for 1999, the current state of flux in the world around us makes any forecasts of market developments for the year ahead a difficult task. We will therefore wait with our own forecast of the figures for 1999 until we know the results of the first six months.



Gerteric Lindquist



## Net Sales

Group net sales increased during 1998 by 39.5 percent to SEK 1,026.8 million (1997: SEK 735.8 million), with an increase in all three business areas. NIBE Element was responsible for the largest increase in relation to its previous volume, namely 55.0 percent. Of this increase, 47.8 percent can be ascribed to acquisitions. Of the 26.9 percent increase for NIBE Heating, 22.0 percent can be ascribed to organic growth as a result of increased demand from the Swedish market in all product areas and a continued rise in demand abroad. The 19.4 percent increase for NIBE Stoves is attributable entirely to organic growth, mostly as a result of increased demand in Sweden.

Group net sales outside Sweden rose by 50.3 percent to finish the year at SEK 506.0 million (1997: SEK 336.6 million). This took foreign net sales to 49.3 percent (1997: 45.7 percent) of total net sales.

On the Swedish market, group net sales rose by 30.5 percent to SEK 520.8 million (1997: SEK 399.2 million).

SEK 183.6 million of the increase in group total net sales of SEK 291.0 million was attributable to the effect of acquired businesses. The remaining SEK 107.4 million was the result of organic growth in comparable units. Of the acquired turnover SEK 169.8 million accrued to NIBE Element and SEK 13.8 million to NIBE Heating.

## Results and Financial Position

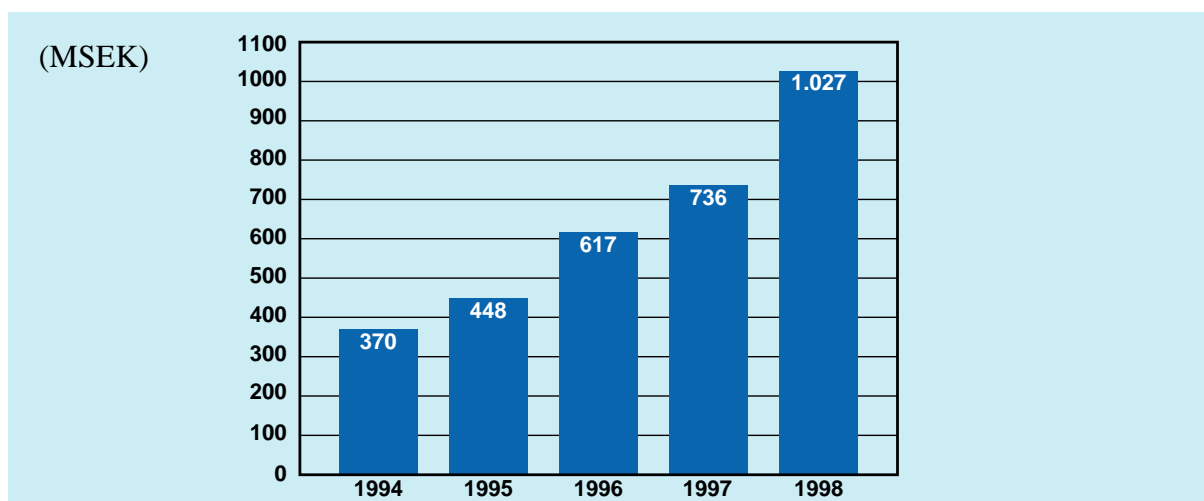
Group operating profit for 1998 totalled SEK 82.4 million (SEK 63.9 million), an increase of 29.0 percent. The operating margin backed slightly from 8.7 percent to 8.0 percent. This is explained by the fact that the businesses acquired during the year generally had lower margins than those businesses already incorporated into the group and that the full effects of the various improvement programmes introduced by NIBE had not been fully felt by the time the year-end accounts were prepared.

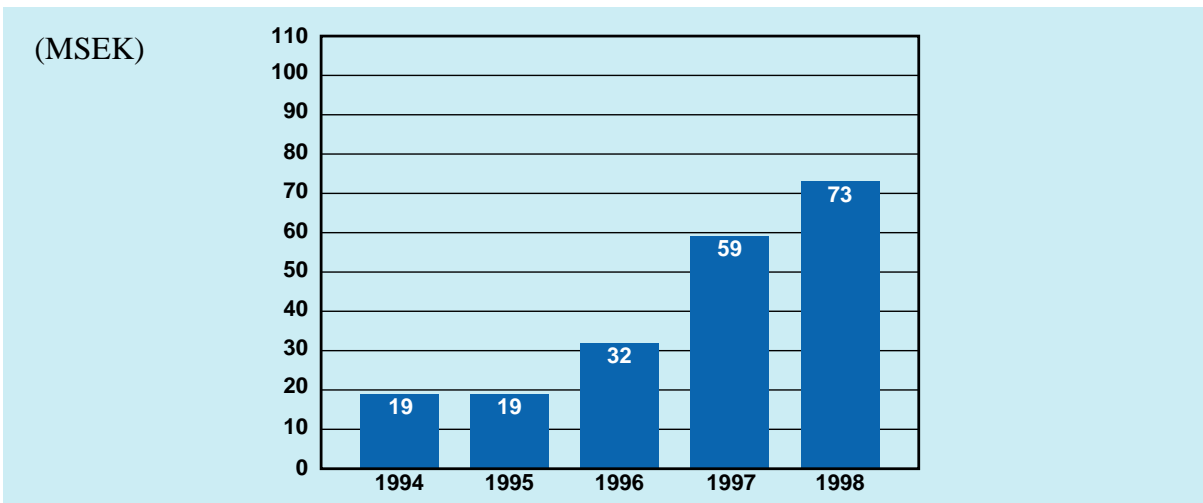
In percentage terms, the improvement in profit has been greatest for NIBE Element, where it amounted to 38.7 percent. For NIBE Heating the figure was 16.1 percent and for NIBE Stoves 21.6 percent. The business areas have been charged with depreciation on both fixed capital and goodwill, but not with the expenses incurred by the parent company.

Net interest expenses for the group were SEK 7.4 million (1997: SEK 4.5 million), with SEK 2.2 million of the increase attributable to unrealised exchange losses on loans taken up in connection with the acquisition of foreign companies and SEK 0.7 million accruing from changes in net borrowing and changes in interest rates.

The NIBE Group's pre-tax profit was SEK 73.1 million, an increase of 23.3 percent over last year's figure of SEK 59.3 million.

### Net sales



*Result after financial items*

Income tax and deferred taxes amounted to SEK 24.5 million (SEK 18.1 million), equivalent to a total tax rate of 32.6 percent (30.5 percent) based on the result before deductions for the results of subsidiaries prior to acquisition. The increased tax rate is attributable to increased, non-deductible depreciation of SEK 2.2 million, set-up costs in Poland of SEK 1.8 million which could not be written off against tax in 1998, and a one-off tax payment of SEK 0.8 million on an unapproved tax deduction.

The group's liquid assets at the end of the year totalled SEK 36.2 million (SEK 82.3 million) not including unutilised bank overdraft facilities of SEK 55.7 million (SEK 77.5 million). Available liquid assets have, in the main, be used to fund takeovers.

Group cash flow before changes in working capital amounted to SEK 84.9 million (SEK 67.6 million). Since working capital excluding cash increased by SEK 80.2 million (SEK 3.8 million), cash flow from current operations amounted to SEK 4.7 million (SEK 63.8 million). The group's need for working capital excluding cash is usually about 15 to 17 percent of group income. Using this as a measure, working capital amounted to 16.8 percent at the year-end.

## Investments

Group investments for the year totalled SEK 112.8 million (SEK 35.3 million) of which SEK 52.0 million (SEK 25.2 million) represented investments in plant and machinery, SEK 10.9 million (SEK 0.4 million) investments in property, SEK 5.3 million (SEK 0.7 million) construction in progress, SEK 42.8 million (SEK 8.8 million) goodwill, SEK 0.2 million (SEK 0.2 million) intangible assets and SEK 1.5 million (SEK 0 million) long-term securities.

### *Credits from financial institutions and pension institutions (in SEK million)*

	1998	1997
Loans at variable interest rates and (redemption: 10 yrs)	108.0	(77.6)
Unutilised part of bank overdraft facility granted at variable interest	32.0	(0.7)
Provisions for PRI pensions	22.2	(20.5)
Total interest-bearing liabilities	162.2	(98.8)
Unutilised overdraft facilities	55.7	(77.5)
Total available credits	217.9	(176.3)

The group's total interest-bearing liabilities on 31 December 1998 were SEK 162.2 million (SEK 98.8 million). Average interest expense for all interest-bearing liabilities during 1998 was 5.9 percent (5.7 percent).



## Equity/Assets ratio

Group solidity (equity/assets ratio) stood at 43.1 percent (47 percent) on 31 December 1998. Group equity including minority shareholdings was SEK 289.2 million (247.1 million).

### *Collateral provided*

Real estate mortgages of SEK 52.2 million (SEK 45.1 million), chattel mortgages of SEK 88.3 million (SEK 79.2 million) and shares in subsidiaries of SEK 302.2 million (SEK 267 million) have been pledged as security for loans and business credits.

## Yield

The group's profitability target is for return on equity in the long term to amount to 20 percent. In 1998, return on equity was 19.6 percent (22.5 percent).

Return on capital employed was 20.9 percent (21.8 percent).

For the profit centres in the group, the profitability target is for operating margin (in other words, operating profit as a proportion of turnover) to amount, on average over a business cycle, to 10 percent for each individual profit centre. The operating margin for NIBE Element during 1998 amounted to 8.2 percent (9.2), for NIBE Heating to 8.5 percent (9.3), and for NIBE Stoves to 12.2 percent (12.0). During 1998, the operating margin for the group as a whole was 8.0 percent (8.7).

## Currency exposure

### *Day-to-day transactions*

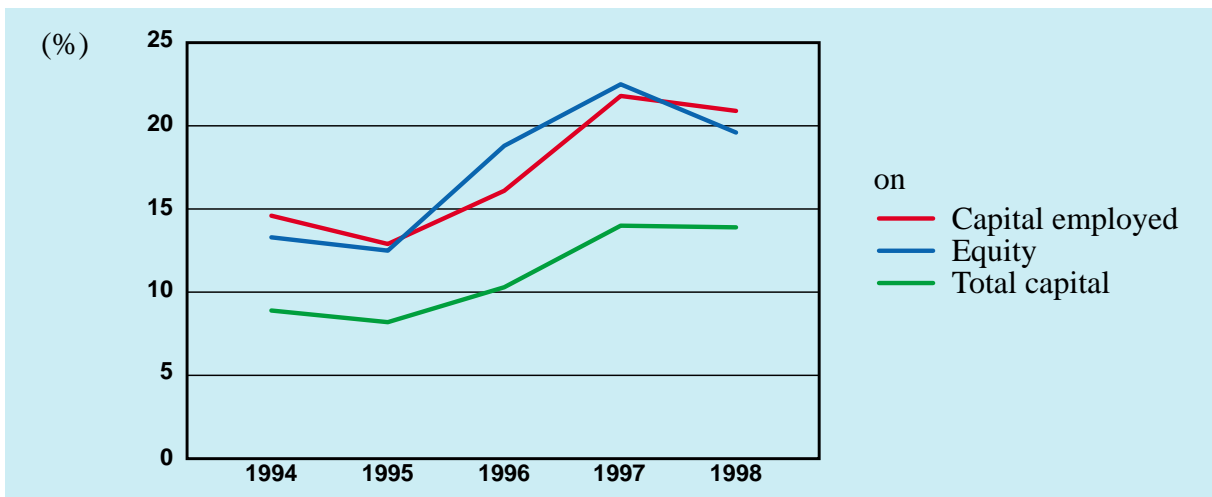
During 1998 73 percent of the total amount invoiced by the group from Sweden was invoiced in Swedish kronor. In the event that invoicing and purchasing are carried out using a different currency, forward cover is taken out for the estimated net flow on a continuous basis for the subsequent 6 – 12 months.

Total net flow in 1998 was in the region of SEK 182 million. The largest net inflows during the period were FRF 54 million and DEM 41 million, while the largest net outflows were USD 16 million and FIM 9 million.

### *Investments in foreign currency*

The value of foreign net assets according to the consolidated balance sheet on 31 December 1998 amounted to approximately SEK 97 million, of which the kronor equivalent of SEK 43 million consisted of net assets in Finnish marks (FIM), SEK 15 million in Norwegian kroner (NOK), SEK 27 million in Polish zloty (PLN) and SEK 12 million in Danish kroner (DKK). Of the net assets in FIM, SEK 14 million has been covered through a loan in FIM. No other hedging has been applied.

### *Yield*



## Acquisitions

In March 1998 the Group took over operations in Bröderna Håkansson Värme AB, Tjörnarp (parent company) and in its wholly owned subsidiaries, Brakon Norge A/S of Jevnaker in Norway and Tjörnarp Industri AB of Tjörnarp Sweden, as well as in the 90-percent owned Meyer Vastus Oy, of Monninkylä, Finland. The figures for all of these companies are consolidated into the NIBE Group accounts with effect from 1 January 1998.

In June the Group took over the Danish heat pump company, Lodam Energi A/S, transferring production to NIBE's factory in Markaryd during the autumn.

In July the Group took over the Danish tubular element manufacturer, JEVI A/S of Vejle, Denmark. The figures for JEVI are consolidated into the NIBE Group accounts from the date of the takeover as this coincided with JEVI's year-end.

In October the Group took over Calesco Foil AB of Kolbäck. The figures for Calesco are consolidated into NIBE Group accounts with effect from 1 January 1998, making the necessary adjustment for the result which had accrued prior to the acquisition.

In January 1999 the Group took over the operations of the Finnish company Haato Varaajat Oy, one of Finland's leading names in the manufacture of stainless steel water heaters and heat pumps.

## Staff and salaries

The development of staff numbers, salaries, other remuneration and social security contributions are shown in Note 3 of the annual report.

## The millennium

The work of securing key systems and routines to move the NIBE Group into the new millennium without any problems has been under way since the beginning of 1998. Extensive internal investigations have been made to trace systems and equipment which run the risk of malfunction in connection with the date changes. This work is still in progress: tests are being carried out continuously and, where necessary, equipment and systems are being replaced. Our considered opinion is that we have the situation well in hand and that any adaptations that need to be made will have been carried out in good time before the advent of the new millennium.

## Key financial ratios

		1998	1997	1996	1995	1994
Invoiced sales	(MSEK)	1,026.8	735.8	617.0	448.0	370.1
Growth	(%)	+ 39.5	+ 19.3	+ 37.7	+ 21.1	+ 20.2
Operating income after financial inc./exp.	(MSEK)	731	59.3	32.4	19.2	18.7
Investments in buildings and machinery <sup>1)</sup>	(MSEK)	62.9	25.6	28.1	16.2	16.9
Gross margin	(%)	11.4	12.3	10.4	10.1	11.0
Operating margin	(%)	8.0	8.7	6.4	5.7	6.3
Net profit margin	(%)	7.1	8.1	5.2	4.3	5.1
Capital employed	(MSEK)	451.4	345.9	262.3	263.5	177.0
Equity	(MSEK)	288.6	247.1	133.5	114.5	107.0
Return on capital employed	(%)	20.9	21.8	16.1	12.9	14.6
Return on adjusted equity	(%)	19.6	22.5	18.8	12.5	13.3
Return on total assets	(%)	13.9	14.0	10.3	8.2	8.9
Asset turnover	(times)	1.72	1.56	1.50	1.29	1.32
Equity/assets ratio	(%)	43.1	47.0	31.9	28.5	36.5
Proportion of risk-bearing capital	(%)	49.8	54.3	40.8	37.5	48.0
Interest coverage ratio	(times)	8.2	9.7	4.3	3.1	4.0
Interest-bearing liabilities/Adjusted equity	(%)	56.2	40.0	96.0	130.1	65.4
Number of shares		5,870,000	5,870,000	4,700,000	4,700,000	4,700,000

All annual figures are adjusted for 28% tax.

<sup>1)</sup> Excluding increments arising from corporate acquisitions in 1995 (SEK 29.0 million) and 1996 (SEK 1.7 million).

## Definitions

**Growth**

Percentage change in invoiced sales compared with previous year.

**Gross margin**

Operating profit before depreciation as a percentage of invoiced sales.

**Operating margin**

Operating profit as a percentage of invoiced sales.

**Net profit margin**

Profit after net interest income/expenses as a percentage of invoiced sales.

**Capital employed**

Sum of assets minus non interest-bearing liabilities and deferred taxes.

**Adjusted equity**

Taxed equity plus untaxed reserves minus tax.

**Return on capital employed**

Result after net interest income/expenses plus financial expenses as a percentage of average capital employed.

**Interest-bearing liabilities/Adjusted equity**

Interest-bearing liabilities as a percentage of equity.

**Return on adjusted equity**

Result after net interest income/expenses minus tax at standard rate (28%) as a percentage of the average equity.

**Return on total assets**

Result after net interest income/expenses plus financial expenses as a percentage of average balance sheet total.

**Asset turnover**

Invoiced sales divided by average balance sheet total.

**Equity/assets ratio**

Assets as a percentage of balance sheet total.

**Proportion of risk-bearing capital**

Equity incl. minority shareholding and deferred taxes as percentage of balance sheet total.

**Interest coverage ratio**

Result after net interest income/expenses plus interest expenses divided by interest expenses.

## NIBE shares

NIBE Industrier AB's B-shares were floated on the Stockholm Stock Exchange's OTC list on 16 June 1997, after a new issue of 1,170,000 B-shares. The subscription price at the time was SEK 70 per share.

### Share capital

The share capital of NIBE Industrier AB amounts to SEK 58.7 million, divided into 940,008 A-shares and 4,929,992 B-shares. Every A-share is entitled to 10 votes at the Annual General Meeting and every B-share to 1 vote. All shares have the same right to participate in the Company's assets and profits.

## Ownership

On 31 December 1998, NIBE had 2,975 shareholders. The ten largest shareholders held 65.8 percent of the votes and 45.2 percent of the capital.

## Ownership structure (source: VPC AB Share Book, 30 December 1998)

Name	Number of shares	Percentage of votes
Board and Senior Executives <sup>1)</sup>	1,937,700	53.37
Beleggingen Weberstan BV	750,960	20.00
Sjätte Allmänna Pensionsfonden	405,100	2.83
Robur Småbolagsfond Norden	370,000	2.58
Svolder AB	299,000	2.09
Other holdings (2,953 shareholders)	2,107,240	19.13
Total	5,870,000	100.00

<sup>1)</sup> For Board of Directors, see also page 42.

## Shareholder statistics (source: VPC AB Share Book, 30 December 1998)

Number of shares	Number of shareholders	Share of ownership (%)	Number of shares	Proportion of shares (%)
1 – 500	2,578	86.65	490,549	8.36
501 – 1,000	238	8.00	205,418	3.50
1,001 – 5,000	100	3.36	243,117	4.14
5,001 – 10,000	14	0.47	108,300	1.84
10,001 – 100,000	32	1.08	1,252,004	21.33
100,001 –	13	0.44	3,570,612	60.83
Total	2,975	100.00	5,870,000	100.00

## Dividend policy

The aim is that in the long term the Company will distribute a dividend equivalent to 25 to 30 percent of Group profit after full tax. For the trading year 1998, the Board of

Directors proposes a dividend of SEK 2.50 per share, which constitutes 30 percent of Group profit after full tax.

## Changes in share capital

Year	Increase in share capital (SEK)	Nominal amount (SEK)	Total number of shares	Total share capital, (SEK)
1990 New issue <sup>1)</sup>	6,950,000	100	70,000	7,000,000
1991 Bonus issue	40,000,000	100	470,000	47,000,000
1994 Split 10:1 <sup>2)</sup>	–	10	4,700,000	47,000,000
1997 New issue	11,700,000	10	5,870,000	58,700,000

<sup>1)</sup> Directed new issue to current shareholders at a subscription price of SEK 100 per share.

<sup>2)</sup> Change in the nominal value of shares from SEK 100 to SEK 10.

## Share data

	1998	1997	1996	1995	1994
Number of shares	5,870,000	5,870,000	4,700,000	4,700,000	4,700,000
Share price 31/12 (SEK)	124.00	173.00			
Profit/share after full tax (SEK)	8.26	7.80	4.71	3.07	2.60
Equity/share (SEK)	49.17	42.10	28.40	24.36	22.77
Proposed dividend (SEK)	2.50	2.00	1.28	0.64	1.25
Price/equity	2.52	4.11			
Yield (%)	2.02	1.16			
Dividend percentage (%)	30.3	28.5	27.2	20.8	48.1
PE ratio after full tax	15.0	22.2			
Market value (SEK million)	728	1.016			

## Definitions

### Profit after full tax per share

Profit after full tax divided by the average number of shares.

### Equity per share

Equity divided by number of shares.

### Yield

Dividend as percentage of share price at the year end.

### Dividend percentage

Dividend as a percentage of earnings per share at the year end.

### Price / Equity

Share price per share divided by equity per share, both at accounting year end.

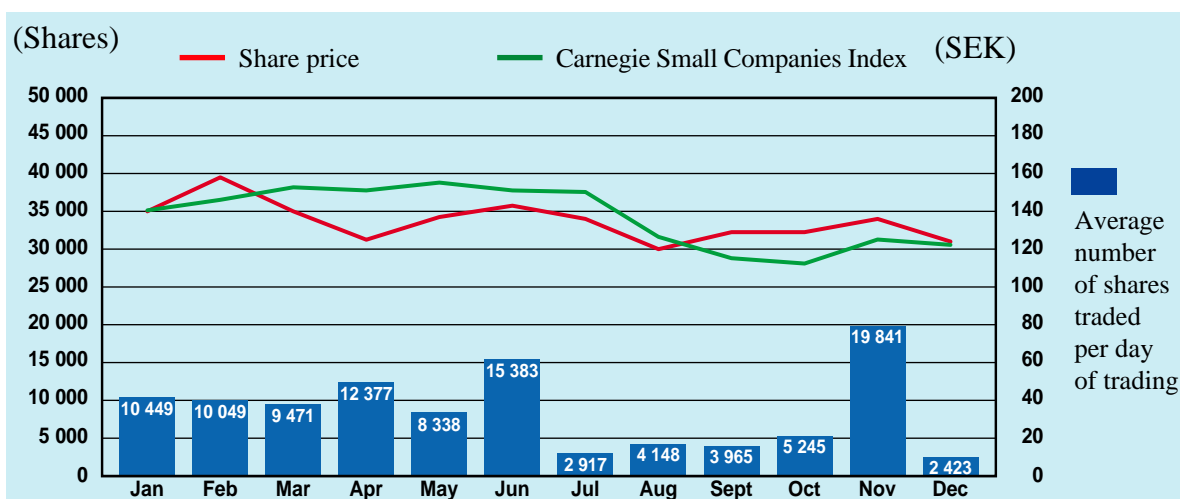
### PE-ratio after full tax

Share price at accounting year end divided by earnings per share.

### Market value

The share price at the accounting year end multiplied by number of shares.

## Shares traded per day with share price and Carnegie Small Company Index





*Business Area Manager Christer Fredriksson.*

		1998	1997	1996	1995	1994
Net sales	(MSEK)	552.4	356.4	300.4	202.4	158.2
Operating profit <sup>1)</sup>	(MSEK)	45.5	32.8	19.1	17.4	17.9
Operating margin	(%)	8.2	9.2	6.4	8.6	11.3
Number of employees		925	685	617	521	262

<sup>1)</sup> Before costs distributed among the group as a whole.

## Mission Statement

NIBE Element develops and produces, or purchases, electric heating components and systems, and markets them to industrial manufacturers and other users of heating products.

As a complement to these activities, the division also manufactures and markets welded tubes.

## Objective

The division aims to achieve a profit of at least 10 percent on turnover during a complete business cycle.

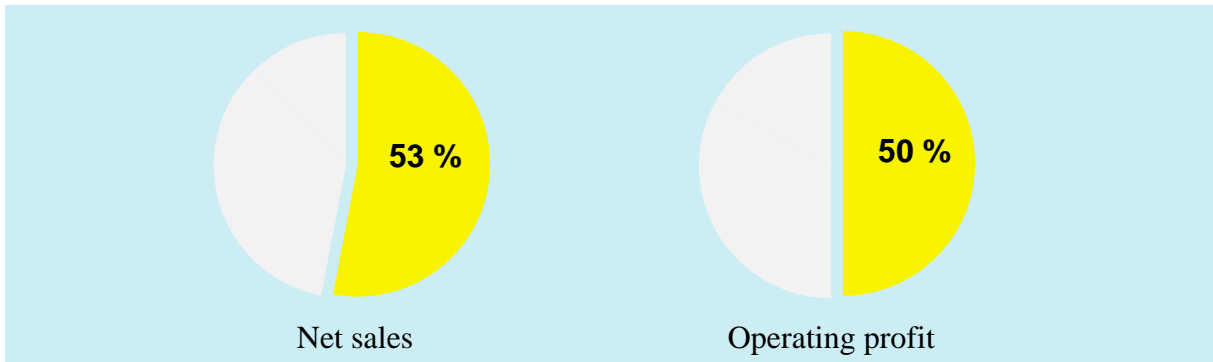
## Strategy

NIBE Element's strategy is to be the market leader within its product area in northern Europe. On the Scandinavian market NIBE Element markets a complete range, has a local presence and canvases the entire market from small industrial customers to major users of components.

On a European level NIBE Element aims to become one of the leading figures.

Outside northern Europe, we will concentrate primarily on medium-large and large-scale serial production and special products.



*NIBE Element's contribution to group sales and operating profit 1998*

## Structure

The business area has acquired various companies to achieve its strategic objective of becoming the market leader in its segment in northern Europe.

In March 1998 NIBE acquired all the shares in Bröderna Håkansson Värme AB.

The tubular element manufacturer Bröderna Håkansson Värme AB is the parent company in the Håkansson Group, which also includes Meyer Vastus Oy in Finland and Brakon A/S in Norway. The accounts of the Håkansson Group were consolidated in those of the NIBE Industrier Group from the start of 1998.

With the takeover in July 1998 of the Danish tubular element manufacturer JEVI, NIBE Element achieved the position as the market leader in the Danish market. The figures for JEVI were consolidated in those of the NIBE Industrier Group with effect from July, as the takeover date coincided with the company's own year-end.

Calesco Foil AB manufactures foil elements, a growth area which complements NIBE Heating's other technology. The company was taken over in September, but the accounts are being consolidated from the beginning of 1998, after making the necessary adjustments at group level to the profits that accrued prior to the takeover.

As a result of these acquisitions NIBE Element currently has five marketing units:

- The Backer Group with manufacturing units in Sweden, Norway, Finland and Poland.

The Backer Group's Finnish company, Backer Elektro Oy, will be coordinating its activities to merge with the Finnish arm of the Håkansson Group, Meyer Vastus Oy, during 1999.

- Loval Oy with a factory in Finland.
- The Håkansson Group with manufacturing in Sweden, Finland and Norway.
- JEVI A/S with a factory in Denmark.
- Calesco Foil AB with a factory in Sweden.

To safeguard the future of its front-rank position in the Scandinavian countries and to be able to continue to offer clients a number of alternative solutions, NIBE Element has decided that marketing will be carried out separately for these five areas of business. Outside Scandinavia, on the other hand, marketing measures for all five areas will be coordinated wherever appropriate.

The companies in the NIBE Element business area are run independently as individual profit centres, cooperating to benefit from economies of scale in areas such as purchasing, product development, production technology, investments and administrative development. In the first instance the main focus will be on standardisation, coordinated bulk purchasing and an increase in internal materials procurement work.



*Christer Fredriksson with a foil element used for heating rear-view mirrors.*

improved performance, ever higher quality and more cost-effective production.

The trend is gradually moving towards an increasing degree of customisation, and to customer projects where the business area shoulders responsibility for a large delivery.

With the acquisition of JEVI and the Håkansson Group, the business area has gained access to markets and products within the plastics industry, such as strip elements and high-energy elements.

With the acquisition of JEVI, NIBE Element has also consolidated its position within the market for non-exploding elements and other types of elements essential for the off-shore industry, while the takeover of Calesco has enabled us to complement our existing range with foil elements, a new technology for which we believe, the prospects are extremely promising.

These foil elements provide a complement to the existing tubular elements for applications at lower temperatures and outputs. The main applications for these elements include heating certain types of medical equipment, rear-view mirrors in cars and water beds, as well as specific applications in telecommunications.

## Products

The NIBE Element product range comprises components and systems for electric heating applications, which can be divided into various areas as shown below.

The tubular element is the predominant product, but, while the basic technology has remained virtually unchanged for many years, the products themselves have been gradually perfected to meet demands for

Product group	Example of use	Product
Water heating	water heaters	heaters, tubular elements
Consumer products	cookers water beds	grill elements, tubular elements foil elements
Space heating	convectors	tubular elements made of aluminium
Vehicles	engine pre-heaters rear-view mirrors	immersion heaters, tubular elements foil elements
Special products	trains mobile telecommunications	load resistors, tubular elements foil elements
Plastic industry	plastic extrusion machines	strip elements
Catalogue standard	heaters for control boxes	PTC elements
System products	professional coffee-making machines	percolators, tubular elements
Machines	electrical test gear	
Components	stainless steel tubes	grooved tubes

## The Market

NIBE Element is the market leader within its product area in Scandinavia and one of the leading manufacturers in Europe, selling its products both as components to the light engineering industry (OEM or original equipment manufacturing) and to furnish industry's own requirements.

The business area's operations are international in their emphasis with sales to a number of European countries: 26 percent of NIBE Element's total invoiced value derives from Sweden, while the other Scandinavian countries together account for a further 36 percent. Outside Scandinavia, Germany is the major market with 12 percent of the total turnover, followed by France (10 percent) and Poland (5 percent).

As a result of the takeovers completed during the year, NIBE Element has extended the scope of its international activities, not least via the newly acquired Calesco, for whom almost 90 percent of turnover is generated outside Sweden and JEVI, which has helped us to achieve a position in the front rank of the market in Denmark.

On the business area's domestic markets we sell a complete product range, both for OEM clients and industrial users. Elsewhere our sales efforts are concentrated on products which offer unique features or towards services which reflect our specialised knowledge and products.



*Tubular elements for heating liquids.*

### *NIBE Element – turnover by geographical market*

	Sweden 26 %
	Finland 15 %
<b>NIBE Villavärme</b>	Norway 12 %
	Germany 12 %
	France 10 %
	Denmark 9 %
	Poland 5 %
	England 3 %
	Others 8 %

## Production Units



*Norske Backer A/S in Kongsvinger, Norway.*



*Backer Elektro-Värme AB in Sösdala, Sweden*



*Loval Oy in Lovisa, Finland.*

### *The Backer Group*

The Backer Group has three manufacturing plants.

Backer Elektro-Värme AB in Sösdala, Sweden, is the Backer Group's major production facility employing some 290 people. The plant's specialities include aluminium elements, load resistors and elements with built-in temperature control and cut-off functions.

Operations here have been certified in accordance with ISO 9001 since 1993.

Norske Backer A/S, which employs around 50 people in Kongsvinger, is responsible for Backer Group operations in Norway and specialises in non-exploding elements for the off-shore industry, storage heaters and certain elements for heating liquids.

Operations here have been certified in accordance with ISO 9001 since 1995.

Backer-OBR Sp. z o. o. in Pyrzyce, Poland, has approximately 120 employees who work chiefly to satisfy the demand in the Polish domestic market and with sub-contracted work from other units within the NIBE Group. This factory specialises in the production of heating elements for ovens.

The factory was extended in 1998 to double the available production space.

Backer-OBR has been quality certified in accordance with ISO 9001 since 1997.

### *Loval Oy*

The Loval Oy factory, in Lovisa, Finland, currently employs around 210 people and is a self-contained unit which develops, manufactures and markets tubular elements, in particular high-quality vacuum-soldered elements, elements for sauna heaters and extra long elements.

Operations here have been quality certified in accordance with ISO 9001 since 1995.

### *The Håkansson Group*

The Håkansson Group also has three manufacturing plants.

Bröderna Håkansson Värme AB in Tjörnarp, Sweden, is the main production plant with some 80 employees specialising in finned elements and soldered elements. An investment programme is already under way to rationalise production here.

Meyer Vastus Oy, the Håkansson Group's factory at Monnenkylä in the south of Finland, employs 15 people to serve the needs of the industrial market.



The specialities here are various elements for the plastics industry, but Meyer also builds and sells a number of system products.

There are plans to transfer the operations of the Backer Group's Finnish company, Backer Elektro Oy, to Meyer early in 1999, a merger which is expected to reap substantial benefits at the same time as it enables the group to offer a complete product range.

Brakon Norge A/S, located in Jevnaker, Norway, is the Norwegian arm of the Håkansson Group, employing around 10 people whose speciality is producing small and medium-sized production runs.

#### *Jevi A/S*

Jevi A/S is located in Vejle, Denmark. The company, which produces a wide range of products for electric heating applications within industry has approximately 90 employees and is the market leader in Denmark. Specialist areas include load resistors and elements for the plastics industry, but Jevi also manufactures and markets batteries and non-exploding elements.

#### *Calesco Foil AB*

Calesco Foil AB is located in Kolbäck, Sweden. The company has around 90 employees.

Calesco manufactures foil elements, both in metallic and polymer foils. These elements, which are used for heating car rear-view mirrors, water beds and medical equipment as well as for a number of applications in the electronics industry, provide a useful complement to the business area's other products, and the prospects for growth within this sector are regarded as excellent.

Calesco Foil has been ISO 9001 accredited since 1997.

## NIBE Element in 1998

NIBE Element's net sales for the year rose by 55 percent from SEK 356.4 million to SEK 552.4 million.

The companies acquired during the year accounted for SEK 172.2 million of this increase, which means that last year's orga-

nic growth for those companies which formed part of the business area in 1997 amounted to 7.2 percent.

The operating result for NIBE Element rose from SEK 32.8 million in 1997 to SEK 45.5 million in 1998.

This positive trend in profits owes much to the favourable development of existing units, complemented by a positive result from the newly acquired companies.

## Prospects for 1999

For most of the units in the division the market development at the beginning of the year is expected to be rather weak, and the necessary measures have been taken to adjust capacity and costs, both now and in the future to tailor operations to the situation on the market. The business area's sensitivity to trends in the market is intimately related to the trade outlook of the light engineering industry as a whole, with the order books of NIBE Element acting as an early indicator of upturns and slumps in demand.

While increasing competition combined with a downturn in demand will lead to increased pressure on prices within certain segments, we believe that our increased focus on special products within several units will help to counteract this.

The work of coordinating the activities of newly acquired companies with those of our existing ones is an ongoing process. For example, the operations of our two Finnish companies, Backer Elektro Oy and Meyer Vastus Oy, will be merged during the first three months of the year. In the first instance we will concentrate on standardisation, purchasing coordination and the increased internal procurement of materials.

Weak demand during the early part of the year is expected to lead to somewhat lower first-half profits. However, demand is expected to pick up again in the autumn to take second-half profits to a level in excess of that for the corresponding period in 1998.



*Business Area Manager Kjell Ekermo*

		1998	1997	1996	1995	1994
Net sales	(MSEK)	356.8	281.2	242.3	185.6	161.0
Operating profit <sup>1)</sup>	(MSEK)	30.3	26.1	16.5	12.3	10.3
Operating margin	(%)	8.5	9.3	6.8	6.6	6.4
Number of employees		392	330	269	214	204

<sup>1)</sup> Before costs distributed among the group as a whole.

## Mission statement

NIBE Heating develops, produces or purchases and markets products that maintain a comfortable indoor temperature in single-family homes and small premises by means of heating, ventilation, cooling and heat recovery, as well as products for heating domestic hot water. The emphasis is on products incorporating pressure vessels lined to resist corrosion.

## Objective

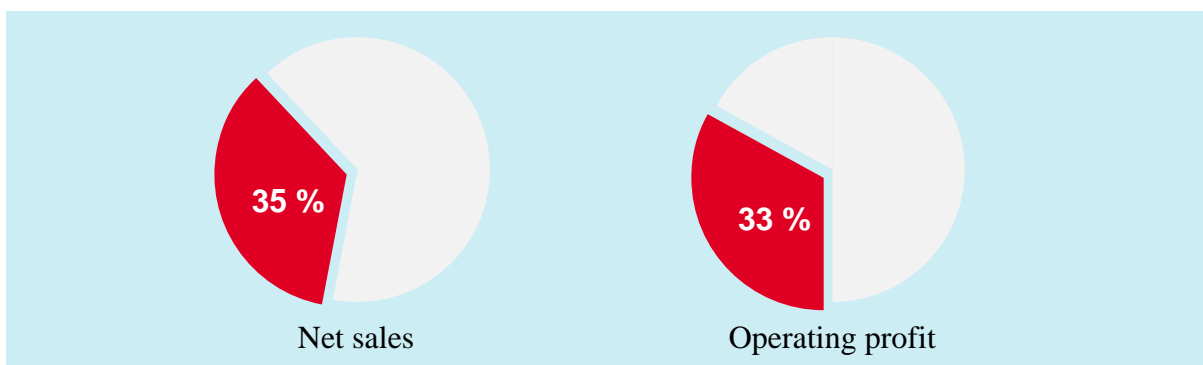
The division aims to achieve an operating profit of at least 10% on its turnover during a complete business cycle.

## Strategy

NIBE Heating's strategy is to consolidate the business area's current position as the number one name in Sweden and to become one of the market leaders in the other Nordic countries by offering products suited to the market that combine high quality and performance with a competitive price. We are continuing our efforts to gain ground on non-Scandinavian markets by establishing sales channels and the marketing of our own products in the segments to which we have chosen to accord priority, regardless of the market, namely:

- water heaters with direct or indirect heating
- heat pumps
- domestic water heaters, and
- sub-contracted manufacture of pressure vessels specially designed to withstand corrosion.



*NIBE Heating's contribution to group sales and operating profit 1998*

Our long-term aim is to increase the proportion of sales outside Sweden so that they constitute at least half of the division's turnover. We will do this by manufacturing attractively priced, high quality products adapted to local conditions and marketing them via a professional sales organisation. Our own investments in product development will play a crucial role in the success of this enterprise.

Offering the market a range of products that satisfy the different needs for a wide variety of heating systems at the same time as these products comply with stringent environmental demands is also a key aspect of the business area's strategy. It means that end customers are always able to choose a solution that is ideally suited to their needs and circumstances.

The breadth of the NIBE Heating range, together with the quality, performance and price of the products constitutes the business area's main competitive advantage.

## Structure

At the end of 1998 the business area had three production facilities – its main plant in Markaryd, a wholly owned subsidiary in Poland and the boiler factory in Trelleborg. From early 1999 onwards a fourth facility has been added, namely a plant for manufacturing water heaters in Helsinki, Finland.

Sales on the Swedish market, where NIBE has a dominant position, are handled by our own nationwide sales organisation.

Abroad most of our sales are managed by our importers, except in Denmark and Finland, where we have our own branch offices and in Poland, where we have our own subsidiary.

In Denmark, where, thanks mainly to our acquisition of Vølund Varmeteknik in 1995, we have now achieved our desired position among the market leaders, we have our own nationwide sales organisation, even though the Danish product range itself is manufactured in Markaryd. Growth in Denmark was good in 1998 and the Vølund brand is one of the strongest in this market.

In Finland we are, at present, represented both through our own newly established branch office (which sells products under the Haato name) and through an importer (which sells them under the NIBE brand). Here, too, we number among the leading companies in our particular segment of the market.

In the rest of Europe the sales of our non-corroding pressure vessels to the OEM sector remain buoyant. The design and manufacture of these specially customised products takes place in Markaryd, and our customers are leading European names and major users of pressure vessels for a variety of heating applications.

Since our takeover of Focus TMV Värme AB in Trelleborg, Sweden, towards the end of 1996, the factory there has been run as a branch of NIBE AB. In 1998 production of

domestic water heaters was wound up in Markaryd and subsequently transferred to Trelleborg, where all the business area's domestic water heaters are now made.

NIBE Polska, our own manufacturing subsidiary in Poland which has been producing water heaters for us there since 1997, has established a firm footing for itself on the Polish market over the past 12 months. Production is now up to speed and these operations will have a key role to play in NIBE's strategy for the future.

The basis for NIBE Heating's range of ground-source heat pumps was laid with the acquisition of Energi-Produkter i Diö AB in May 1997. At the time Energi-Produkter had a well developed ground-source heat pump concept with manufacturing and sales chiefly on the Swedish market. Production was transferred to Markaryd later in the year and in 1998 the concept was upgraded to include an entire new generation of these pumps. Demand for the products rose during the year, not only in Sweden, but also, to an even greater extent, abroad.

In June 1998 NIBE acquired the heat-pump operations of Lodam Energi A/S, one of Denmark's top names in this field. Under its Combi trademark, the company had developed and produced a heat pump which was voted 'Europe's most efficient' in 1997. Since production was transferred to Markaryd in the autumn, we can now offer an extremely modern heat-pump concept with superior performance to customers both in Sweden and abroad.

## Products

In 1998 NIBE Heating sold products under the trademarks NIBE, Vølund and TMV. These were joined in 1999 by the Haato brand. The range consists of the following products in a variety of models:

- small electric water heaters with capacities of between 15 and 100 litres
- modular water heaters based on a 60 x 60 cm standard size with capacities of between 100 and 300 litres
- water heaters for indirect heating in sizes ranging from 55 to 500 litres
- exhaust-air heat pumps
- ground-source heat pumps
- domestic boilers using electric, oil/electric, oil/electric/wood, wood and pellets
- customised water heaters up to 10,000 litres in size, heated by direct electricity or indirectly by other means
- sub-contracted production of anti-corrosion pressure vessels.

There are three main methods for preventing corrosion in water heaters; by lining the heater with copper, by stove enamelling the construction or by using stainless steel. A choice of solutions is necessary because of large variations in the chemical make-up of water in different geographical areas. In its efforts to make it possible for the customer always to choose the very best solution in each individual instance, regardless of the quality of the water, NIBE Heating is one of the few manufacturers to offer all three alternatives.

Small electric water heaters are found not only in the majority of weekend homes and summer cottages, but also in large premises as a complement to ordinary water-heating facilities wherever there are considerable

### *NIBE Heating – turnover by geographical market*

#### **NIBE Brasvärme**



Sweden	77 %
Denmark	10 %
Holland	6 %
Germany	4 %
Finland	2 %
Others	1 %

distances between the main heater and the tapping point. In circumstances like these a smaller heater can supply hot water without any significant heat loss during the transportation of the water to the tapping point.

Larger modular heaters are used primarily in single-family homes heated by electric radiators.

Water heaters which work by indirect heating are sold primarily to private homes in our export markets, where they are usually 'docked' to run together with gas or oil-fired boilers. In this instance the heating is effected with the aid of a heat-exchanger coil placed in the water heater.

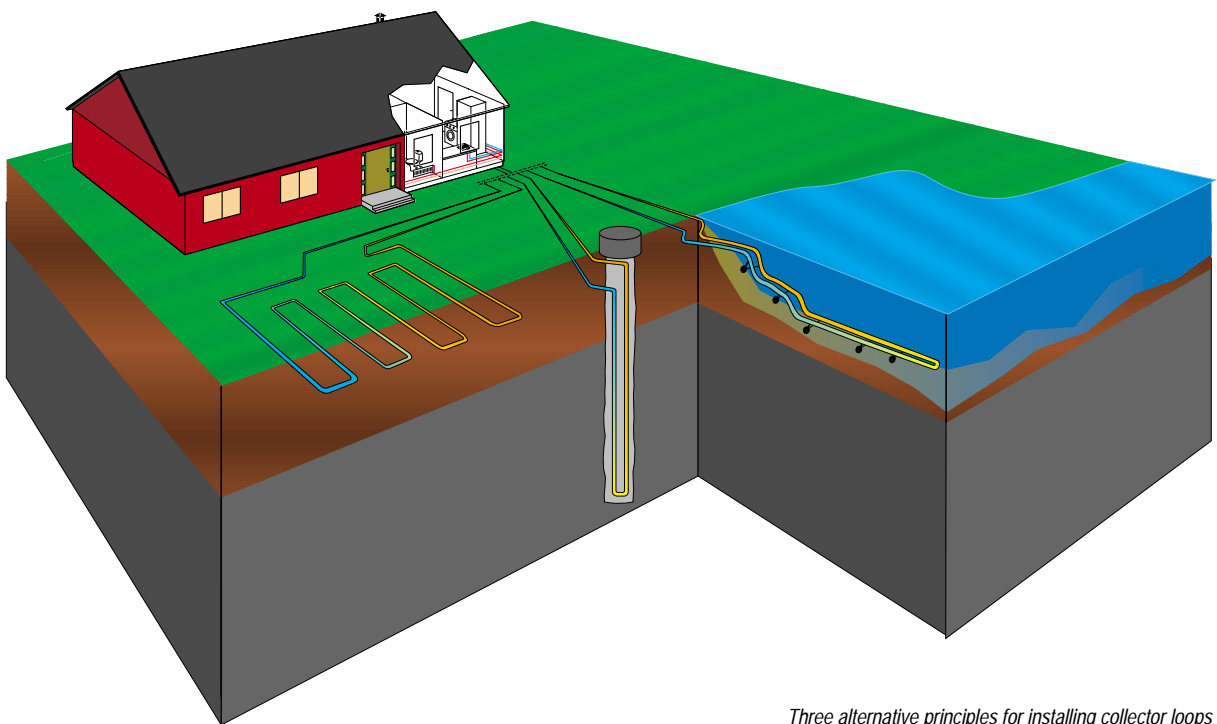
Exhaust-air heat pumps have been in the range since 1981 and are installed primarily in newly built single-family homes. This particular type of heat pump ventilates the entire building in accordance with statutory norms and recovers energy from the ventilated air. The air is forced through the heat pump and cooled to a temperature of just above 0°C before being released outside.

The energy removed from the air can then be used to heat domestic hot water and for hot-water radiators or underfloor heating, thus helping to maintain a healthy indoor environment while significantly reducing domestic energy costs.

Ground-source heat pumps can contribute to substantial savings in private homes with hot-water radiators and high energy consumption. The more energy consumed, the greater the potential for savings. The pumps are available in models with or without a hot-water generating function. Interest in these really began take off in 1998, not only in Sweden, but abroad as well, where this form of energy conservation has recently become the focus of considerable attention.

Electric boilers are most common in single-family homes from the 1970s and early 1980s, and the models marketed by NIBE Heating combine both water heating and space heating functions.

The other types of domestic boilers we manufacture and market include not only



*Three alternative principles for installing collector loops for use with ground-source heat pumps.*

standard single-fuel models but also combination models which can be powered by a variety of heating sources such as oil, electricity, wood or pellets. These are most often found in private homes built between the mid 1950s and the mid 1970s and most of the sales made today are for the replacement of existing products.

Large water heaters are manufactured to order for use in premises such as schools, hospitals and sports halls, all of which use very large amounts of hot water.

For NIBE Heating's part, contract manufacture, or OEM production as it is also known in the industry, consists of the production of anti-corrosion pressure vessels specially designed for specific applications and clients at home and abroad who incorporate these products into their own water heaters, boilers, heat pumps and accumulator tanks.

Finally, mention should also be made of the fact that the sale of spares and accessories also accounts for a sizeable portion of the division's total sales.



*Kjell Ekermo proudly demonstrates the VEDEX 3000 wood-fired boiler.*

## The Market in Sweden

Over the years the business area has built up a range of products specially adapted to Swedish conditions and today around three quarters of NIBE Heating's income derives from the Swedish domestic market, where sales are managed via our own nationwide sales organisation.

Since the construction of new private homes in Sweden remained at an extremely low level during 1998 most of the business area's revenue was generated by the routine replacement of products which had reached the end of their economic lives. Sales of electric boilers, water heaters and ground-source heat pumps are governed more or less entirely by demand of this sort in what is generally referred to in Sweden as the 'renovation and conversion market'. The sales of exhaust-air heat pumps, on the other hand, are more dependent on the construction of new homes.

For many years small electric water heaters with capacities of between 15 and 100 litres have formed the core of the range and, thanks to our long and well established presence on the market, a choice for our customers of three types of protection against corrosion and the combination of high quality with rational, cost-effective production, the business area has built up an unassailable reputation as the number one name on the market.

Our modular heaters also enjoy a dominant market position. Once again, customers have a choice of three anti-corrosion linings, this time in heaters between 100 and 300 litres in size. After having been voted the best water heater in Scandinavia by the Swedish National Board for Industrial and Technical Development, NUTEK, in 1997, COMPACT SPAR, the first micro-processor controlled modular heater developed by NIBE Heating, has shown a satisfactory sales development over the past twelve months.

Our market shares, both for small electric water heaters and the larger modular ones, increased during the year despite the fact that the market as a whole stagnated at 1997 levels.

1998 saw a substantial increase, in terms of both sales volumes and market share, for our exhaust-air heat pumps. NIBE Heating is undisputed as the number one name in exhaust-air heat pumps in Sweden, a market which is currently experiencing good growth even though the relatively low numbers of homes being built in Sweden at present means that a large proportion of the heat pumps being sold today are used to replace existing ones which have reached the end of their economic life.

For the second year in succession, 1998 saw a steep rise in the number of ground-source heat pumps sold in Sweden. The growth in this segment can be attributed to the increasing interest in energy-saving products, fuelled, no doubt, by the current debate about the decommissioning of Sweden's nuclear power plants. Sales rocketed when, during the latter half of 1998, NIBE Heating launched a new generation of these pumps which, in the long-term, will mean lower prices for the user. Naturally enough, this sales success also increased our market share and took NIBE up among the leaders in this segment of the market as well.

Overall the market for boilers in Sweden suffered a slight setback in 1998. However, this had little effect on NIBE Heating, as the business area's sales of domestic boilers which can combine up to four alternative energy sources (oil, electricity, wood and pellets) rose considerably to consolidate our position as a major force in the manufacture of domestic boilers and move us into a leading position in this segment of the market. The year also saw the launch of a totally new wood-fired boiler which helped to boost sales considerably.

The NIBE Heating business area possesses unique competence in the design and sub-contracted production of anti-corrosion pressure vessels. Sales to this segment of the market rose dramatically in 1998, helping NIBE Heating to maintain its standing as the dominant name in Sweden.



*FIGHTER 1210, a ground-source heat pump incorporating a built-in water heater.*



## Exports

Our avowed strategy is to consolidate our position on our export markets in those segments of the market to which we have accorded priority. NIBE Heating has been represented in Denmark and Finland for many years, as well as in the Netherlands, where we have now had our own sole-rights importer for more than 30 years. Today, in addition to these long-standing foreign representations, we can also count Germany, Norway and Poland among our major export markets.

In Denmark NIBE Heating has enjoyed a distinctly improved market position since the acquisition of the Vølund Varmeteknik operations in July 1995. Our organisation there now consists of our own nationwide sales network, service staff and a central warehouse, although all the products we market are now manufactured at our plant in Markaryd, Sweden. The basic range of water heaters and domestic boilers was complemented halfway through 1998 by heat pumps. Sales showed good growth in Denmark during 1998, and, with the market as a whole remaining at roughly the same level as the previous year, our share of the market actually increased. In terms of turnover Denmark is our largest export market at the present time.



*The QM-Quattro family of water heaters.*

Sales on the Finnish market consist chiefly of water heaters. Today NIBE Heating offers non-corroding versions in stainless steel in addition to the enamel and copper models previously available. It is thought that the Finnish market for these products increased somewhat in 1998 and the introduction of a stainless steel alternative certainly helped the business area to improve its own sales volumes, especially towards the end of the year. The NIBE name has long been a familiar one in Finland and tops the list of imported water heaters. We have yet to see the Finns show the same interest in heat pumps as other countries have done, but all the signs are that, in the years to come, exhaust-air heat pumps will be regarded as a viable alternative in newly built private homes in Finland as they already are elsewhere. House building almost stopped altogether during the early 1990s in Finland and is still at a low level.

In January 1999 we took over Haato Varajaj Oy, one of Finland's two leading manufacturers of water heaters. The company also makes exhaust-air heat pumps and, with the acquisition of Haato's operations, NIBE Heating moved into a position as the clear market leader for both water heaters and heat pumps in Finland.

In the Netherlands, where NIBE is already the number one brand among imported water heaters, we overcame an otherwise stagnant market to increase our sales during the year. Although most sales here are for water heaters with indirect heating, the year brought an increase in the sales of exhaust-air heat pumps for private homes and our takeover of the Danish ground-source heat pump manufacturer, Lodam Energi A/S, which was already represented on the Dutch market, added extra muscle to our range. An increased interest in saving energy and other environmentally inspired trends bode well for these and others of our products in the coming years.



In Germany NIBE Heating has been represented for some years by a sole importer who deals with sales of all the business area's standard products. Here the future for heat pumps looks extremely promising. During 1998 we made good progress in the German market by launching an exhaust-air heat pump specially developed for German conditions. Moreover, our ability to offer water heaters with a choice of three different anti-corrosion linings means that we are well placed to compete on a market otherwise dominated more or less entirely by enamelled water heaters. In addition to our standard products we also offer the sub-contracted manufacture of anti-corrosion pressure vessels for OEM clients on the German market.

While there is no doubt that the overall market for heating products faltered somewhat in Germany in 1998, the business area's sales there are still relatively modest, so the effect in terms of sales was hardly noticeable.

In Norway water-borne heating systems have always been less common than in Sweden. This, together with the fact that demand there is more or less confined to stainless steel heaters, a material that we have only recently begun to use, means that NIBE Heating has never had a particularly strong foothold on the Norwegian market. However, the current trend is towards an increased use of water-borne heating systems, especially in newly built houses, and this means that interest in heat pumps has increased significantly. We therefore appointed a sole importer in Norway at the beginning of the year, to market our products in all the market segments to which we have accorded special priority.

The Polish economy is growing at a rate which is said to be among the highest anywhere in Europe. In order to capitalise on this by laying the foundations for future business at the same time as we assure ourselves of access to low-cost production we established a subsidiary, NIBE Polska, in 1997. Since the summer of 1998 this facility has been producing and selling enamelled water heaters. At present a large slice of the Polish market is made up of various relatively simple products in galvanised metal, but interest in better quality, longer-lasting heaters is increasing and we can foresee a promising future for our enamelled products in this country.

In the longer term we will also be able to sell the products manufactured by our Polish subsidiary on other markets, and there is growing interest, too, in Poland for other NIBE Heating products, not least domestic boilers and heat pumps. This means that one of the business area's objectives will be to establish itself within other relevant product areas on the Polish market.

NIBE Heating is also represented in Switzerland, Spain, the United Kingdom and various other European countries, where we will be gradually building up our business at the same time as we continue to focus our attention on our top priority markets.

Parallel with the work of developing our export markets by selling standard products, adapted to meet specific local conditions and sold under our own brand name, we are also investing a great deal of effort in our design and production work to market our expertise in the sub-contracted manufacture of non-corroding pressure vessels. These operations have received a big boost from our takeover of the Danish manufacturer, Vølund Varmeteknik, in 1995, as this kind of production has always constituted the vast majority of Vølund's export sales.

## Production Units



*NIBE AB in Markaryd, Sweden*



*NIBE AB in Trelleborg, Sweden*

Our plant in Markaryd in the south of Sweden manufactures the majority of products in the NIBE Heating range as well as all of the components that we produce ourselves for NIBE Wood Stoves. Today the plant, which has been extended gradually over the years, covers 32,000 square metres and employs around 450 people. Operations here have been ISO 9001 accredited since 1993 and our ambition is to receive ISO 14001 certification during the first six months of 1999 for our environmental management systems.

In view of the increase in volumes during 1998 and an anticipated further expansion in 1999, it was felt that production space at Markaryd risked becoming insufficient, so a decision was made to move the production of all domestic boilers to Trelleborg in 1998. The 5,000 square-metre Trelleborg plant employs 32 people.

During 1999 we plan to implement further changes to the layout of the production line and we will be moving the manufacture of certain segments of the range to other factories in order to rationalise production even further.

### *NIBE Polska in Warnice, Poland*

NIBE Heating's Polish production plant, located in Warnice, just south of Szczecin in the north-west of Poland, is intended chiefly to supply the demand for water

heaters on the Polish market. After being gradually built up during 1997 and 1998 the 2,800 square-metre factory is now producing at full capacity and currently employs seventeen people. Production specialists from Markaryd assisted local staff throughout the entire build-up and commissioning phases and today the Polish workforce is fully trained to handle all aspects of work at the plant.

## NIBE Heating in 1998

NIBE Heating's invoiced sales rose by 26.9 percent over the year from SEK 281.2 million in 1997 to SEK 356.8 million in 1998.

While incoming orders and invoicing were fairly slack during the first six months, demand picked up fairly briskly in the second half of the year. In Sweden we captured a greater share of the market in all our priority areas, further consolidating our position as the leading name. We enjoyed a good rate of growth on our export markets as well, although here we are still at a very early stage in our development and the future prospects for sales and growth remain very promising indeed.

As a result of the year's excellent growth, our operating result for the period has improved from last year's SEK 26.1 million to SEK 30.3 million, while various one-off costs, mostly in connection with organisational changes in the division's production, have meant that our operating margin slipped back slightly from 1997 levels.

## Prospects for 1999

It is our opinion that the Swedish market for NIBE Heating's products will not show any appreciable change during the course of 1999.

While the overall market demand for small water heaters and modular heaters is expected to remain at roughly the same level as in 1998, there are still opportunities for us to gain ground, thanks to the company's extensive knowledge in production and manufacturing, a consistent distribution philosophy and a range with a unique breadth which offers customers a choice of three different anti-corrosion treatments, copper, stove enamelling and stainless steel, for all our main water-heater products.

Although the market for domestic boilers contracted slightly in 1998, the reduction was not as great as we anticipated, and, as far as NIBE Heating was concerned growth was good, not least thanks to a new wood-fired boiler and increased interest in both the electric and oil-fired products. The market as a whole is expected to continue to contract in 1999 as other heating systems take over, but we are firmly convinced that we can increase our own share of the market even further.

We anticipate a slight increase in the construction of new single-family homes in 1999, which should lead to an increase in the demand for exhaust-air heat pumps. The market for replacing existing heat pumps of this kind is also expected to expand and here too we anticipate being able to increase our market share. This is a product area in which we have a long tradition and considerable knowledge and know-how. With the help of our own product development we can ensure that the product range, both for Sweden and our export markets, is kept continuously upgraded to meet customer demands.

Furthermore we believe that interest for environmentally sound heating systems which can reduce overall energy consumption by recovering heat from used air will be great both in 1999 and beyond.

As far as ground-source heat pumps are concerned, the strong growth we showed in the first half of 1998 could not be sustained during the last six months of the year. While the market in Sweden increased slightly for the year as a whole, there is a risk that it may contract somewhat in 1999. Even so, this will not have any negative effect on the sales of our new generation of ground-source heat pumps; quite the contrary, we anticipate that these outstanding products will capture new shares of the market to produce a substantial growth in volume. Thanks to the acquisition of two specialist manufacturers to complement the know-how that we already possess in this area, NIBE Heating has quickly risen to occupy a leading position in the field of ground-source heat pump technology.

All of this, bolstered by ongoing internal rationalisation and work efficiency programmes plus the fact that export sales for both heat pumps and water heaters seem set to rise in all our priority markets, means that NIBE Heating can once again look forward with confidence to an even better result in 1999 than in 1998.



Business Area Manager Niklas Gunnarsson.

		1998	1997	1996	1995	1994
Net sales	(MSEK)	124.8	104.5	80.6	65.6	55.6
Operating profit <sup>1)</sup>	(MSEK)	15.2	12.5	8.5	0.2	-1.1
Operating margin	(%)	12.2	12.0	10.6	0.3	-2.0
Number of employees		70	68	56	47	37

<sup>1)</sup> Before costs distributed among the group as a whole.

## Mission statement

NIBE Stoves develops, produces or purchases and markets wood-burning stoves, stove products and chimney systems for heating indoor areas. The emphasis here is on design and efficient combustion processes which minimise the impact on the environment.

## Objective

The division aims to achieve an operating profit of at least 10% on its turnover during a complete business cycle.

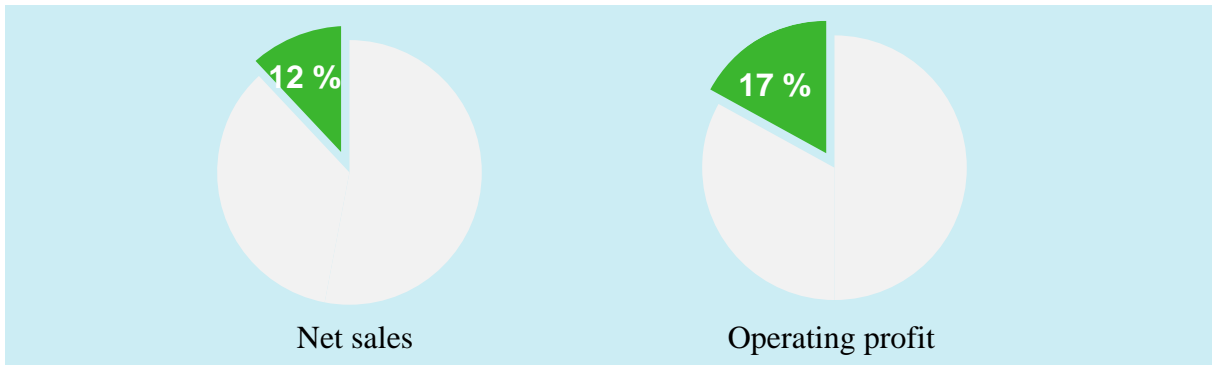
## Strategy

NIBE Stoves' offers a wide range as the all-round supplier of wood-stove products to a nationwide network of Swedish retailers – wood-stove specialists, ironmongers, builders' merchants and home improvement centres – as well as direct to Swedish house builders.

Outside Sweden we give priority to established markets where there is plenty of potential for NIBE Stoves' products. Initially, we will concentrate our resources on a few, carefully selected markets.

NIBE Stoves is now in the position to offer a wide programme of high quality products for each segment of the market, in addition to a complete modular chimney system. This ambition has been achieved by the unceasing development of new products that combine modern design with environmentally sound combustion techniques. Our products are



*NIBE Stoves' contribution to group sales and operating profit 1998*

adapted for export where necessary, but not at the expense of compromising the distinctively Scandinavian look. Certain segments of the range are complemented where necessary by products for which we have sole rights as agents or distributors.

The division's strategy aims to consolidate and, where possible, reinforce our position as the market leader in Sweden at the same time as we expand export sales to account for 30% of turnover within the next few years. These aspirations embrace a commitment to continually evaluate the possibility of acquiring new companies and agencies operating in the market segments in which we are active.



*Victoria decorative fire surround with a Vermont Encore wood-burner.*

## Structure

NIBE's current product range has its origins in the Handöl brand of wood stoves. In the early 1990s this range was complemented by exclusive agency agreements for Morsø stoves from Denmark and the American Vermont brand, and in 1998 for FinSpis of Finland.

With the takeover of Contura wood stoves in 1994, NIBE Stoves rose to a unique position of pre-eminence in the Swedish market.

The division is supplied with its own brand products from the same manufacturing unit in Markaryd that is responsible for supplying NIBE Heating.

## Products

NIBE Stoves develops and sells its own products under the Handöl and Contura names and has the sole rights in Sweden to sell products from Morsø (Denmark), Vermont (USA) and FinSpis (Finland), companies which all enjoy a very strong position in their respective domestic markets. NIBE Stoves' products comprise the following main groups:

- wood-burning stoves
- cast-iron stoves
- tile-faced stoves
- tiled stoves
- masonry stoves
- fire inserts

NIBE Stoves also manufactures complete modular chimney systems specially designed for use with the products mentioned above.



The wood-fired heating products we offer are conceived first and foremost as a secondary source of heating in domestic properties and summer cottages etc. to complement primary systems such as water-borne heating, direct electricity or other forms of space heating. In addition to their function as a source of reserve heating, our wood stoves are designed to be a handsome feature in any home and one which adds a little extra cosiness to the domestic atmosphere.

Most of our wood-burning stoves are manufactured in sheet steel with a modern design incorporating large expanses of glass to make the fire itself more easily visible. Based on the convection principle, they have a double-mantle construction so that the air in the gap between the actual fire-box and the outer mantle is heated and rises rapidly to spread a pleasant, gentle heat through the room. Many of these stoves can be fitted with a fan which further improves the distribution of heat within the room. These stoves are sold under the Handöl and Contura brand names.

Cast-iron stoves are smaller in size, with a rustic look that is often reminiscent of popular designs from days gone by. These are sold under the Vermont and Morsø brands, for whom NIBE Stoves is an agent in Sweden.

The tile-faced stove is a hybrid of the wood stove and the tiled stove and combines the fire-box construction of the wood stove with the exterior appearance of the traditional Scandinavian tiled stove. The result is a product which, while similar in appearance to a traditional tiled stove, not only heats up far more rapidly, but is also light enough to be placed directly on most types of wooden floor joists. In recent years there has been much development work as regards design within this segment and today contemporary styling is available alongside more traditional models, all sold under the Handöl and Contura brands.

NIBE's tiled stoves operate on the traditional principle where fumes and heated air pass through a network of flues and channels to gradually heat up a huge bulk of heat-retaining bricks which then transfer the heat accumulated into the surrounding air over a long period of time. Thanks to an agency agreement with FinSpis which complements its own Contura brand, the business area has a comprehensive range of beautiful tiled stoves

For customers who prefer an open-fire feel we have developed a range of products in which a prefabricated fire-box in sheet steel or cast iron and a number of prefabricated concrete blocks combine to create the atmosphere of an old-fashioned open fireplace. These so called 'masonry stoves' are marketed under the Handöl and Contura brand names.

Fire inserts are ready-made fire grates usually made of cast iron or sheet steel. Used in existing open fireplaces these products can produce a remarkable tenfold increase in heating efficiency. In principle this raises existing fireplaces to the same high levels of performance as modern wood stoves. The fire inserts marketed by NIBE Stoves are sold under the Handöl and Vermont brands.



*The Carl-Gustaf stove with a bow-front glass door to give maximum exposure to the fire.*

To cater for wood-stove customers whose homes do not already have a suitable chimney, NIBE Stoves also offers a prefabricated chimney system. The 'Premodul' chimney, as it is known, is a steel shaft construction which comes complete with all the necessary insulating materials. There is also a heavier prefabricated brick chimney, bought in as an OEM product under a sole rights agreement and sold as the 'NIBE Modular Chimney' on the Swedish market.

## The Market in Sweden

The brisk demand for NIBE Stoves' products at the start of the year accelerated even more in the third quarter as a result of the cold, wet summer. By the end of September, however, and throughout the whole



*The Handöl fire insert, voted 'the most efficient' in tests, here with a wrap-around glass front.*

### *NIBE Stoves – turnover by geographical market*

of October demand was stifled by the turbulence that gripped the world's financial markets with plummeting share prices and renewed public concern about the negative effect this might have on private finances. By the end of the year, however, demand had recovered to leave volumes for the year as a whole roughly the same as they had been in Sweden in 1997.

The positive effects of state subsidies for the purchase of wood stoves and similar products which had such an enormous influence on the market in 1997 were less evident in 1998. Instead, low interest rates and the general trend among homeowners to invest more money in their properties led to an increase in consumer spending which benefited NIBE Stoves as it did many other companies. In addition, there are indications that more new homes are now being built, and this too has had a positive effect on sales, especially as more and more buyers are now choosing to complement their conventional space heating with some kind of stove.

For NIBE Stoves, 1998 brought a clear improvement in market share. This is attributable almost entirely to increased sales of our own Handöl and Contura brands (especially for wood stoves, masonry stoves and tile-faced stoves together with chimney systems), boosted by the appeal of the year's new products and the success of our marketing campaigns.

Demand for cast-iron stoves remained good and sales of the Morsø and Vermont products for which NIBE Stoves has sole distribution rights in Sweden reached the same high level as they had done in 1997.

Sweden 89 %  
 Germany 5 %  
 Denmark 3 %  
 Norway 1 %  
 Japan 1 %  
 Others 1 %

A new, easy-to-assemble, free-standing masonry stove launched under the Handöl name in the spring of 1998 became an immediate success in Sweden. Based on the best-selling Handöl 10 model, the design replaces the old metal mantle around the fire-box with one of prefabricated concrete blocks.

During the autumn the Swedish Board for Consumer Policies carried out a major test of fire inserts and presented the results in the consumer magazine *Råd och Rån*. Our own Handöl design was voted the most efficient fire insert on the market. This accolade, skilfully exploited by professional marketing, led to enormous sales successes and moved NIBE Stoves up into an undisputed position among the biggest suppliers in this segment.

The agency agreement for the Dovre range was terminated during 1998 as sales volumes for this particular brand had not developed as well as anticipated.

Instead, in the autumn of 1998, we managed to acquire the rights to sell FinSpis tiled stoves in Sweden. FinSpis, with its modern production facilities in Åbo, Finland is Scandinavia's number one manufacturer of heat accumulators of this kind, which combine a classic appearance with modern technology. These tiled stoves serve as a useful complement to the other products in the NIBE Stoves' range, providing the business area with the complete programme it needs to be able to compete successfully in all segments of the Swedish market.

FinSpis has previously been satisfied to market its products itself in Sweden, but now, with the benefit of NIBE's nationwide network of distributors, there is every opportunity to increase sales to new, higher than ever levels.

## Exports

Export sales in 1998 rose by 14.7 percent to SEK 14.1 million, boosted by increased sales to our top priority export markets in Germany and Denmark.

Demand for stoves was uncharacteristically slack in Germany at the start of 1998 but picked up during the autumn to end the year at roughly the same level as in 1997.

It seems that sales of mid-price products which tend on the whole to be distributed through specialist stores have tailed off, whereas the slightly more expensive and more exclusive products are holding their own. Sales of low-price products manufactured in low-cost countries and distributed via the 'Baumarkt' sector (home improvement stores) have presumably risen somewhat during the year.

Our own models, with designs that differ markedly from those of traditional German and Danish wood stoves, have established a niche for themselves on the big German market, where products with a distinctive look offer the promise of good profits for specialist dealers struggling to fend off competition from the home improvement superstores which sell cut-price copies of wood stoves with characteristic German styling.

The Scandinavian design of our own products, often with glass on three sides, is more or less unique on the export markets where we are represented. The 'wrap-around' glass is a major customer benefit, allowing the fire to be seen from a much wider angle than the traditional door-hatch permits, and this has proved to be extremely useful as a competitive advantage in our sales and marketing work abroad.



The year has seen us continuing the work of establishing a distribution network in Germany. This is now well developed in the northern and western parts of the country. The work is carried out by us from our head office in Markaryd which provides the strategic base for our activities. In the first instance, these have concentrated on selling the brand to retailers and setting up in-store displays. NIBE Stoves is now represented in an impressive number of specialist shops, all of whom have several of our products on display. Next year we will be investing the main thrust of our efforts in developing these specialist shops at the same time as we will continue to search for new agents and retailers in areas of the country where NIBE Stoves is not currently represented.

In Denmark we sell and market our products ourselves under the Handöl and Vermont names. This work is carried out from our head office in Markaryd via a number of major specialist retailers. Sales showed a very satisfying improvement during the year and next year we will be focusing our attention both on working with our existing retailers and on recruiting new retailers to give us truly nationwide coverage with in-store displays throughout the whole of Denmark.

Sales figures for other markets, such as Italy and Belgium, have shown little development since 1997, while Japan has slipped slightly. In these countries we work together with importing agents who carry out marketing activities through their own retailers.

Norway is well known as a large market for wood stoves and similar products, and NIBE Stoves now has a number of products under the Handöl brand which have been approved for sale in Norway. This means that we now have the right conditions to build up a Norwegian retail network along the same lines as those we already have in Germany and Denmark. Norway will, henceforward, be one of the top priority markets for the NIBE Stoves business area.



*The Vals stove from Finspis.*

## NIBE Stoves in 1998

Total sales for NIBE Stoves rose to SEK 124.8 million in 1998, an increase of 19.4 percent over the 1997 figure of SEK 104.5 million. Much of this rise can be attributed to an increase in market share and improved sales in Sweden, although some is also due to orders in hand from 1997. Export sales totalled SEK 14.1 million, as opposed to SEK 12.3 million in 1997: this represents 11.3 percent of overall sales, which compares with 11.7 percent in 1997.

Operating profit was up from SEK 12.5 million in 1997 to SEK 15.2 million, due entirely to the improved sales figures for the business area.



*Business Area Manager Niklas Gunnarsson with the Bohus stove.*

## Prospects for 1999

The market for wood stoves has developed strongly over the past few years. The dramatic rise which followed the Swedish government's decision to subsidise private purchases of wood-burning stoves in 1997 was superseded in 1998 by an increase in consumer spending that is expected to prevail for the next few years and by the first signs of an increase in the construction of new homes. As a result we expect that the market for 1999 will remain at its current high level.

Orders from Swedish house-builders rose slightly during 1998 and the stronger demand is expected to last at least throughout the next twelve months. NIBE Stoves is very well placed to benefit from this recovery as the business area's complete range of easy-to-assemble products and chimneys is the ideal choice for today's new homes.

In previous years NIBE Stoves' sales of tiled stoves have been very modest, quite simply as there has only been one tiled stove in the range. With the signing of an agency agreement for FinSpis, this has changed: FinSpis has a very attractive range of tiled stoves which are renowned for their excellent heating properties. During 1999 we will be setting up a network of trained sales staff to take care of the FinSpis range. The anticipated increase in turnover will not only provide extra funds, but it will also help us to capture yet another new share of the market. Our ultimate objective is to be the market leader in this segment as we already are in so many others.



Early in 1999 another new masonry stove with traditional styling was launched under the Handöl brand and later in the year the first new Contura stove will be released since the company was taken over by NIBE some years ago. This new stove has a totally new type of fire-box incorporating the very latest in combustion technology and, initially at least, will be available as a traditional wood stove with a metal mantle that combines sleek modern design with classic lines. Further models based on the new fire-box construction will be launched at intervals in designs and materials suited both to Swedish tastes and the preferences of our prioritised export markets.

By launching models approved for the Norwegian market, NIBE Stoves will be able to build up a network of retailers in Norway during the year, thus laying the foundation for what, in the long-term, is expected to be a valuable addition to our sales and profits.

Germany is a major market for wood stoves and we believe that we have every opportunity to increase our sales even further here over the next few years by maximising our sales to our existing retailers, extending our network of dealers and agents and launching a number of attractive new models.

NIBE Stoves is well placed as a supplier to Swedish retailers, with several well known and respected trademarks bolstered by a good selection of attractive products in all segments. While competition remains very tough, new models, access to an appealing range of tiled stoves and a complete programme of products mean that NIBE is in a good position to increase its share of the market in 1999.

Stable demand at home, reinforced by positive sales developments on our priority export markets, combine to make us confident that NIBE Stoves will produce yet another good result for 1999.

## The Board of Directors



### **Bengt Hjelm, born 1943.**

Chairman and Board Member since 1989.

Graduate in Business Administration and, since 1980, MD in Hjelm & Rohman AB consultancy, specialists in corporate management issues, corporate acquisitions and directorships.

Shareholdings in NIBE Industrier:  
94,008 A-shares and 222,352 B-shares.

### **Lars Lind, born 1941.**

Board Member since 1989.

Graduate in Business Administration.  
Founder and Board member of the venture capital company MVI.  
Board member of Ekman & Co and Helmet Oy.  
Shareholdings in NIBE Industrier: 400 shares.

### **Gerteric Lindquist, born 1951.**

Board Member since 1989.

Managing Director and  
Group Executive Officer.  
Civil engineer and Graduate in  
Business Administration.

Shareholdings in NIBE Industrier:  
94,035 A-shares and 219,415 B-shares.

### **Leif Gustavsson, born 1945.**

Board Member since 1994.

Financial Director of NIBE Industrier AB.  
Economics graduate.

Board Member of Markaryds Sparbank.

Shareholdings in NIBE Industrier:  
94,008 A-shares and 192,021 B-shares.

### **Arvid Gierow, born 1943.**

Board Member since 1997.

Graduate in Business Administration. Other posts include the Chairmanships of Svenska Handelsbanken Helsingborg, Markaryds Formplast and ALMI Företagspartner Skåne AB.

Shareholdings in NIBE Industrier:  
5,400 B-shares.

### **Bill Tunbrant, born 1950.**

Board Member since 1997.

Civil Engineer. MD of Cramo Instant AB.

Shareholdings in NIBE Industrier:  
400 B-shares.

## Senior Executives

### **Gerteric Lindquist, born 1951.**

Civil engineer and Graduate in Business Administration.

Group Executive Officer. MD of NIBE Industrier AB, and MD in NIBE AB.

Employed since 1988.

Shareholdings in NIBE Industrier: 94,035 A-shares and 219,415 B-shares.

### **Leif Gustavsson, born 1945.**

Economics graduate.

Financial Director of NIBE Industrier AB.

Employed since 1966.

Shareholdings in NIBE Industrier: 94,008 A-shares and 192,021 B-shares.

### **Christer Fredriksson, born 1955.**

Civil engineer.

Business Area Manager for NIBE Element and MD of Backer Elektro-Värme AB.

Employed since 1992.

Shareholdings in NIBE Industrier: 23,490 A-shares and 44,810 B-shares.

### **Kjell Ekermo, born 1956**

Civil engineer.

Business Area Manager for NIBE Heating.

Employed since 1998.

Shareholdings in NIBE Industrier: 0 shares.

### **Niklas Gunnarsson, born 1965.**

Engineer.

Business Area Manager for NIBE Stoves.

Employed since 1987.

Shareholdings in NIBE Industrier: 700 B-shares.

## Auditors

### **Bertil Lindahl, born 1946.**

Authorised Public Accountant.

Öhrlings Coopers & Lybrand AB.

Company auditor since 1998.

### **Kerstin Johansson, born 1957.**

Auditor.

Consilia Redovisning och Revision AB.

Company auditor since 1998.

### *Deputy auditors*

### **Lars Göransson, born 1963.**

Authorised Public Accountant.

Öhrlings Coopers & Lybrand AB.

### **Sten Hermansson, born 1945.**

Authorised Public Accountant.

Öhrlings Coopers & Lybrand AB.

## Salaries and remuneration to the Board and Senior Executives

Remunerations to the Board amounted to SEK 330,000 for 1998, of which the Chairman received SEK 135,000 in accordance with the decision of the Board. No remuneration is paid to members of the Board who are employed by group companies. There are no agreements about future pensions/severance pay or any other benefits neither for the Chairman of the Board nor for any Board members, with the sole exception of the severance pay for the Managing Director. If the company terminates the Managing Director's contract, the Managing Director has the right to 6 months' notice and to severance pay equivalent to 12 months' salary in addition to the normal salary. Salary and remunerations for the Managing Director for 1998 totalled SEK 920,000. In addition, the Managing Director has a company car. Salaries to other senior executives in the group amounted to SEK 2,298,000. These senior executives also have company cars.

The Board of Directors and the Managing Director of NIBE Industrier AB (publ), corporate identity number 556374-8309, have pleasure in submitting their Annual Report for the trading year 1998. Please note that the figures in parentheses are included by way of comparison and refer to 1997.

In addition to the Parent Company, the Group also consists of the wholly-owned subsidiaries NIBE AB in Markaryd, Backer Elektro-Värme AB in Sösdala, Loval Oy in Finland, Bröderna Håkansson Värme AB in Tjörnarps, Jevi A/S in Denmark and Calesco Foil AB in Kolbäck. NIBE AB in turn owns the subsidiary NIBE Polska Sp. z o. o. Backer Elektro-Värme AB in turn owns the subsidiaries Norske Backer A/S in Norway, Backer Elektro Oy in Finland and Backer OBR Sp. z o. o. in Poland. Loval Oy in Finland owns the subsidiary Kiloval Oy in Finland. Bröderna Håkansson Värme AB owns the subsidiaries Oy Meyer Vastus AB in Finland, Brakon Norge A/S in Norway and Tjörnarps Industri AB in Sweden. The group also includes the wholly-owned dormant subsidiary Handöl-Form AB.

## Information on the Business

NIBE AB is a light engineering company, the principal production and sales of which consist of water heaters, boilers, exhaust-air heat pumps and wood-burning stoves. In June the group acquired the heat-pump operations and assets of Lodam Energi A/S in Denmark and transferred all production to Markaryd. NIBE also runs a business in Denmark through its foreign affiliate, Vølund Varmeteknik. The establishment of the Polish subsidiary, NIBE Polska Sp. z o. o. has been strengthened during the year and in 1999 all the water heaters sold by NIBE in Poland will be manufactured locally.

The Backer Group's main production and sales consist of tubular elements, and, within this sector, the group is the largest in Scandinavia. Production takes place in

Sösdala, Sweden, as well as in Norway, Finland and Poland. Loval Oy operates in the same area as the Backer Group, and is the other major name on the Scandinavian market. NIBE acquired Bröderna Håkansson in March, but the figures for this company have been consolidated from the start of the year. The Danish company, Jevi A/S, was taken over in July and its accounts were consolidated from the date of the takeover, which happened to coincide with the end of this company's financial year. Calesco Foil AB, which produces foil elements, was taken over in September, but the accounts were consolidated from the start of the year, after having first made the necessary adjustments at group level for Calesco's profits prior to the acquisition. These new acquisitions complement the existing operations in NIBE Heating both geographically and in terms of the product range.

## The Work of the Board

The Board of NIBE Industrier consists of six board members elected by the Annual General Meeting of Shareholders. The Board itself deals with all matters of consequence and has not set up any working committees, but officers and employees of the company may be called in to appear before the Board in order to explain the background to specific issues.

During 1998 the Board convened on fifteen occasions, nine of which were conducted as telephone conferences. Board meetings have been held in conjunction with the publication of interim reports and press releases of unaudited figures, to discuss the budget and to discuss major investments and corporate takeovers. Minutes have been taken at all board meetings.

Once a month the Board has received a report about the accounts and financial status of the company. The Managing Director has remained in regular contact with the Chairman of the Board.

## Sales

Group net sales for the year amounted to SEK 1,026,765,000 (SEK 735,813,000). Of the increase in sales of SEK 290,952,000 the sum of SEK 107,399,000 derives from comparable units.

## Results

Group profit after financial items amounted to SEK 73,103,000 (SEK 59,347,000). Return on total capital amounted to 13.9 percent (14.0 percent).

## Investments

Group investments amounted to a total of SEK 112,763,000 (SEK 35,260,000) of which SEK 51,960,000 (SEK 25,230,000) was for machinery and equipment, SEK 10,929,000 (SEK 370,000) for investments in property, SEK 5,280,000 (SEK 655,000) construction in progress, SEK 42,834,000 (SEK 8,811,000) goodwill, SEK 246,000 (SEK 190,000) intangible assets, SEK 0 (SEK 4,000) shares in associated companies and SEK 1,514,000 (SEK 0) long-term securities.

## Financial Position

Group liquid funds ended the year at SEK 36,192,000 (SEK 82,342,000). This figure does not include the group's unutilised bank overdraft facilities of SEK 55,747,000 (SEK 77,546,000).

During the year the majority of the liquid assets that the group has used have been employed in the acquisition of other companies.

## Key Events so far in 1999

In January NIBE acquired the operations of Haato Varaajat Oy, one of Finland's leading producers of water heaters and heat pumps. Annual turnover for the company in 1998 amounted to the equivalent of approximately SEK 26 million. This takeover puts NIBE Heating in an even stronger position than before, especially in the Finnish market and within its priority area of stainless steel water heaters.

## Future Developments

NIBE enjoys a strong position on the markets to which it has accorded priority.

The takeovers completed during the year enable the group as a whole to benefit from substantial savings as a result of economies of scale, and the strong growth within existing NIBE units has also increased the potential for further rationalisation.

Against this background we are confident that, despite the difficulty of predicting events in the world around us, the NIBE Group will continue to develop in a positive manner throughout 1999.

## Group Unrestricted Equity

Group unrestricted equity at the accounting year end totalled SEK 153,165,000. On this occasion there is no proposal to transfer any funds to restricted reserves.

## Appropriation of Profits

The Board of Directors and the Managing Director propose that the profits at the disposal of the Annual General Meeting, namely SEK 53,147,000, be appropriated as follows:

Shareholders' dividend	14,675,000
Carried forward	38,472,000
	<b>53,147,000</b>

The profits and financial figures in the following tables of accounts are given in thousands of Swedish kronor (SEK).



# Group Income Statement

(all amounts in thousands of SEK)

	<i>Note 1</i>	<b>1998</b>	<b>1997</b>
Net sales	<i>Note 2</i>	1,026,765	735,813
Cost of goods sold		- 781,565	- 554,270
<b>Gross profit</b>		<b>245,200</b>	<b>181,543</b>
Selling expenses		- 116,361	- 86,277
Administrative expenses		- 53,533	- 38,025
Other operating income		7,125	6,672
<b>Operating profit</b>	<i>Note 2, 3</i>	<b>82,431</b>	<b>63,913</b>
<b>Result from financial investments</b>			
Interest income and similar profit/loss items	<i>Note 5</i>	2,673	2,342
Interest expense and similar profit/loss items	<i>Note 6</i>	- 10,127	- 6,824
Profit from subsidiaries before acquisitions		- 1,874	- 84
<b>Profit after financial items</b>		<b>73,103</b>	<b>59,347</b>
Tax on profit for the year	<i>Note 8</i>	- 24,469	- 18,120
Minority participation in net profit after tax		- 131	0
<b>Net profit for the year</b>		<b>48,503</b>	<b>41,227</b>

# Group Balance Sheet

(all amounts in thousands of SEK)

	<i>Note 1</i>	<b>31 Dec 1998</b>	<b>31 Dec 1997</b>
<b>Assets</b>			
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Goodwill	<i>Note 9</i>	66,506	29,837
Other intangible assets	<i>Note 10</i>	478	264
		<b>66,984</b>	<b>30,101</b>
<b>Tangible fixed assets</b>			
Land and buildings	<i>Note 11</i>	97,696	91,703
Plant and machinery	<i>Note 12</i>	102,407	72,149
Investment in machinery in progress	<i>Note 13</i>	7,934	2,654
		<b>208,037</b>	<b>166,506</b>
<b>Financial fixed assets</b>			
Long-term securities holdings		1,585	71
Receivables from associated companies		0	1,287
Other long-term receivables		1,550	458
		<b>3,135</b>	<b>1,816</b>
<b>Total fixed assets</b>		<b>278,156</b>	<b>198,423</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials and consumables		105,354	73,292
Work in progress		45,099	29,742
Finished products and goods for resale		49,210	35,493
		<b>199,663</b>	<b>138,527</b>
<b>Current receivables</b>			
Accounts receivable – trade		141,541	100,276
Other receivables		4,123	2,575
Prepaid expenses and accrued income		5,920	3,262
		<b>151,584</b>	<b>106,113</b>
<b>Current investments</b>	<i>Note 14</i>	<b>3,573</b>	<b>0</b>
<b>Cash and bank balances</b>		<b>36,192</b>	<b>82,342</b>
<b>Total current assets</b>		<b>391,012</b>	<b>326,982</b>
<b>Total assets</b>		<b>669,168</b>	<b>525,405</b>

Group Balance Sheet

(all amounts in thousands of SEK)

		31 Dec 1998	31 Dec 1997
<b>Equity and liabilities</b>			
<b>Equity</b>	<i>Note 16</i>		
<b>Restricted equity</b>			
Share capital		58,700	58,700
Restricted reserves		76,778	77,630
		<b>135,478</b>	<b>136,330</b>
<b>Non-restricted equity</b>			
Non-restricted reserves		104,662	69,545
Net profit for the year		48,503	41,227
		<b>153,165</b>	<b>110,772</b>
<b>Total equity</b>		<b>288,643</b>	<b>247,102</b>
<b>Minority participation in equity</b>		<b>531</b>	<b>0</b>
<b>Provisions</b>			
Provisions for pensions		22,199	20,494
Provisions for tax		44,137	38,270
Guarantee risk reserve		6,054	5,499
<b>Total provisions</b>		<b>72,390</b>	<b>64,263</b>
<b>Long-term liabilities</b>	<i>Note 17</i>		
Bank overdraft facilities	<i>Note 18</i>	31,972	732
Liabilities to credit institutions		92,517	60,006
Pension liabilities		578	179
Other liabilities		0	563
<b>Total long-term liabilities</b>		<b>125,067</b>	<b>61,480</b>
<b>Current liabilities</b>			
Liabilities to credit institutions		15,510	17,568
Accounts payable – trade		53,843	37,262
Advance payments from customers		222	387
Income tax liability		9,525	9,924
Other liabilities		25,610	25,266
Accrued expenses and deferred income	<i>Note 19</i>	77,827	62,153
<b>Total current liabilities</b>		<b>182,537</b>	<b>152,560</b>
<b>Total equity and liabilities</b>		<b>669,168</b>	<b>525,405</b>
<b>Pledged assets</b>	<i>Note 20</i>	<b>442,732</b>	<b>391,339</b>
<b>Contingent liabilities</b>	<i>Note 21</i>	<b>3,723</b>	<b>1,805</b>

# Consolidated Funds Statement

(all amounts in thousands of SEK)

	1998	1997
<b>Day-to-day operations</b>		
Operating profit	82,431	63,913
+ depreciation charged to this profit	34,768	26,647
+/- translation difference – foreign subsidiaries	1,668	- 269
- minority participation in profits	- 131	0
	118,736	90,291
Interest income and similar profit/loss items	2,673	2,342
Interest expense and similar profit/loss items	- 10,127	- 6,824
Profits in subsidiaries before acquisition	- 1,874	- 84
Tax on the profit for the year	- 24,469	- 18,120
	84,939	67,605
<b>Changes in working capital</b>		
Increase in inventories	- 61,136	- 18,498
Increase in current receivables	- 49,044	- 15,264
Increase in current liabilities	29,977	29,997
	4,736	63,840
<b>Cash flow from day-to-day operations</b>		
<b>Investment activities</b>		
Acquisition of associated companies	0	- 4
Acquisition of long-term securities	- 1,514	0
Acquisition of plant and machinery	- 51,960	- 25,230
Acquisition of land and buildings	- 10,929	- 370
Acquisition of fixed assets under construction	- 5,280	- 655
Acquisition of goodwill	- 42,834	- 8,811
Acquisition of other intangible fixed assets	- 246	- 190
Sale of tangible fixed assets	768	552
Change in minority interests	531	- 633
Change in long-term receivables	195	- 1,470
	- 111,269	- 36,811
<b>Cash flow from investment activities</b>		
<b>Financing activities</b>		
New issue	0	79,128
Change in long-term liabilities and provisions	71,714	- 35,806
Change in Group structure	409	- 5
Dividend to shareholders	- 11,740	- 6,016
	60,383	37,301
<b>Cash flow from financing activities</b>		
	- 46,150	64,330
<b>Changes in liquid funds</b>		
<b>Liquid funds available</b>		
Liquid funds at the beginning of the year	82,342	18,012
Changes in liquid funds	- 46,150	64,330
	36,192	82,342
<b>Liquid funds at year end</b>	<b>36,192</b>	<b>82,342</b>
<b>Unutilised bank overdraft facilities</b>	<b>55,747</b>	<b>77,546</b>
<b>Total liquid funds available</b>	<b>91,939</b>	<b>159,888</b>

# Parent Company Income Statement

(all amounts in thousands of SEK)

	<i>Note 1</i>	<b>1998</b>	<b>1997</b>
Net sales		0	0
		<b>0</b>	<b>0</b>
Administrative expenses		- 5,583	- 4,363
Other operating income		0	188
<b>Operating profit</b>		<b>- 5,583</b>	<b>- 4,175</b>
<b>Result from financial investments</b>			
Result from shares in Group companies	<i>Note 4</i>	18,774	13,099
Interest income and similar profit/loss items	<i>Note 5</i>	1,807	2,787
Interest expense and similar profit/loss items	<i>Note 6</i>	- 3,141	- 3,656
<b>Profit after financial items</b>		<b>11,857</b>	<b>8,055</b>
Appropriations	<i>Note 7</i>	- 40	- 380
Tax on the profit for the year	<i>Note 8</i>	- 43	- 393
<b>Net profit for the year</b>		<b>11,774</b>	<b>7,282</b>



# Parent Company Balance Sheet

(all amounts in thousands of SEK)

	<i>Note 1</i>	<b>31 Dec 1998</b>	<b>31 Dec 1997</b>
<b>Assets</b>			
<b>Fixed assets</b>			
<b>Financial fixed assets</b>			
Shares in subsidiaries	<i>Note 15</i>	278,558	192,426
Receivables from Group companies		1,500	0
<b>Total fixed assets</b>		<b>280,058</b>	<b>192,426</b>
 <b>Current fixed assets</b>			
<b>Current receivables</b>			
Receivables from Group companies		9,488	45,028
Other receivables		2,083	968
Prepaid expenses and accrued income		61	108
		<b>11,632</b>	<b>46,104</b>
<b>Cash and bank balances</b>		<b>2,355</b>	<b>35,871</b>
<b>Total current assets</b>		<b>13,987</b>	<b>81,975</b>
<b>Total assets</b>		<b>294,045</b>	<b>274,401</b>

Parent Company Balance Sheet

(all amounts in thousands of SEK)

	31 Dec 1998	31 Dec 1997
<b>Equity and liabilities</b>		
<b>Equity</b>		
	<i>Note 16</i>	
<b>Restricted equity</b>		
Share capital	58,700	58,700
Share premium reserve	67,428	67,428
Statutory reserve	7,454	6,724
	<b>133,582</b>	<b>132,852</b>
<b>Non-restricted equity</b>		
Profit brought forward	41,373	46,561
Net profit for the year	11,774	7,282
	<b>53,147</b>	<b>53,843</b>
<b>Total equity</b>	<b>186,729</b>	<b>186,695</b>
<b>Untaxed reserves</b>		
Tax allocation reserve	2,347	2,307
<b>Total untaxed reserves</b>	<b>2,347</b>	<b>2,307</b>
<b>Long-term liabilities</b>		
	<i>Note 17</i>	
Liabilities to Group companies	28,500	28,500
Liabilities to credit institutions	59,289	29,927
<b>Total long-term liabilities</b>	<b>87,789</b>	<b>58,427</b>
<b>Current liabilities</b>		
Liabilities to credit institutions	9,610	9,963
Accounts payable – trade	33	207
Liabilities to Group companies	5,403	0
Income tax liabilities	0	290
Other liabilities	107	14,883
Accrued expenses and deferred income	<i>Note 19</i> 2,027	1,629
<b>Total current liabilities</b>	<b>17,180</b>	<b>26,972</b>
<b>Total equity and liabilities</b>	<b>294,045</b>	<b>274,401</b>
<b>Pledged assets</b>	<i>Note 20</i> 229,778	<b>192,313</b>
<b>Contingent liabilities</b>	<i>Note 21</i> 25,500	<b>25,249</b>

# Parent Company Funds Statement

(all amounts in thousands of SEK)

	1998	1997
<b>Day-to-day operations</b>		
Operating profit	- 5,583	- 4,175
Interest income and similar profit/loss items	1,807	2,787
Interest expense and similar profit/loss items	- 3,141	- 3,656
Tax on the profit for the year	- 43	- 393
Cash flow before changes in working capital	- 6,960	- 5,437
<b>Changes in working capital</b>		
Changes in current receivables	34,472	- 33,545
Changes in current liabilities	- 9,792	14,287
<b>Cash flow from day-to-day operations</b>	<b>17,720</b>	<b>- 24,695</b>
<b>Investment activities</b>		
Acquisition of subsidiaries	- 86,132	- 9,949
Changes in long-term receivables	- 1,500	0
<b>Cash flow from day-to-day operations</b>	<b>- 87,632</b>	<b>- 9,949</b>
<b>Financing activities</b>		
New issue	0	79,128
Result from shares in Group companies	18,774	13,099
Changes in long-term liabilities	29,362	- 18,878
Dividend to shareholders	- 11,740	- 6,016
<b>Cash flow from financing activities</b>	<b>36,396</b>	<b>67,333</b>
<b>Changes in liquid funds</b>	<b>- 33,516</b>	<b>32,689</b>
<b>Liquid funds available</b>		
Liquid funds at the beginning of the year	35,871	3,182
Changes in liquid funds	- 33,516	32,689
<b>Total liquid funds available</b>	<b>2,355</b>	<b>35,871</b>

# Notes to the Accounts

## 1 Accounting and valuation principles

### Consolidated accounts

The consolidated accounts cover the Parent Company, NIBE Industrier AB (publ), and those subsidiaries in which the Parent Company directly or indirectly holds more than 50 percent of the votes or in some other way has a dominating influence. Companies acquired and disposed of are included in the Group income statement for the period during which they were owned.

The consolidated accounts have been drawn up in accordance with the purchase method. For the consolidated accounts, recommendation RRO1 has been applied (see below).

The income statements and balance sheets of foreign subsidiaries are translated using the current method.

Recommendation RR01 from the Swedish Financial Accounting Standards Council means, among other things, that the equity in the acquired company is determined on the basis of a market valuation of assets and liabilities on the date of acquisition. This market valuation constitutes Group acquisition cost. The difference between the acquisition value of the shares in the subsidiary and the value of the equity calculated in the acquisition analysis is recorded as Group goodwill. Only that part of the subsidiaries' unrestricted equity, which can be allotted to the Parent Company without a need to write down the shares, is included in Group non-restricted equity.

In drawing up the consolidated balance sheet, untaxed reserves have been divided into one part which is recorded as deferred tax liability under the heading of provisions, and one remaining part which is recorded under restricted equity, i. e. non-distributable funds. Consequently, any appropriations which involve changes in untaxed reserves are omitted from the consolidated balance sheet. The tax portion of these changes is recorded with the tax expense for the year in the income statement, while the equity portion is included in the profit for the year. The rate for calculating deferred tax in Swedish subsidiaries is 28 percent; for foreign subsidiaries, the applicable tax rate in the individual countries. The required provisions have been made for intra-group profits.

### Receivables

Receivables and liabilities in foreign currencies have been valued in accordance with the Swedish Accounting Standards Board's recommendation R7.

### Fixed assets

Depreciation according to plan has been based on acquisition value and is calculated with reference to estimated economic life. The following depreciation rates have been used:

Goodwill	10 – 20%
Other intangible assets	20%
Buildings	3.33 – 5%
Land improvements	3.75 – 5%
Plant and machinery	10 – 20%
Fixtures and fittings	4%

Accounting depreciation has been applied at the maximum permitted amount for tax purposes.

### Inventories

Inventories have been valued at acquisition cost, after which the standard deduction for obsolescence of 3 percent has been made, and at net realisable value respectively (in Sweden).

### Research and development

Costs and expenses in connection with research and development have been included in their entirety in the income statement for the year in which they occur.

### Group contribution

The group contribution received by the Parent Company has been accounted for according to the Swedish Financial Accounting Standards Council's emergency committee agreement, which means that it has been entered in the accounts as financial income. The figure for the previous year has been adjusted.

## 2 Distribution of net sales and operating profits

### Distribution by business area

	Net sales		Operating profit	
	1998	1997	1998	1997
NIBE Element	552,431	356,430	45,488	32,799
NIBE Heating	356,845	281,239	30,279	26,053
NIBE Stoves	124,787	104,524	15,225	12,499
Group adjustments	-7,298	-6,380	-8,561	-7,438
<b>Group total</b>	<b>1,026,765</b>	<b>735,813</b>	<b>82,431</b>	<b>63,913</b>

### Distribution by geographical market

	Net sales	
	1998	1997
Scandinavia	762,983	560,800
Europe excluding Scandinavia	254,173	169,761
Other markets	9,609	5,252
<b>Group total</b>	<b>1,026,765</b>	<b>735,813</b>

### 3 Salaries, other remunerations and social security contributions

	1998			1997		
	Salaries and other remunerations	Social security contribs.	(of which pension costs)	Salaries and other remunerations	Social security contribs.	(of which pension costs)
Parent Company	2,583	1,273	(350)	1,897	1,048	(295)
Subsidiaries	260,759	91,136	(15,753)	188,735	72,404	(12,313)
<b>Group total</b>	<b>263,342</b>	<b>92,409</b>	<b>(16,103)</b>	<b>190,632</b>	<b>73,452</b>	<b>(12,608)</b>

Of the Parent Company's pension costs, SEK 156,000 (SEK 211,000) relate to the MD.

The Parent Company has no outstanding pension obligations to the board and MD.

The corresponding sum for the Group is SEK 1,105,000 (SEK 572,000).

Outstanding Group pension obligations to the previous Board and MD rises to SEK 578,000 (SEK 179,000).

#### Salaries and other remuneration distributed by country and between the Board and MD and other employees

	1998		1997	
	Board and MD	Other employees	Board and MD	Other employees
Parent Company	1,250	1,333	1,172	725
Subsidiaries in Sweden	3,278	181,991	809	133,876
Norway (1998; of which bonus SEK 105,000)	915	14,745	400	13,184
Finland	1,371	38,155	889	33,157
Denmark (1998; of which bonus SEK 36,000)	365	15,389	0	2,614
Poland	938	3,612	1,074	2,732
<b>Group total</b>	<b>8,117</b>	<b>255,225</b>	<b>4,344</b>	<b>186,288</b>

#### Average number of employees

	1998		1997	
	Number of employees	Male employees	Number of employees	Male employees
Parent Company	3	2	3	2
Subsidiaries in Sweden	896	713	666	572
Norway	62	41	54	34
Finland	235	98	208	91
Denmark	52	36	7	7
Poland	142	106	129	96
<b>Group total</b>	<b>1,390</b>	<b>996</b>	<b>1,067</b>	<b>802</b>

#### Agreement on severance pay

This applies only to the Managing Director of the Parent Company, where an agreement has been signed on severance pay amounting to one year's salary.

### 4 Result from shares in Group companies

	Parent company	
	1998	1997
Group contribution	7,110	7,140
Dividends	11,664	5,959
	<b>18,774</b>	<b>13,099</b>

### 5 Interest income and similar profit/loss items

	Group		Parent company	
	1998	1997	1998	1997
Interest income, Group companies	0	0	891	953
Interest income, other	2,666	1,853	409	1,035
Other financial income	7	489	507	799
	<b>2,673</b>	<b>2,342</b>	<b>1,807</b>	<b>2,787</b>



**6 Interest expense and similar profit/loss items**

	Group		Parent company	
	1998	1997	1998	1997
Interest expense, Group Companies	0	0	906	1,385
Interest expense, other	7,746	6,427	2,235	2,271
Other financial expense	2,381	397	0	0
<b>Total</b>	<b>10,127</b>	<b>6,824</b>	<b>3,141</b>	<b>3,656</b>

**7 Appropriations**

	Parent company	
	1998	1997
Transfer to tax allocation reserve	-40	-380
<b>Total</b>	<b>-40</b>	<b>-380</b>

**8 Tax on the profit for the year**

	Group		Parent company	
	1998	1997	1998	1997
Income tax	24,545	16,692	43	393
Deferred tax	-76	1,428	0	0
<b>Total</b>	<b>24,469</b>	<b>18,120</b>	<b>43</b>	<b>393</b>

In the Group, deferred tax for the year, SEK 76,000 (SEK 1,428,000), is recorded as a tax expense in the consolidated income statement. SEK 3,425,000 (SEK 2,736,000) of the deferred tax expense for the year is attributable to changes in untaxed reserves.

Deferred tax liability in the Group amounts to SEK 44,137,000 (SEK 38,270,000) and is recorded in the item Provisions for tax. SEK 29,424,000 (SEK 22,598,000) of the Group's deferred tax liability refers to tax on untaxed reserves.

**9 Goodwill**

	Group	
	1998	1997
<b>Acquisition value</b>		
Acquisition value brought forward	38,100	29,302
Investments for the year	42,834	8,811
Translation differences	115	-13
<b>Accumulated acquisition value carried forward</b>	<b>81,049</b>	<b>38,100</b>
Depreciation brought forward	8,263	4,422
Depreciation for the year	6,165	3,861
Translation differences	115	-20
<b>Accumulated depreciation carried forward</b>	<b>14,543</b>	<b>8,263</b>
<b>Residual value acc. to plan c'd fwd</b>	<b>66,506</b>	<b>29,837</b>

**10 Other intangible assets**

	Group	
	1998	1997
<b>Acquisition value</b>		
Acquisition value brought forward	370	184
Investments for the year	246	190
Translation differences	22	-4
<b>Accumulated acquisition value carried forward</b>	<b>638</b>	<b>370</b>
Depreciation brought forward	106	80
Depreciation for the year	46	29
Translation differences	8	-3
<b>Accumulated depreciation carried forward</b>	<b>160</b>	<b>106</b>
<b>Residual value acc. to plan c'd fwd</b>	<b>478</b>	<b>264</b>

**11 Land and buildings**

	Group	
	1998	1997
<b>Acquisition value</b>		
Acquisition value brought forward	151,834	151,813
Investments for the year	10,929	370
Translation differences	2,054	-349
<b>Accumulated acquisition value carried forward</b>	<b>164,817</b>	<b>151,834</b>
Depreciation brought forward	61,763	56,294
Depreciation for the year	6,105	5,580
Translation differences	635	-111
<b>Accumulated depreciation carried forward</b>	<b>68,503</b>	<b>61,763</b>
Revaluation brought forward	1,632	1,882
Depreciation for the year on revalued amount	-250	-250
<b>Accumulated revaluation carried forward</b>	<b>1,382</b>	<b>1,632</b>
<b>Residual value acc. to plan c'd fwd</b>	<b>97,696</b>	<b>91,703</b>
Value assessed for tax purposes (Sweden)	42,405	35,951

**12 Plant and machinery**

	Group	
	1998	1997
<b>Acquisition value</b>		
Acquisition value brought forward	219,948	200,399
Investments for the year	51,960	25,230
Sales and disposals	-5,433	-5,310
Translation differences	2,684	-371
<b>Accumulated acquisition value carried forward</b>	<b>269,159</b>	<b>219,948</b>
Depreciation brought forward	147,799	135,797
Sales and disposals	-4,665	-4,760
Depreciation for the year	22,202	16,927
Translation differences	1,416	-165
<b>Accumulated depreciation carried forward</b>	<b>166,752</b>	<b>147,799</b>
<b>Residual value acc. to plan c'd fwd</b>	<b>102,407</b>	<b>72,149</b>

**13 Construction in progress**

	Group	
	1998	1997
Balance brought forward	2,654	1,999
Accrued expenses during the year	11,764	2,654
Re-allocations carried out during the year	-6,484	-1,999
<b>Group total</b>	<b>7,934</b>	<b>2,654</b>

**14 Current investments**

	Acquisition value	Market value	Book value
Listed shares	857	577	573
Interest-bearing securities	3,000	3,000	3,000
	<b>3,857</b>	<b>3,577</b>	<b>3,573</b>

**15 Shares in subsidiaries**

Name	Proportion of capital	Number of shares	Book value
NIBE AB	100%	400,000	103,245
Backer Elektro-Värme AB	100%	37,170	49,648
Loval Oy	100%	768	39,552
Bröderna Håkansson Värme AB	100%	15,000	18,944
Jevi A/S	100%	1	29,723
Calesco Foil AB	100%	10,500	37,333
Handöl-Form AB	100%	1,000	113
<b>Group total</b>			<b>278,558</b>

**Shares owned via subsidiaries**

Name	Proportion of capital	Number of shares
Norske Backer A/S	100 %	12,000
Backer Elektro Oy	100 %	500
Backer OBR Sp. z o. o.	100 %	10,000
Kiloval Oy	100 %	33
NIBE Polska Sp. z o. o.	100 %	10,480
Tjörnarps Industri AB	100 %	1,000
Brakon Norge A/S	100 %	10
Oy Meyer Vastus AB	90 %	360

**Details of corporate identity numbers and registered offices of subsidiaries**

	Corporate identity number	Registered office	
NIBE AB	556056 - 4485	Markaryd	Sweden
Backer Elektro-Värme AB	556053 - 0569	Hässleholm	Sweden
Loval Oy		Lovisa	Finland
Handöl-Form AB	556194 - 1393	Markaryd	Sweden
Norske Backer A/S		Kongsvinger	Norway
Backer Elektro Oy		Helsinki	Finland
Backer OBR Sp. z o. o.		Pyrzyce	Poland
Kiloval Oy		Lovisa	Finland
NIBE Polska Sp. z o. o.		Warnice	Poland
Bröderna Håkansson Värme AB	556108-0259	Höör	Sweden
Tjörnarps Industri AB	556086-8134	Höör	Sweden
Brakon Norge A/S		Jevnaker	Norway
Oy Meyer Vastus AB		Monninkylä	Finland
Jevi A/S		Vejle	Denmark
Calesco Foil AB	556000-5034	Hallstahammar	Sweden

## 16 Group equity

	Share capital	Restricted reserves	Non-restr'd reserves	Total equity
Amount at the beginning of the year	58,700	77,630	110,772	247,102
Transfer to statutory reserve		730	-730	
Dividend to shareholders			-11,740	-11,740
Shift between restricted and non-restricted capital		-1,582	1,582	
Change in Group structure			409	409
Translation difference			4,369	4,369
Net profit for the year			48,503	48,503
<b>Amount at year-end</b>	<b>58,700</b>	<b>76,778</b>	<b>153,165</b>	<b>288,643</b>

### Parent company

Share capital consists of 94,008 A-shares and 4,929,992 B-shares, both categories with a nominal value of SEK 10 per share.

	Share capital	Share premium reserve	Statutory reserve	Non-restricted equity	Total equity
Amount at the beginning of the year	58,700	67,428	6,724	53,843	186,695
Transfer to statutory reserve			730	-730	
Dividend to shareholders				-11,740	-11,740
Net profit for the year				11,774	11,774
<b>Amount at year end</b>	<b>58,700</b>	<b>67,428</b>	<b>7,454</b>	<b>53,147</b>	<b>186,729</b>

## 17 Long-term liabilities

The following list is that part of long-term liabilities which falls due for payment later than five years from the accounting period year-end.

	Group		Parent company	
	1998	1997	1998	1997
Liabilities to credit institutions	35,674	12,125	21,439	0
Liabilities to Group companies	0	0	28,500	28,500
Pension liabilities	185	119	0	0
	<b>35,859</b>	<b>12,244</b>	<b>49,939</b>	<b>28,500</b>

## 18 Bank overdraft facilities

The sum of bank overdraft facilities granted amounted to SEK 87,719,000 (SEK 78,278,000) for the Group as a whole.

## 19 Accrued expenses and deferred income

	Group		Parent company	
	1998	1997	1998	1997
Accrued salaries	36,341	31,216	781	735
Accrued social security contributions	23,588	16,619	611	474
Other items	17,898	14,318	635	420
	<b>77,827</b>	<b>62,153</b>	<b>2,027</b>	<b>1,629</b>

## 20 Pledged assets

	Group		Parent company	
	1998	1997	1998	1997
Real estate mortgages	88,319	79,228	0	0
Chattel mortgages	52,229	45,143	0	0
Shares in subsidiaries	302,184	266,968	229,778	192,313
<b>Total pledged assets</b>	<b>442,732</b>	<b>391,339</b>	<b>229,778</b>	<b>192,313</b>

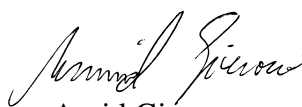
**21 Contingent liabilities**

	Group		Parent company	
	1998	1997	1998	1997
Pension obligations which have not been taken up among liabilities or provisions	1,438	1,016	0	0
Contingent liabilities in favour of other group companies	0	0	25,500	25,249
Other contingent liabilities	2,285	789	0	0
<b>Total contingent liabilities</b>	<b>3,723</b>	<b>1,805</b>	<b>25,500</b>	<b>25,249</b>

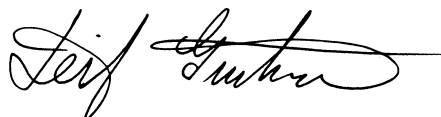
Markaryd, Sweden, 15 March 1999



Bengt Hjelm  
Chairman of the Board



Arvid Gierow



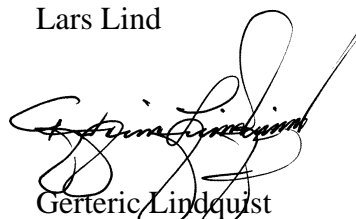
Leif Gustavsson



Lars Lind

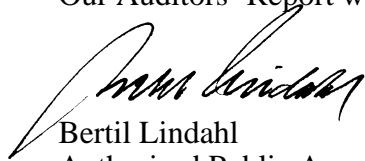


Bill Tunbrant



Gerteric Lindquist  
Group Executive Officer & MD

Our Auditors' Report was submitted on 30 March 1999



Bertil Lindahl  
Authorised Public Accountant



Kerstin Johansson  
Auditor



# Auditors' Report

## To the General Meeting of Shareholders in NIBE Industrier AB (publ)

*Corporate Identity number 556374-8309*

We have audited the financial statements, the accounts and the administration of the Board of Directors and the Managing Director of NIBE Industrier AB for the year 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board Member or the Managing Director, or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

- that the Income Statement and the Balance Sheet for the Parent Company and the Group be adopted,

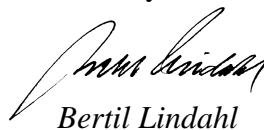
and

- that the profit be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the Board Members and the Managing Director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

- that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Markaryd, Sweden, 30 March 1999



*Bertil Lindahl*

Bertil Lindahl

Authorised Public  
Accountant



*Kerstin Johansson*

Kerstin Johansson

Auditor

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