



# NIBE

bringing warmth to the world

Annual Report  
2006

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### Shareholders' diary

15 May 2007	Annual General Meeting
15 May 2007	First quarter report January – March 2007
15 August 2007	Second quarter report January – June 2007
15 November 2007	Third quarter report January – September 2007

## Bringing warmth to the world

NIBE Industrier is a European heating technology company whose business operations are organised in three separate business areas: NIBE Element, NIBE Heating and NIBE Stoves.

- Our vision is to create a world-class heating company.
- Our mission is to offer high-quality, innovative heating products. This work builds on the NIBE Group's wide-ranging expertise in the fields of development, manufacturing and marketing.

### Annual General Meeting

The Annual General Meeting of shareholders will be held at the NIBE Marketing Centre (Marknadscenter) in Markaryd in Sweden on Tuesday, 15 May 2007 at 17.00 (5 pm).

### Dividend

The Board of Directors will propose to the Annual General Meeting a dividend of SEK 1.15 per share for the financial year 2006, corresponding to a total payout of SEK 108.0 million. If this proposal is accepted, it is anticipated that the dividend will be despatched from VPC (the Swedish central securities depository & clearing organisation) on Thursday, 24 May 2007.

### Financial information

The complete annual report and call to the AGM are sent to all shareholders. The annual report is also published on our website [www.nibe.com](http://www.nibe.com).

# 2006

## a strong year

- Net sales rose to SEK 4,958.0 million (figure for 2005: SEK 3,819.1 million)
- Growth totalled 29.8% (20.8%) of which 22.5% (12.9%) was organic
- Profit after net financial items rose to SEK 501.5 million (SEK 273.6 million)
- Earnings after tax totalled SEK 350.8 million (SEK 183.7 million)
- Operating cash flow was SEK 159.9 million (SEK –15.8 million)
- Earnings per share rose to SEK 3.74 (SEK 1.94)
- The Board of Directors proposes a dividend of SEK 1.15/share (SEK 0.75/share)
- Four corporate acquisitions were made during 2006 of companies with aggregate annual sales of approx. SEK 390 million

**Varde Ovne A/S**, a Danish manufacturer of wood-burning stoves

**Naturenergi Iwabo AB**, a Swedish pellet-burner manufacturer

**DZ Drazice strojirna s.r.o.**, Czech manufacturer of electric water heaters

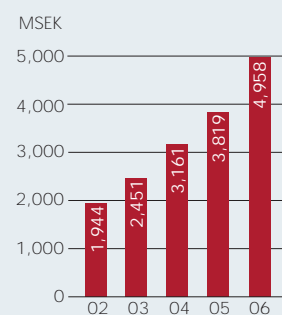
**Heatrod Elements**, an English tubular element manufacturer

### The year in figures

		2006	2005	Change
Net sales	MSEK	4,958.0	3,819.1	30 %
Growth	%	29.8	20.8	43 %
Profit after net financial items	MSEK	501.5	273.6	83 %
Investments in non-current assets	MSEK	526.4	375.7	40 %
Gross margin	%	14.1	11.3	25 %
Operating margin	%	11.2	8.1	38 %
Profit margin	%	10.1	7.2	41 %
Capital employed	MSEK	2,741.0	2,174.7	26 %
Equity	MSEK	1,283.5	1,031.0	24 %
Return on capital employed	%	22.9	16.4	40 %
Return on equity	%	31.3	20.4	53 %
Return on total assets	%	16.0	11.3	42 %
Asset turnover	times	1.41	1.36	4 %
Equity/assets ratio	%	32.9	33.0	0 %
Proportion of risk-bearing capital	%	36.1	36.7	- 2 %
Operating cash flow	MSEK	159.9	- 15.8	1,112 %
Interest cover	times	9.2	7.2	27 %
Interest-bearing liabilities/Equity	%	113.6	110.9	2 %
Average number of employees		5,111	4,339	18 %

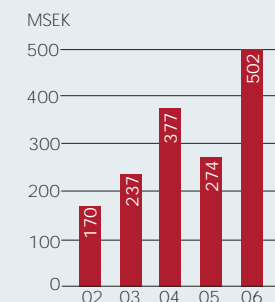
Please refer to page 45 for definitions.

### Net sales



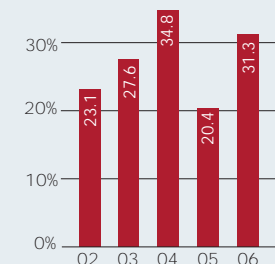
Net sales rose by 29.8% in 2006

### Profit after net financial items



Profit after net financial items rose by 83.3% in 2006

### Return on equity



Return on equity averages 27.8% p.a. over the past five years.

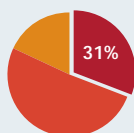
## OPERATIONS AT A GLANCE

### Proportion of Group

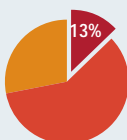


#### NIBE Element

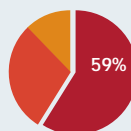
Net sales



Operating profit



Average number of employees



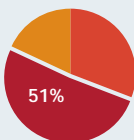
Operating margin

**5.0%**

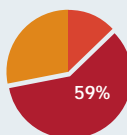


#### NIBE Heating

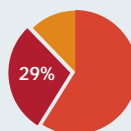
Net sales



Operating profit



Average number of employees



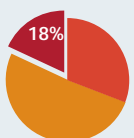
Operating margin

**13.1%**

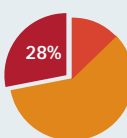


#### NIBE Stoves

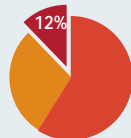
Net sales



Operating profit



Average number of employees



Operating margin

**17.2%**

#### Group total

Net sales

**SEK 4,958.0 m**

Operating profit

**SEK 556.0 m**

Average number of employees

**5,111**

Operating margin

**11.2%**

## Key facts and figures

NIBE Element is the market leader in Northern Europe and a leading European manufacturer of components and systems for electric heating applications. Customers are industrial users and components users.

Net sales 2006	SEK 1,533.9 million
Growth	+ 18.2%
Operating profit	SEK 76.2 million
Operating margin	5.0%
Average number of employees	3,024

NIBE Heating is the market leader for domestic heating products in the Nordic countries, Poland and the Czech Republic. Customers are the RMI sector (Renovation, Maintenance, Improvement) and the new housing market.

Net sales 2006	SEK 2,555.1 million
Growth	+ 29.8%
Operating profit	SEK 333.8 million
Operating margin	13.1%
Average number of employees	1,462

NIBE Stoves is the market leader in wood-burning stoves in Sweden. Customers are private homeowners in the new and existing housing market and in the holiday homes sector.

Net sales 2006	SEK 931.2 million
Growth	+ 59.3%
Operating profit	SEK 160.6 million
Operating margin	17.2%
Average number of employees	620

## Brands



Read more about NIBE Element's business operations on pages 20 – 25.

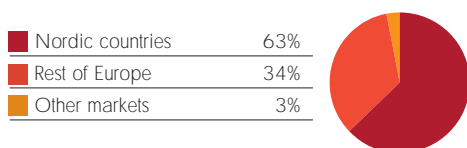


Read more about NIBE Heating's business operations on pages 26 – 31



Read more about NIBE Stoves' business operations on pages 32 – 37

## Group sales by geographic region





Gerteric Lindquist,  
Managing Director & CEO

## 2006 – a strong year for the entire NIBE Group

2006 will go on record as the best year so far for the NIBE Group. Group sales rose to SEK 4,958.0 million, corresponding to overall growth of 29.8% of which no less than 22.5% was organic.

All three business areas continued to capture new shares of the market and also showed very strong organic growth on the back of successful product development and aggressive marketing.

This expansion has also been boosted by external factors such as buoyant economies in more or less all of the markets where we are active, high energy prices and increasing environmental awareness.

Profit after net financial items totalled SEK 501.5 million in 2006, up 83.3% on the figures for 2005 including the SEK 70 million provisions to the restructuring reserve, or 46% excluding these provisions (which is a more accurate reflection of the situation).

It is also highly encouraging that this strong growth in earnings goes hand in hand with positive profit trends for all three business areas.

The restructuring programme at NIBE Element, in place since the third quarter of 2005, continues to proceed according to plan and is expected to be completed during the second half of this year as scheduled.

Operating margins for both Heating and Stoves remain well above the 10% we have set as our target, and intensive efforts are being made to elevate Element to the same level. However, it is our opinion that the prices of, for example, nickel and other raw materials must stabilise and preferably fall somewhat before we can fully achieve our objectives in this regard.

### Investing in continued expansion

The Group's total investments in existing units totalled some SEK 237 million during 2006, which is around SEK 100 million more than the current depreciation rate. This is a clear indication of our will to prepare the Group for continued expansion.

The rate of investment in 2007 will exceed 2006 levels substantially as investments in the new NIBE Stoves' production plant will be realised during the year.

### Strategic acquisitions

The takeover of Heatrod Elements has made NIBE Element the market leader in the UK. NIBE Heating's acquisition of the Swedish pellet-burner manufacturer Naturenergi IWABO means that the business area can now offer a complete biofuel programme, while the takeover of DZ Drazice, the Czech Republic's leading manufacturer of electric water heaters, means that Heating is now also a leading name in this market.

NIBE Stoves' acquisition of the Varde Group in Denmark has consolidated the business area's position both in Denmark and in Germany.

Opportunities for further corporate acquisitions continue to look favourable.

### Towards a turnover of ten billion kronor

Our long-term aim is to double Group turnover by 2011 at the latest, raising sales to a total of SEK 10 billion while still maintaining high levels of profitability.

Even though this is a task for which we have the greatest respect, there are, in our opinion, a number of internal and external factors that suggest that we will succeed in this feat.

### Environmental concern spurs growth

High energy prices and widespread concern about climate change are creating strong demand in the world around us for environmentally friendly, energy-saving heating alternatives.

The market conditions for heat pumps, bio-fuel boilers and high-efficiency wood stoves with very low emissions have probably never been better – and these are products we have been working with for decades.

Moreover, most of the world's leading economists are convinced that the global economy will remain strong for several years to come.

### Daring to go our own way

As far as our own ability to capitalise on this situation is concerned, we have built up a corporate culture founded on generous portions of common sense, simplicity and long-term thinking that is well suited to ongoing expansion without compromising profitability.

We also believe that, in order to stand out and succeed, a company must have the courage to do things its own way rather than simply following the crowd. For example, we remain convinced that manufacturing can still be profitable in Sweden and other high-cost countries, as long as we maintain a firm focus on productivity. Our current work on a brand new plant for producing wood stoves in Markaryd is a good example of our fortitude in swimming against the stream.

### The power to appeal

It is our impression, too, that our corporate values and ambitious expansion plans are very appealing to people who are eager to be part of a dynamic, winning team with plenty of opportunities for the future, not least in an international perspective.

In the same way, we believe that we can attract new companies to become part of the NIBE Group. For owners and potential sellers who are interested in long-term industrial collaboration and keen to see their companies develop, NIBE should be the ideal partner.

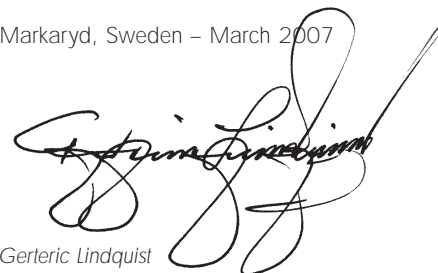
To realise our objectives, however, it is also essential to have the right feel for NIBE's corporate culture, our products, production methods and customers. At NIBE a job is more than just a job. It is our passion for what the company stands for that has brought us to where we are today. And it will continue to play a crucial role in our success in the years ahead.

### Unerring faith in the future

The NIBE Group is exceptionally strong in terms of financial key figures and its corporate culture, and the market prospects are looking extremely good.

This inspires us with confidence that the current year will continue to see a positive development in the company's progress.

Markaryd, Sweden – March 2007



Gerteric Lindquist  
Managing Director and Chief Executive Officer



NIBE Industrier AB's "B" shares were floated on the Stockholm Stock Exchange's OTC list (now the Mid Cap list, OMX Stockholm) on 16 June 1997 following the issue of 1,170,000 new "B" shares. The subscription price then was SEK 70 per share. This corresponds to SEK 4.38 per share following the splits carried out in June 2003 and June 2006.

## Split

In 2006 a 4:1 split of the company's shares was made. This reduced the quotient value of the share from SEK 2.50 to SEK 0.625 per share at the same time as the number of shares increased fourfold. The first trading day after the split was 14 June 2006. All information regarding the NIBE share in this current annual report has been recomputed to reflect the effect of this split.

## Share capital

NIBE Industrier AB has a share capital of SEK 58.7 million, divided into 13,160,256 "A" shares and 80,759,744 "B" shares. The quotient value (i.e. share capital divided by shares) is SEK 0.625. Every "A" share carries ten votes at the Annual General Meeting and every "B" share carries one vote. All shares carry the same entitlement to the company's assets and profits. A trading lot is made up of 200 shares. At the end of 2006 the company had no outstanding convertible loans or options which could risk diluting the share capital.

## Share performance and turnover

During 2006 the NIBE share appreciated in value by 89% from SEK 60.75 to SEK 115.00. The Carnegie Small Companies Index (Small Cap) rose by 34% during the same period. At the end of 2006 the market value of NIBE, based on the latest price paid, amounted to SEK 10,801 million. The number of NIBE shares traded on the Stockholm exchange during 2006 amounted to 34,528,712: this corresponds to a share turnover of 37%.

## Dividend policy

The aim is, over the long term, to pay a dividend equivalent to 25–30% of Group profit after tax. The Board is proposing a dividend of SEK 1.15 per share for the 2006 financial year, which equates to 30.8% of Group profit after full tax.

## Changes in share capital

Year		Increase in share capital (SEK)	Quotient value (SEK)	Total number of shares	Total share capital (SEK)
1990	New issue <sup>1)</sup>	6,950,000	100.00	70,000	7,000,000
1991	Bonus issue	40,000,000	100.00	470,000	47,000,000
1994	Split 10:1 <sup>2)</sup>	–	10.00	4,700,000	47,000,000
1997	New issue	11,700,000	10.00	5,870,000	58,700,000
2003	Split 4:1 <sup>3)</sup>	–	2.50	23,480,000	58,700,000
2006	Split 4:1 <sup>4)</sup>	–	0.625	93,920,000	58,700,000

<sup>1)</sup> Private placing to existing shareholders at a subscription price of SEK 100 per share.

<sup>2)</sup> Change in the quotient value of each share from SEK 100 to SEK 10.

<sup>3)</sup> Change in the quotient value of each share from SEK 10 to SEK 2.50.

<sup>4)</sup> Change in the quotient value of each share from SEK 2.50 to SEK 0.625.

## Ownership

There was a further rise in the number of shareholders during the year. NIBE had 16,050 shareholders on 30 December 2006, compared with 14,172 twelve months previously. The ten largest shareholders held 66.2% of the votes and 38.0% of the capital.

## Shareholder value

To increase turnover in NIBE shares and give both current and future owners the opportunity to evaluate the business as fairly as possible, senior management strives ceaselessly to develop and improve financial information relating to the company by taking an active role in meetings with analysts, investors and the media.

The following banks and brokers are among those who have tracked and analysed NIBE shares during the year:

ABG Sundal Collier	Tobias Ottosson, Tel +46 (0)8-566 286 00
Carnegie	Björn Enarson, Tel +46 (0)8-676 88 00
Handelsbanken	Markus Almerud, Tel +46 (0)8-701 10 00
Capital Market	
HQ Bank	Alexander Vilval, Tel +46 (0)8-696 17 00
Kaupthing Bank	Carl-Johan Blomqvist, Tel +46 (0)8-791 48 00
Nordea Markets	Andrej Kledzik, Tel +46 (0)8-534 922 56
SEB Enskilda	Anders Eriksson, Tel +46 (0)8-522 295 00
Swedbank Markets	Mats Larsson, Tel +46 (0)8-585 900 00



## NIBE SHARES

### Share data <sup>1)</sup>

		2006	2005	2004	2003	2002
Number of shares		93,920,000	93,920,000	93,920,000	93,920,000	93,920,000
Year-end share price	SEK	115.00	60.75	46.00	31.88	15.94
EPS (after full tax)	SEK	3.74	1.94	2.97	1.72	1.27
Equity per share	SEK	13.67	10.92	9.46	7.08	6.04
Proposed dividend	SEK	1.15	0.75	0.75	0.46	0.34
Price/equity		8.42	5.56	4.86	4.50	2.64
Dividend yield	%	1.00	1.23	1.63	1.45	2.16
Total yield	%	91.19	33.70	46.67	102.90	35.68
Operating cash flow/share	SEK	1.70	-0.17	1.28	0.17	0.35
Payout ratio	%	30.8	38.7	25.3	26.8	27.0
PE ratio (after full tax)		30.8	31.4	15.5	18.5	12.5
Market value	SEK million	10,801	5,706	4,320	2,994	1,497
EBIT multiple	times	21.6	21.7	13.8	14.1	9.3
EV/sales	times	2.43	1.76	1.60	1.46	0.92
Share turnover	%	36.8	38.4	30.6	22.3	15.1

<sup>1)</sup> All key ratios/share have been recalculated with regard to the 4:1 split made in June 2006.

### Definitions

#### EPS (after full tax)

Earnings after full tax divided by the average number of shares in issue.

#### Equity per share

Equity divided by total number of shares in issue.

#### Price/equity

The year-end share price divided by the year-end equity per share.

#### Dividend yield

Dividend as percentage of year-end share price.

#### Total yield

The change in the share price for the year, plus dividend, as a percentage of the share price on the preceding balance sheet date.

#### Operating cash flow per share

Cash flow after investments but before acquisitions of companies/operations divided by the average number of shares in issue.

#### Payout ratio

Dividends as a percentage of earnings per share.

#### PE ratio (after full tax)

Year-end share price divided by earnings per share.

#### Market value

Year-end share price multiplied by the total number of shares in issue.

#### EBIT multiple

Market value plus net debt (interest-bearing liabilities less financial current assets) plus minority interests divided by operating profit.

#### EV/sales

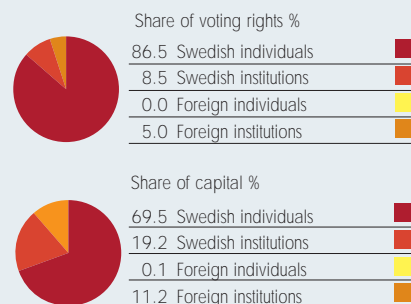
Market value plus net debt (interest-bearing liabilities less financial current assets) plus minority interests divided by operating profit) divided by net sales.

#### Share turnover

Total number of shares sold during the year as a percentage of average number of shares in issue.

### Shareholder categories

(Source: VPC AB share register 29 Dec 2006)



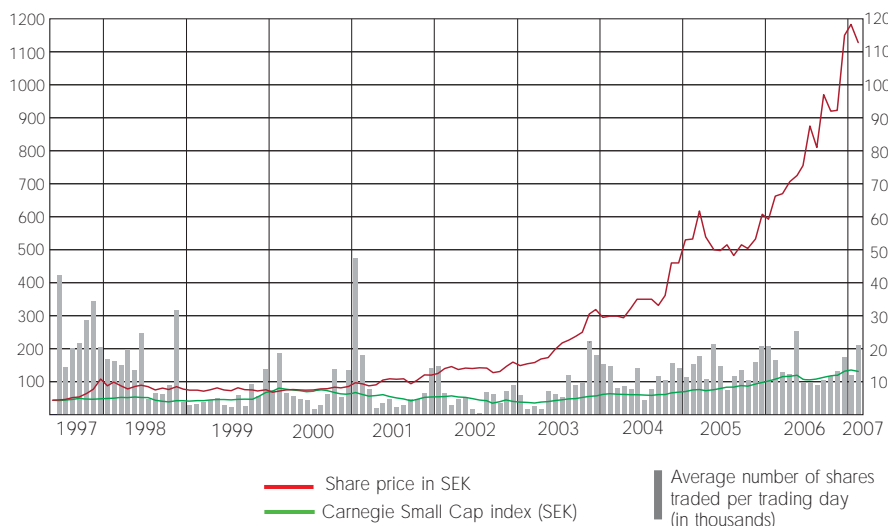
### Major shareholders

(Source: VPC AB share register 29 Dec 2006)

Name	Number of shares	Share of vote (%)
Current and former board members and senior executives <sup>1)</sup>	27,960,476	53.00
Melker Schörling	12,015,360	21.59
Client Omnibus AC Fund	2,093,600	0.99
Roburs Exportfond	1,547,800	0.73
Lannebo Småbolag	1,349,400	0.64
Enter Sverige Fokus	1,131,800	0.53
Livförsäkringsbolaget Skandia	946,365	0.45
Lannebo Småbolag Select	788,300	0.37
Fjärde AP-fonden	746,100	0.35
AMF Pensions Aktiefond Sverige	745,000	0.35
Other holdings(16,020 shareholders)	44,595,799	21.00
<b>Total</b>	<b>93,920,000</b>	<b>100.0</b>

<sup>1)</sup> Please refer to page 72 for details of the current Board of Directors.

### NIBE share performance



### Shareholder structure

(Source: VPC AB share register 29 Dec 2006)

Shareholding	Number of shareholders	Share of ownership (%)	Number of shares	Proportion of shares (%)
1 – 500	8,608	0.73	1,550,936	1.65
501 – 1,000	2,576	0.98	2,089,429	2.23
1,001 – 5,000	3,761	4.32	9,180,163	9.77
5,001 – 10,000	551	1.90	4,031,848	4.29
10,001 – 15,000	153	0.90	1,910,357	2.03
15,001 – 20,000	128	1.06	2,239,796	2.39
20,001 –	273	90.11	72,917,471	77.64
<b>Total</b>	<b>16,050</b>	<b>100.0</b>	<b>93,920,000</b>	<b>100.0</b>

# NIBE – a world-class heating company

Our vision of NIBE as a world-class heating company builds on the idea that people – regardless of nationality, age, gender, location, situation or time – should always perceive NIBE as a first class company in terms of its image, its products and employees.

NIBE customers should be totally satisfied with the features, innovations and performance of our products, which combine high quality with an appealing design.

All NIBE employees should be professional and show respect, care and concern in all their relationships and dealings both within the company and externally.

NIBE products create warmth, comfort and well-being around the clock. They make a positive impact on people's lives and send out the signal that NIBE is always there – for you.



▲ Exhaust-air heat pumps from *NIBE Heating* ensure good ventilation with energy recovery 24 hours a day – even when you're fast asleep.

◆ As the day draws to a close, it's time to reflect and to dream. A heat pump from *NIBE Heating* can save you enough money in just one year to install a wood-burning stove from *NIBE Stoves* in your holiday home as well.



◆ Relaxing in the cosy glow of a wood-burning stove from *NIBE Stoves* is a great way to unwind. The stove is also an efficient source of heating.



◆ Both hob and oven are needed at dinner time – and both depend on elements manufactured by *NIBE Element*

Bath time with plenty of hot water from a heat pump, domestic boiler, district-heating module or water heater from *NIBE Heating* is a fun way to mark the end of the day for many active children.





▲ NIBE helps get the day off to a good start – with plenty of hot water from a heat pump, domestic boiler, district-heating module or water heater from *NIBE Heating*.



▲ A crackling fire in a wood-burning stove from *NIBE Stoves* creates a welcoming atmosphere of cosiness and warmth on even the coldest of winter mornings.

A good breakfast is a great way to start the day. *NIBE Element* plays its part by manufacturing heating elements for both toasters and coffee machines.



# NIBE brings warmth to the world – 24 hours a day

▶ On cold winter days *NIBE* makes it easier to set off for work. The tubular elements for engine pre-heaters and the foil elements for rear-view mirrors in many cars come from *NIBE Element*.



▶ Time for a break? The big question nowadays is which type of coffee to choose. The coffee in this professional coffee machine is heated with tubular elements from *NIBE Element*.



▼ With children in the family, the washing machine is on virtually every day. The water in the washing machine and the air in the tumble-dryer are both heated by elements from *NIBE Element*.



▼ With waterborne underfloor heating controlled by energy-efficient heat pumps from *NIBE Heating*, children can scamper around barefoot indoors all year round.





*Commitment among co-workers and high productivity, as interpreted in this painting by the artist Lucie Rääf, are key concepts at NIBE.*

## The foundations for success

### ■ Good profitability

Good profitability is, and always has been, a tradition at NIBE.

All NIBE employees aim to ensure that their business unit reports an operating margin of at least 10% over a full business cycle.

As an example of this, neither of the original companies in the NIBE Group (Backer BHV AB and NIBE AB) has ever reported an operating loss. This track record – dating back no fewer than 58 and 55 years respectively – engenders respect for the fact that it really is possible to make money under all circumstances.

We find it hard to understand why various forces in society have so often called corporate profits into question over the years. Profitability is a measure of efficiency, and good profitability is the ultimate goal of any business. It is only through good profitability that a company can develop and safeguard its long-term survival.

Good profitability also affords freedom of action and independence. This, in turn, creates job satisfaction and job security for employees, and attracts ambitious new employees.

### ■ High productivity

High productivity is crucial to maintaining a competitive position.

Our productivity ethic can be simply summarised in two points.

■ Firstly, everything can and must constantly be improved. We must never allow ourselves to rest on our laurels. No matter how successful current solutions may seem, we must always strive to improve things even further.

■ Secondly, if you can't measure it, you can't improve it.

In stark contrast to the current trend of outsourcing as much business as possible to other suppliers, NIBE continues to focus firmly on in-house production. We are

convinced that high value added internally provides the foundation for high productivity growth and, by extension, good profitability.

This approach makes it natural to invest heavily in modernising our factories and offices to make sure that they are rational and use the most efficient equipment.

NIBE's profitability and expansion have been achieved largely through high productivity based on uncomplicated organisational structures, rational production processes, good use of time and flexible wage systems for as many of the workforce as possible.

We are convinced that flexible wage systems based on accurate time measurement are a crucially important factor for the vast majority of industrial companies. Employees who excel in their work must naturally be motivated with the prospect of higher earnings, which in turn provide an incentive for further improvements.

Accurate time measurement also ensures that the data used for calculations is correct, and that we really can plan production and present decision-makers with a reliable basis both for investment decisions and meaningful business analyses.

Regrettably, the uninitiated often associate high productivity and flexible wage systems with stress and dissatisfaction. In fact, good use of time and concentrating on work actually result in greater job satisfaction through fair pay and a well organised workplace.

The new IT economy's tools for rationalising administration harmonise very well with our productivity philosophy in a number of areas, particularly design tools, purchasing efficiency, production management and order management.

### ■ Aggressive product development

NIBE continuously invests substantial resources in product development.

The rationale behind aggressive product development is that customers' changing needs must be quickly identified and translated into the best possible solutions in any given market situation.

Market-leading product development is crucial to continued organic growth and establishing a foothold in new markets.

A sharp focus on product development also facilitates the evaluation and introduction of new technologies.

Another major advantage of focusing on product development is that a basis for good production efficiency is established right from the concept stage. The high levels of value added, passion for productivity and extensive product development resources at NIBE together make for an invaluable holistic approach to the profitability of our products.

### ■ Quality in everything – focus on the customer

The customer must always be able to rely on both the company and its products and employees.

Quality is one of the hallmarks of NIBE – a key competitive factor and a strong selling point for our products.

We aim to be forerunners when it comes to quality and the environment. This can never be accomplished through isolated initiatives or by hanging certificates on the wall. It can only be achieved through resolute, day-to-day efforts that focus on constantly trying to do things better, and by all employees always taking responsibility for and showing commitment to these issues.

For us, quality also means that we must always have the capacity to assist our customers, and that they must always be dealt with in a professional and friendly manner.

The goal, of course, is for our approach to quality and the environment to result in as few mistakes as possible and thus make us as cost-effective as possible. Despite these efforts, it is inevitable that problems will arise from time to time. When they do, they must be identified and dealt with quickly. Quite simply, a NIBE customer must always be a satisfied customer.

### ■ Market-oriented expansion

Expansion is a must for all business development.

Good, continuous growth is absolutely essential for creating the right conditions for productivity improvements, organisational development and innovation. The combination of good organic growth and carefully balanced growth through acquisitions is the best possible way of vitalising an organisation.

NIBE's expansion philosophy builds on the notion that we must always be sensitive to the market's varying needs, and must therefore offer a broad range of products with high standards of performance to ensure that every customer always gets the best possible solution.

Expansion into new markets must be carefully prepared and undertaken methodically, step by step.

Whatever the market, the customer must always regard NIBE as a reliable and constructive partner, and NIBE's successes must also benefit the customer in the form of value-for-money products.

### ■ Committed employees

NIBE aims to have uncomplicated organisational structures and to give employees real freedom with accountability.

We ask a lot of all of our employees, but together with open and unambiguous communication this creates the kind of clarity in the workplace that is greatly appreciated.

Initiative, modesty and common sense are ideal qualities on which co-workers at NIBE can build a career.

We favour a hands-on management style, based on the conviction that managers must have an eye for detail and be genuinely interested in their areas of responsibility if they are to be able to lead and develop their co-workers. All managers must always lead by example.

This environment provides the ideal conditions for all employees to develop, both through their own personal initiatives and through targeted training.

### ■ Firm focus on three core businesses

Focusing on our three core businesses ensures clarity both internally and externally.

This focus also results in an ever increasing bank of in-depth expertise, which gives us a real analytical edge, not least when it comes to acquisitions.

All three core businesses have considerable scope for expansion, above all internationally. This provides a good basis for market leadership, synergy gains and economies of scale.

Concentrating all our energies on these three existing core businesses ensures reasonable risk exposure and robust earnings generation over a business cycle.

### ■ A long-term approach

NIBE takes the long-term view, so short-lived trends tend to pass us by.

Naturally we keep a very close eye on the increasingly rapid pace of change in the world around us, but we are careful to test any major changes that we introduce ourselves on a small scale before implementing them fully throughout the organisation.

We aim to have long-term relationships with both customers and suppliers, and are convinced that responsibility, sustainability and continuity will win in the long run.

A good illustration of this is the continuity in NIBE's ownership, which enables us to concentrate to the greatest possible degree on the development of the business while also safeguarding our independence.



## Internationalisation with the Nordic countries as our base

### Vision

Our vision is to create a world-class heating company.

### Mission statement

Our mission is to offer high-quality, innovative heating products through our three business areas: NIBE Element, NIBE Heating and NIBE Stoves. This work will build on the NIBE Group's wide-ranging expertise in the fields of development, manufacturing and marketing.

### Objectives

NIBE Industrier's overriding objective is to combine powerful and sustainable growth with healthy profitability, so creating value for shareholders, providing an interesting and stimulating workplace for employees, and attracting satisfied, loyal, long-term customers who value the peace of mind that the NIBE Group offers them.

The Group has four overall financial targets:

- to achieve average year-on-year growth of 20%, half of which is to be organic
- to report average annual operating profit for each of the three business areas equivalent to at least 10% of net sales over a business cycle
- to achieve an average annual return on equity over a business cycle of at least 20% after standard deductions for tax
- to ensure that the equity/assets ratio does not fall below 30%.

## Growth

will be maintained through:

- increasing our share of the market in priority markets
- focusing on new markets and segments, preferably with the help of unique products and new technologies
- making strategic acquisitions in selected markets, preferably of companies with strong brands, products that complement the existing NIBE range, and new technologies.

## Competitiveness

will be improved through:

- the continual development of leading-edge products in close cooperation with the market and customers
- continuous rationalisation of production through mechanisation, automation, and the optimum utilisation of working time through flexible wage systems
- standardisation, the coordination of components and modularisation
- economies of scale thanks to large volumes in purchasing and production
- the use of IT support for product development, purchasing, production, sales, marketing and finance
- modern designs that reflect the quality and performance of our products.
- professional marketing with an international feel
- high quality.

## Profitability

will be maintained through:

- faster growth than our competitors
- optimising costs, minimising tied-up capital and continually strengthening competitiveness
- high levels of value-added
- brand-building
- activity in a number of different markets and segments, so reducing sensitivity to fluctuations in demand
- internal and external benchmarking
- the integration of newly acquired units in line with the three-phase model: analysis–improvement–growth.

## Co-worker commitment

will be further strengthened by:

- training and developing individual employees and the organisation as a whole
- motivating existing key employees and recruiting new ones
- schemes that give co-workers a stake in the NIBE Group.

## Customer satisfaction and peace of mind

will be our constant goal through:

- a broad range of products that ensures that each and every customer benefits from the best possible solutions
- the best service and customer support
- high quality
- competitive prices.

## A holistic approach to environmental issues

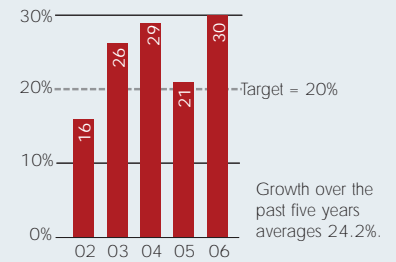
will play a key role in product development, from the choice of materials, through production and use to recycling.

## Sincerity and an ethical attitude

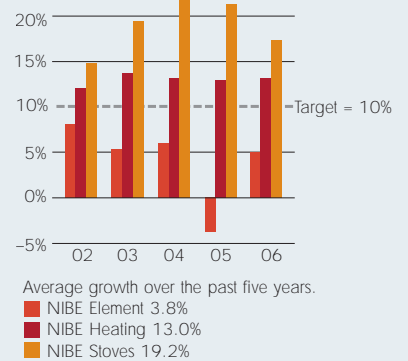
will characterise the company and all its employees both in terms of internal relations, and in dealings with shareholders, customers, suppliers, authorities and society in general.

## Objective fulfilment

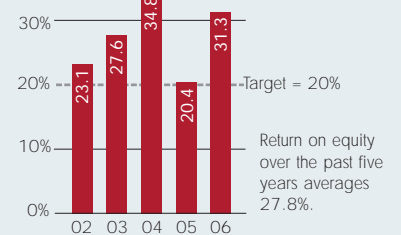
### Growth



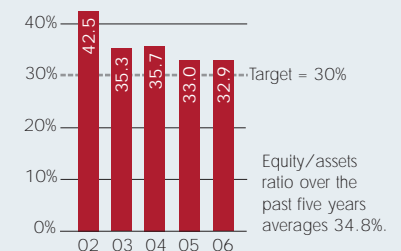
### Operating margin



### Return on equity



### Equity/assets ratio



## GROWTH MODEL

## Profitable growth

NIBE launched its growth strategy, with its target of average year-on-year sales growth of 20%, in the midst of the Swedish financial crisis in the early 1990s. Back then the Group generated annual sales of around SEK 300 million.

The background to this strategy was the realisation that continuous growth is vital for good profitability. At that time there was also much talk in Europe that companies with sales of less than SEK 600 million would find it hard to survive after the advent of the EU's internal market. Given our burning passion to remain independent, this seemed another good reason to equip ourselves for good, sustainable growth and so achieve sufficient critical mass of our own.

### Organic growth

Half of our targeted average year-on-year growth (in other words, 10%) is to be organic.

Admittedly, we did not arrive at such a round number on the basis of any exact scientific theory; it was based more on an acknowledgement that organic growth of less than 5% is quite simply insufficient for good and sustainable profitability.

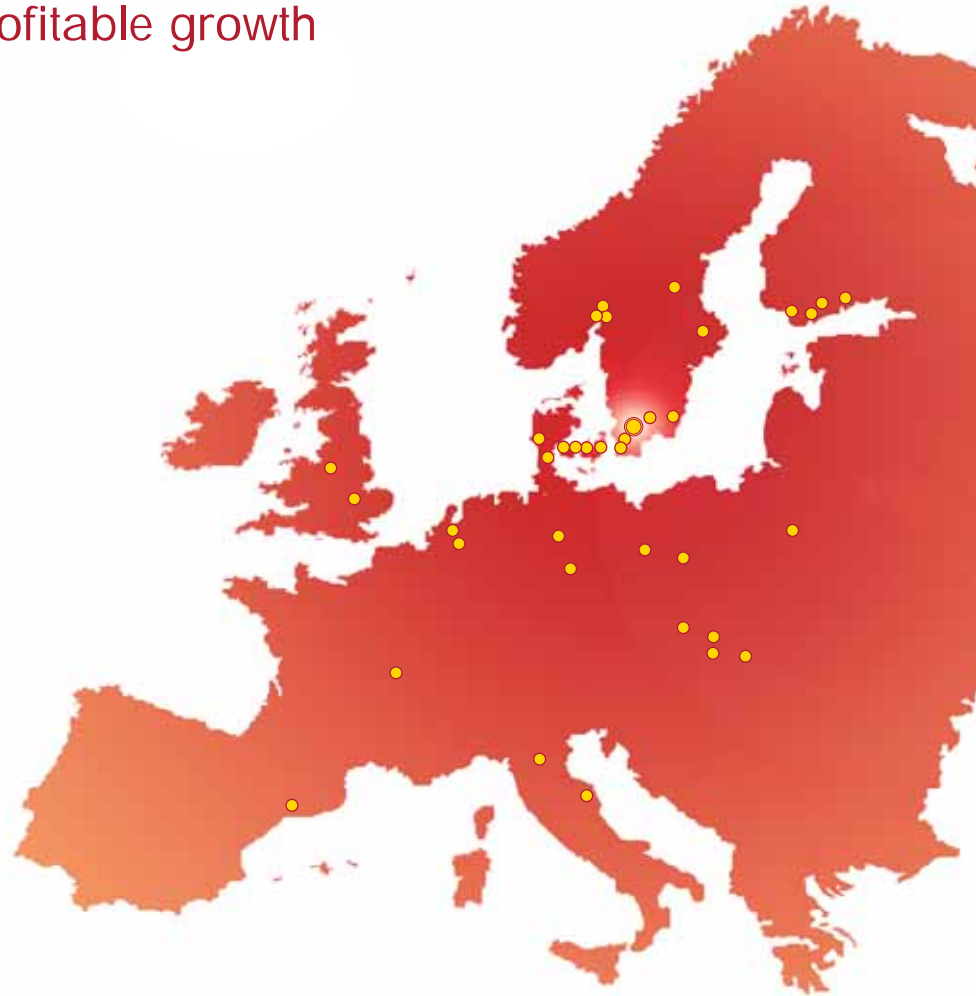
Since the overall underlying annual growth in demand in our three business areas is believed to be linked to GDP growth, this growth target means that we can never rest

on our laurels, but must strive constantly to increase our share of existing markets and establish bridgeheads in new markets. Although the target may seem ambitious (and no one knows better than we do just how ambitious it is!), it is not impossible. This is demonstrated by the fact that over the last ten years NIBE has actually generated average year-on-year organic sales growth of no less than 14%. This is attributable to a combination of aggressive product development, continuous productivity improvements and systematic marketing work.

### Acquisitions

We have concluded that, in the mature market in which NIBE operates, organic growth alone cannot reasonably be expected to meet our overall year-on-year growth target of 20% indefinitely. We have therefore decided that organic growth must be complemented with average year-on-year growth through acquisitions of 10%. This level ensures that the additional workload is manageable, and the degree of risk reasonable.

The Group has been involved in 33 acquisitions over the last decade, representing average year-on-year growth through acquisitions of 9%.



## Timeline for acquisitions and establishments

1994	1995	1996	1997	1998	1999	2000
Backer OBR (32%) Backer Oy (new estab.) Contura	Vølund Loyal OY	Pyrox TMV-Pannan	NIBE Polska (new estab.) Backer OBR (68%) EPD	Br Håkansson Värme AB Lodam Energi JEVI A/S Calesco Foil AB	Haato Varaajat	Cronspisen AB Biawar Backer F.E.R Coates Backer CZ Eltop Praha





*NIBE currently has operations in 15 countries and is represented in nearly as many again through importers and dealers.*

### Acquisition criteria

NIBE is constantly analysing potential take-over candidates. Talks are also constantly under way with various companies. The decisive factor for a possible acquisition is that it must bring in new technology, new geographical markets and/or additional market share in existing markets.

The basic criteria are that the company must have strong brands, it must have competent management with a real entrepreneurial spir-

it, and we must see further growth potential within the constraints of NIBE's strategies. If these criteria are met, we can then be flexible about what phase the company is in purely in terms of profitability.

Our goal is for each acquisition to contribute positively to the Group's net profit, ideally within the first year and most definitely within the second.

### Acquisition model

- In the analysis phase we perform a detailed yet rapid analysis of the company. This is possible because our three sectors are so clearly defined and we have a veritable arsenal of key figures with which to make comparisons. We often also have access to several years' financial documentation.
- In the implementation phase there is always complete transparency about our intentions with the acquisition. We practise what we preach – there is never any hidden agenda. The fact that we are very clear and open about our management philosophy and strategies (for example in our annual report) generally facilitates this process.
- In the integration phase we aim to retain not only brands, but also skilled employees at every level. We look for synergies primarily when it comes to purchasing, but productivity improvements are generally also there for the taking in production.

Generally speaking, our ambition is to create a decentralised organisation where new additions to the Group continue to enjoy considerable independence. We want integration into the NIBE Group to be about exploiting the obvious benefits of belonging to a much larger cluster of companies, and applying the NIBE Group's goals and strategies.

## 2001

Roslagsspisen  
Norells Sweden AB  
Svend A. Nielsen A/S  
Heise Systemtechnik GmbH

## 2002

Jøtul ASA (22%)  
REBA

## 2003

Danotherm Electric A/S (80%)  
Backer Facsa  
Energietechnik B.V. (new estab.)  
METRO THERM A/S  
Finohm  
Sinus-Bobe  
Termos

## 2004

NETEK  
Shel  
Calesco Foil Inc. (new estab.)  
Kaukora  
Sale of Jøtul ASA (22%)

## 2005

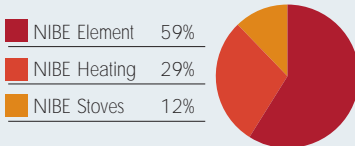
Northstar AS  
K M Jensen

## 2006

Varde Ovne A/S  
Danotherm Electric A/S (20%)  
Naturenergi Iwabo AB  
NIBE Energy Systems (new estab.)  
NIBE Foyers France (new estab.)  
DZ Drazice strojirna s.r.o.  
Heatrod Elements

## Every co-worker plays an important role

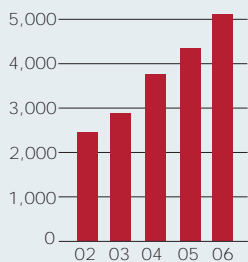
### Employees – by business area



### Key figures

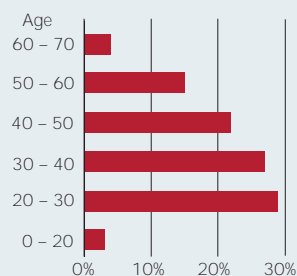
	2006	2005	2004
Average number of employees	5,111	4,339	3,755
administrative staff	% 23	25	23
production staff	% 77	75	77
men	% 67	69	71
women	% 33	31	29
Average age	years 37	37	38
Average length of employment	years 6.2	7.4	7.8
Workforce turnover	% 10.4	8.7	8.7
Number of graduates	504	475	440
Employees in Sweden	% 26	30	34
Employees abroad	% 74	70	66
Sickness absence (short-term)%	2.5	2.8	2.7
Sickness absence (long-term)%	3.2	3.6	4.0

### Mean number of employees



The large increases in the number of employees over the past three years are the combined result of good organic growth and several corporate acquisitions.

### Age distribution among employees



The workforce at NIBE has expanded significantly since 2000: from 1,900 employees in seven countries to 5,600 in fifteen countries by the end of 2006. Many new workers have joined a company founded on strong values – and, for the vast majority, the experience has been a positive one, regardless of their country of origin or local culture.

### Natural values

Strong growth brings with it a need for continuous recruitment, and NIBE is highly dependent on how well it manages to attract, retain and develop high-calibre personnel.

We set our sights high and demand a great deal of our employees. However, in combination with freedom with accountability, generous helpings of common sense, a simple straightforward approach and excellent career opportunities, this seems only natural. The effect of all this is to generate an enthusiastic attitude to work, with low absenteeism due to illness, a staunchly loyal workforce and many applications from hopeful job-seekers.

The combination of young, well-educated new recruits and highly skilled, long-serving employees produces many positive effects. Not least, it means that the company's knowledge of products, production and markets that has been built up over many years can be preserved and transferred in a natural way. This is just one of the many advantages of working with an expanding company.

### Increase in Sweden and abroad

Although the NIBE workforce is becoming increasingly international, with some 4,000 employees working outside Sweden, the number of employees in Sweden has also risen by around 200 over the past year, bringing the total here to more than 1,500. Thanks to a conscious and continuous focus on productivity in every respect and at every level, we are still able to maintain competitively priced production in Sweden. At the same time, of course, we also have production units in Eastern Europe and China to manufacture those products that are subjected to the very fiercest price competition.

Unswerving loyalty and a low turnover of staff are two of the hallmarks of NIBE. Even so, we have noticed that the overheated labour market, especially in Poland and Denmark, has led to increased employee turnover, most noticeably in production.

### Wide appeal

Our restrictive approach to outsourcing ensures that a great deal of knowledge is accumulated in the Group. Many different professions are represented here, creating a valuable spectrum of expertise in product development, manufacturing, administration and marketing. The depth and breadth of these skills also enable us to collaborate with universities and colleges in a variety of fields.

We believe that it is important to spread knowledge about the great variety of careers that are available in a modern manufacturing industry, so we work extensively with local schools, giving pupils of all ages an insight into the jobs and career opportunities open to them.

As in many other manufacturing industries, men have historically been over-represented in our workforce, but the number of female employees is growing all the time. Today women account for almost one third of the workforce

### Low sick leave

In recent years there has been an increased focus on the problems caused to society by high levels of sick leave and the huge costs this incurs.

At NIBE the trend points downwards: last year's figure for sick leave of 5.7% was the lowest for many years. Approximately half of this figure relates to short-term illness and half to long-term.

The reason for this positive development owes much to our commonsense approach to sick leave. For us, it is as natural to make the workplace as ergonomic as possible and to organise work systematically as it is to expect employees to take their share of responsibility for their health by keeping themselves in good physical shape. Job rotation, job trials and similar measures are generally a result of natural needs and wishes rather than bureaucratic solutions.

### Stimulating training

Ensuring that employees are well equipped for the future with the right skills and attitudes is the underlying aim of all training provided at NIBE.

Training is not an end in itself, but a direct response to well-defined, relevant needs. The benchmark is straightforward, work-related training – often using teachers and tutors from our own workforce – to share knowledge specific to NIBE's operations in a stimulating, cost-effective way.

There are continuous training programmes in specialist professional skills and another important contribution is made in conjunction with our induction programmes, where new recruits learn about the NIBE corporate culture and undergo product training at various levels depending on their future duties.



### When Damir's free, he works!

Name: Damir Degac  
Age: 37  
Family: Wife, Romana  
Job: Machine operator at NIBE in Markaryd, Sweden  
Recruited: January 1996 (started in the Enamelling workshop)  
Home: Apartments in Markaryd and Croatia  
Hobbies: Work and holiday trips

*Damir has always been practically inclined, so studying joinery at college was an obvious choice for him.*

*"I worked in the construction industry for 7 or 8 years before the bottom fell out of the market," he says. "Then NIBE offered me a job in the enamelling shop.*

*"I thought I'd stay for a year or so, but I've enjoyed working for the company so much that I've recently got my gold pin for 10 years' service."*

#### Mix of practice and theory

*For the past few years Damir has been working shifts in NIBE's hypermodern sheet metal unit. Here a team of 40 work with sophisticated, computer-controlled*

*machines for nibbling, bending and laser-cutting metal.*

*"Things are developing all the time at NIBE. All the new investments in machinery and new products make the job more interesting. I enjoy the mix of practical tasks, like changing tools, and computer work, where you can make sure you make the best possible use of every square inch of metal."*

#### Clean, pleasant working environment

*Manufacturing industries are often associated with dark, dingy premises and dirty, monotonous work. That's why many youngsters shun practical vocational training.*

*"That's a pity," says Damir. "You're your own boss, with a reasonable income working in clean, pleasant surroundings.*

*And you've lots of friendly colleagues.*

*"I think young people will start to see the appeal of industry once they realise that there isn't always a job at the end of many of today's most popular study courses.*

*"And we have fun at work, too. Next year we've set our sights on winning the NIBE Floorball Cup. This year we hadn't trained hard enough. We thought age and experience would see us through."*

*When Damir isn't working at NIBE he works as a landscape gardener.*

*"I like working. It gives me the chance to travel and enjoy lots of active holidays. We usually go to Thailand in March and spend the summers by the Mediterranean in Croatia, where we have our own apartment."*

## Quality – a crucial factor behind competitiveness

Quality of services and products is one of the hallmarks of NIBE: it is also a crucial factor behind competitiveness and a strong reason for buying our products. If we are to meet customer demands, it is crucial that our quality policy provides the common platform for all our work and that every employee in all areas of our operations views quality as his or her own personal responsibility.

### Continuous improvement

Continuous improvement plays a key role at NIBE and we are constantly engaged in maintaining and improving the pace of this work. The work itself varies from unit to unit, but problem-solving is always accorded high priority: quantifiable quality targets are set and performance regularly monitored. We also seek to continually develop our operations by setting ourselves new, more ambitious objectives. In addition, we work closely with customers and suppliers to compare our performance to that of our competitors in a determined effort to ensure that we always lead the way in our three specialist areas.

Production environments and manufacturing equipment are continually being developed and improved at the same time as staff are given the necessary training in quality issues. Existing products are improved and new ones developed to secure our future position on the market. And we are gradually extending our cooperation with suppliers and subcontractors to guarantee the quality of components and subassemblies.

### Quality assurance

It is very important that products and services supplied by the Group comply with customer demands. For this reason, quality assurance work is undertaken within the parameters of integrated quality management systems that accord with ISO 9001 specifications and incorporate both internal and external checks and audits. Quality work is decentralised: each unit has its own quality organisation.

The quality management system is continuously updated based on input from new experiences and this is used to steer operations and processes in the direction of the aims we have established.

Product development is quality assured by strict controls on the work carried out and verification at all stages of the development process to ensure that the new products customers encounter meet the most stringent quality standards.

As a subcontractor to industry, NIBE Element's most important competitive advantage is the consistently high quality of its products, and so all products are tested before despatch.

The very highest quality is also an essential prerequisite for products from NIBE Heating, especially in the case of high-tech functions and components that must always perform flawlessly for the end-user. Third-party components are tested before they even leave our suppliers' premises and matched against our specifications. Products are subsequently tested after each stage of the manufacturing process to make sure that they have no inherent shortcomings, and extensive checks and inspections are carried out prior to despatch. For NIBE Stoves quality means not only functionality and performance, but also the fact that all the components used are of a high standard and that the end product has an impeccable finish. Quality audits of randomly selected products are carried out on a continuous basis to assure customers of the best possible quality.

### Satisfied customers

It is essential always to be receptive to comments from our customers and to incorporate what we learn into our work.

To ensure customer satisfaction and to focus more clearly on the most significant aspects of our quality control procedures, customer surveys are carried out each year among a selection of customers within a variety of market segments.

These surveys confirm that we meet the demands and expectations of our customers. However, work is constantly being carried out to bring about further improvements. A special focus on aspects such as delivery times, delivery reliability, precision in product development and customer support will develop our operations to meet market needs for total quality. How successful we are in achieving this will be one of the key factors behind our continued growth in an increasingly competitive market.

*The quality of our resistors is a crucial safety factor in many applications, such as lifts and wind turbines.*

# A holistic view of the environment

## ENVIRONMENT

At NIBE the environment is everyone's responsibility. Employees are made aware of this by training and information about the demands and targets that the company has adopted. By a process of continuous improvement staff can assist in reducing environmental impact and creating the right conditions for long-term sustainable development.

A number of units in the NIBE Group are already ISO 14001 certified with internal or external audits. Others work in accordance with the principles laid down in this internationally recognised environmental management system.

Under the maxim "A holistic view of the environment" our environmental work focuses on five key areas, each closely monitored via key figures for the entire Group as part of our aim to achieve long-term sustainable development.

### Five key areas

Attention is paid to environmental aspects both when developing and manufacturing products by adopting a life cycle analysis approach and by scrutinising products from the perspective of sustainability. Examples include:

#### ■ Product development

Heating products that use renewable energy are developed and made more efficient in order to pave the way for phasing out fossil fuels and reducing CO<sub>2</sub> emissions.

Improved combustion performance in wood stoves, etc. reduces emissions.

As a subcontractor, NIBE Element often liaises closely in product development with clients to create end products that last longer and use less energy.

#### ■ Choice of material

New production materials reduce our emissions of solvents. Our overall use of chemicals is constantly reviewed and evaluated as part of our ambition to reduce environmental impact. When choosing suppliers we evaluate their environmental awareness and environmental management systems.

#### ■ Production plant

As far as possible, our own production premises are heated, ventilated and cooled with the help of heat pumps. For example, heat pumps will be installed in NIBE Stoves' new production facilities in Markaryd, making it one of the largest heat-pump installations in Sweden.

#### ■ Product function

During the product development phase there is a constant focus on utilising energy input in the best possible way, but this is never allowed to compromise or jeopardise the useful life and dependability of the product.

#### ■ Recycling

A sophisticated system for sorting waste at source not only reduces environmental impact: it saves money, too!

Within the NIBE Group recyclable packaging materials are used to the maximum possible extent.

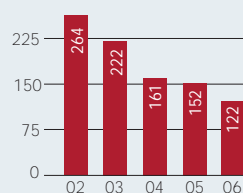
NIBE Industrier's environmental work has also attracted recognition outside the company. During the year NIBE was one of just 60 from almost 300 listed companies in Sweden that met the criteria in the research and advisory firm Innovest's examination of environmental work for Bancofonder's ethical investment funds. NIBE received special mention for its effective use of resources and overall environmental responsibility.



Facilities that use heat pumps create a good balance with nature and the environment.

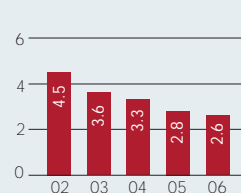
## Environmental key figures

Total energy consumption (kWh/100 kg product)



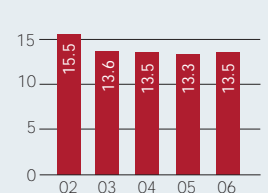
Numerous heat recovery projects reduce energy consumption.

Total amount of chemicals used (kg/100 kg product)



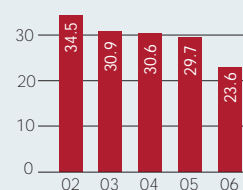
Use of neutralisation chemicals reduced after modern vacuum evaporation technology replaces conventional purification.

Total amount of waste (kg/100 kg product)



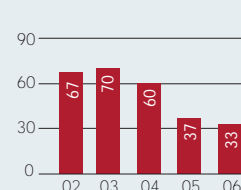
More rigorous definitions of waste fractions: this increases recycling and reduces landfill waste.

Total amount of CO<sub>2</sub> emissions (kg CO<sub>2</sub>/100 kg product)



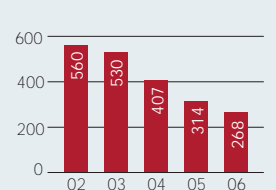
Ongoing replacement of oil-dependent energy sources with efficient heat pump plants reduces CO<sub>2</sub> emissions.

Total solvent emissions (g/100 kg product)



More efficient painting processes and products.

Total water consumption (litres/100 kg product)



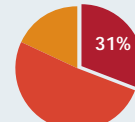
Requirements for new machines include closed cooling systems to reduce water consumption.

## NIBE ELEMENT

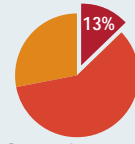


Christer Fredriksson,  
Business Area Manager

Contribution  
to Group

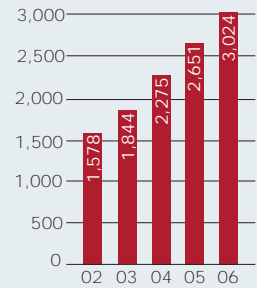


Net sales



Operating profit

Average number  
of employees



### NIBE Element

is the market leader in Northern Europe and one of Europe's leading manufacturers of components and systems for electric heating.

Its mission is to supply components and systems for electric heating to both manufacturers and users of heating products.

The market consists of two main groups: OEM (Original Equipment Manufacturing), where, for example, an element is used as a component in the customer's product, and Industry, where the element is used in the customer's own manufacturing process.

### Strategy

NIBE Element's goal is to rank among Europe's leading manufacturers. To do this, it will make suitable acquisitions to increase the number of domestic markets on which it operates. In these domestic markets it will maintain a local presence and sell a complete range: elsewhere the main focus will be on medium to large-scale serial production. Unique special products will be marketed worldwide.

### Objective

The business area's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

*Even today the classic tubular element remains the most popular technology for electric heating.*

### Objective fulfilment Growth



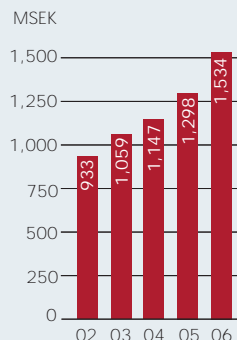
Growth p.a. over the past five years averages 14.4%

### Objective fulfilment Operating margin



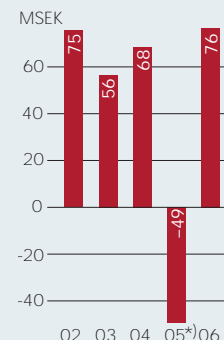
Operating margin p.a. over the past five years averages 3.8%

### Net Sales



Net sales rose by 18.2% during 2006

### Operating profit



Operating profit rose by 255.1% during 2006

\*) Figures affected by provisions of SEK 70 million for a restructuring reserve.

## Review of 2006

Over the course of the year increased market share and strong growth in certain sectors have created positive sales trends in most markets and product segments.

High energy prices are leading to rapid growth for companies that are able to offer new, more efficient and eco-friendly heating products, or alternative sources of energy such as heat pumps, pellet burners and wind power.

High oil and gas prices have also seen electric heating increase its share in many markets, boosting demand for the elements used for electric space heaters and water heaters. At the same time, heavy investment in new oil prospecting ventures has fuelled sales of explosion-proof elements.

Another contributory factor to sales growth is the success of our efforts to increase the content of deliveries to existing customers by offering a broader range of products and more comprehensive solutions for their component needs.

During 2006 the cost of some of our staple raw materials – particularly resistance wire and high-alloy stainless steel, which are so dependent on the price of nickel – rocketed to historically very high levels, compelling us repeatedly to raise our prices. Existing agreements with customers often necessitate a delay of some months before our price increases can come into effect, which puts pressure on our margins.

The year has also seen the gradual implementation of the decision taken in 2005 to transfer manufacturing volumes equivalent to 200 full-time production jobs to our units in Eastern Europe and Asia as part of a major restructuring programme. Work with this is proceeding according to plan with around 120 of the 200 jobs already transferred.

During the fourth quarter NIBE took over UK tubular element manufacturer Heatrod, with 60 employees and annual sales corresponding to around SEK 54 million. The strategy is to coordinate Heatrod's production with NIBE Element's other UK operations to create a single industrial organisation with a leading position on its market. Heatrod's volume business will be transferred to other volume units within the business area.

## Outlook for 2007

The ongoing implementation of the restructuring programme will doubtless leave its mark on the rest of the year. This includes not only the aforementioned transfer of products from Western Europe to Eastern Europe and Asia, but also increased specialisation at the various units in order to realise economies of scale.

Alongside this restructuring programme, we will also be continuing our vigorous rationalisation programme to ensure good productivity at all units. Another ambition is to further

develop those segments and markets which are profitable and which have potential for each unit.

We expect that 2007 will also see a marked rise in volumes. Demand looks set to remain brisk for segments linked to alternative heating solutions and energy production.

The market will also see the effects of the past year's dramatic increases in raw material prices. Companies which have been unable to compensate sufficiently for these price rises will experience a sharp reduction in profitability, and there are signs that the restructuring process within the industry will again pick up pace.

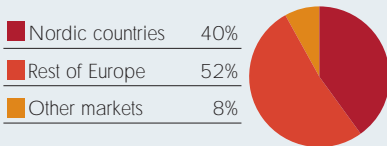
A continuous process of product and market development is under way at NIBE Element, focusing on products which are unique and feature high levels of value added. A number of new projects will be launched during the year, and we expect this type of product to continue to perform well.

The overall effect of the measures now being implemented is expected to strengthen the business area's market position during the year.

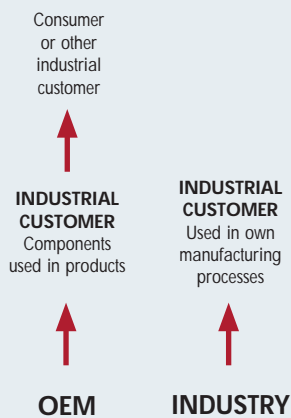
Our goal of a 10% operating margin following completion of the restructuring programme stands – provided that material prices stabilise at, or preferably fall somewhat from, their current high levels.

## NIBE ELEMENT

### Sales by geographical market



### Distribution



### Opportunities and threats

- + Industry restructuring and expansion through acquisitions
- + Purchasing and production synergies
- + Position on domestic markets provides opportunities to market a broader range of products
- + Strong brands
- + Rational, flexible production
- + Access to rational, low-cost production
- + Market position as one of the leading manufacturers in Europe
- + Intensive product development
  
- New technologies
- Greater competition
- Development in price of raw materials
- Cost trends in our production countries
- Low-price competition
- Product liability and series faults

## Market

The market for components and systems for electric heating tends to keep pace with national industrial development and the growth in national GDP. As a result, growth in most segments picked up on several of our domestic markets in 2006. In countries with a strongly expanding GDP, such as those in Eastern Europe and Asia, demand has developed highly positively.

Our goal remains to gradually increase the number of our "domestic" markets by establishing local operations capable of manufacturing small series and providing local technical support.

In certain major markets, such as the USA, Germany, France and Russia, where the cost of running our own manufacturing operations would be excessively high, we have instead established a presence in the form of a sales office.

We have also set up a regional sales office in Shanghai, to focus predominantly on the Chinese energy industry.

The process of structural change differs from industry to industry. In certain segments the pace quickened even more last year. There is an increasing tendency for manufacturers in highly price-sensitive segments such as household appliances and, to some degree, white goods to establish production facilities in China or purchase "off-the-shelf" products designed, developed and

produced by Chinese manufacturers. This has put increased pressure on prices and volumes in Europe. In the washing machine and electric oven segments, however, the trend is towards specialisation in European production plants at the same time as capacity is being increased in Eastern Europe. We believe we are well placed to meet these trends thanks to our units in Poland, the Czech Republic and China.

For manufacturers of equipment for professional caterers and the food processing industry, the trend is different once again. Here production is continuing in existing units, but there is increased interest in buying complete systems from subcontractors. We are meeting this trend with a wider range of products and increased resources for developing and manufacturing complete systems.

The market for elements and resistors for the offshore and process industries is expected to grow over the coming years.



### Industry trends

The industry has been buffeted for several years by fierce competition on price and falling margins on elements for consumer products.

When it comes to products for professional users, the situation has been more stable and profitability has been satisfactory. However, there is a risk of price pressure in these segments, too, during a period when the industry is restructuring, due to general overcapacity for tubular elements in Western Europe.

A number of production units in Europe were closed in 2006. These were units that either concentrated exclusively on production for small appliances and white goods, or units that did not form part of their owners' core business. It is estimated that capacity in Western Europe fell by slightly more than 5% during the year.

One underlying industry trend is the move towards larger corporate groupings. Historically this has been an industry of small and medium-sized family businesses with a strong local presence. In recent years, however, instead of passing from one generation to another, these firms have often been sold as it becomes increasingly difficult to maintain profitability in the current competitive situation. This trend is underpinned by client wishes to limit purchases to as few suppliers as possible.

Several competitors have followed NIBE's lead in establishing production units in low-cost countries in Eastern Europe and China.

We believe that the strategy we have adopted, offering industry and the professional segment locally manufactured products and complementing this with units in low-cost countries producing for the volume segment, is well suited to industry trends, and that it will further strengthen our position and potential in the future.



*Foil elements are used to warm the handles of chain saws.*

## Examples of applications



### ■ Small household appliances

Grills	Griddles	Pressure cookers
Clothes irons	Waffle irons	Electric kettles
Deep-fat fryers	Food warmers	

### ■ Domestic white goods

Dishwashers	Refrigerators	Drying cabinets
Washing machines	Ovens	Mangles
Tumble dryers		

### ■ Professional equipment

Boilers	Dishwashers	Drying cabinets
Frying tables/grills	Washing machines	Deep-fat fryers
Ovens	Tumble dryers	Steamers
Food warmers	Refrigerators and freezers	
Drinks machines		

### ■ Comfort – air

Radiators	Fan heaters	Waterbed heaters
Convectors	Storage heaters	Steam generators
Air conditioning	Infrared heaters	
Air curtains	Frost protection	
Duct heaters	Sauna heaters	

### ■ Comfort – water

Water heaters	Instantaneous water-heating elements
Domestic boilers	
Pressure washers	
Heat pumps	

### ■ Vehicles and transport

Rear-view mirror heaters	Engine pre-heaters	Railway switch (points) heaters
	Car heaters	

### ■ Process industry/projects

Instantaneous water-heating elements	Explosion-proof equipment	Galvanic baths
Heater batteries	Disinfection equipment	Temperature control

### ■ Maintenance/spares

Plastic extrusion equipment	Vacuum tables
	White goods spares

### ■ Special

Frequency converters	Medical equipment	Printing/photographic industry
Brake resistors	Load resistors	

## Products

NIBE Element's product range comprises mainly components and systems for electric heating applications.

This includes a number of different technologies for a broad spectrum of applications:

- tubular elements
- aluminium elements
- foil elements
- thick film elements
- PTC elements
- high-power elements
- heating cables
- ceramic elements

Tubular elements, which remain the most widely used technology, are found in numerous applications from mass-produced washing machines to one-off process heaters for the offshore industry. The basic technology has long remained unchanged, but the products themselves have been perfected over the years in terms of the materials used, performance, quality and manufacturing technology.

Foil elements, which consist of an etched metallic foil laminated with a layer of insulation, are a rapidly expanding product group. One major application for this technology is in wing mirrors for cars and lorries, a segment where NIBE Element holds a position as a world-leader. Medical technology and electronic equipment are among many other highly specialised applications for NIBE foil elements.

One of the strategies behind our acquisitions is to complement the basic range with specialist products to make NIBE Element a "one-stop" supplier of all sorts of systems and components for electric heating, including high-energy elements and strip elements for the plastics industry.

As the product range becomes broader, the marketing and service concept is also being developed to pave the way towards establishing NIBE Element as the leading supplier of electric heating components for industrial customers in each of the business area's respective domestic markets.

In some instances technologies within the business area can be used for applications other than electric heating. Examples include the resistors used for power electronics in lifts/elevators and railway equipment, where both traditional tubular elements and ceramic elements have already demonstrated their capabilities.

Another example is the vacuum-soldering technique employed for elements for medical technology applications. This technique is now also being used for the production of plate heat-exchangers intended primarily for a variety of water heating applications.

### Development process

The development process at NIBE Element is divided into four stages.

- Product development focuses on new types of elements or embedded functions, such as control and regulation. R&D work also aims to improve the qualities of heating elements with regard to temperature limits and insulation. One example of this is the development during the year of small-diameter elements for the plastics industry.
- Product adaptation is usually conducted in close collaboration with customers to arrive at a solution that suits their specific needs, or, if required, to assume responsibility for the entire system, as with the development during the year of saltwater-cooled brake resistors in titanium for applications in the offshore industry.
- Process development is carried out with the aim of optimising production as regards the choice of material, quality and the technical performance of a product. In 2006 we have carried out further materials optimisation projects in order to use thinner material thicknesses, which is important in view of the current high prices of raw materials.
- Production engineering development seeks to develop methods and machinery that will rationalise the manufacturing process. During the year new methods have been developed for rationalising and increasing the production of railway switch heaters.

## Production

NIBE Element has 20 manufacturing units in Europe and China. The main reason for spreading production across so many countries and factories is that our ability to supply small and medium-sized series quickly is one of our competitive strengths. However, the various units are gradually becoming more specialised when it comes to large series and unique products.

In 2006 the new standardised business system was rolled out at our Polish units. The system has a standard which paves the way for further co-ordination and the integration of the various production units.

During the year foil element production in Sweden was concentrated to a single plant, which is widely considered to be of world class, in terms of both technology and productivity.

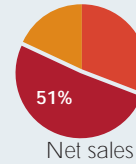
Production at our unit in China rose steeply during the year, and further significant increases in capacity in China are planned for 2007.

A number of product groups were transferred from units in Western Europe to low-cost units in Eastern Europe and China in 2006, and this process is scheduled to continue throughout 2007. In addition, the individual production units will become increasingly specialised in order to boost efficiency even more.

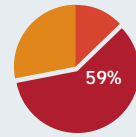


Kjell Ekermo,  
Business Area Manager

Contribution to Group

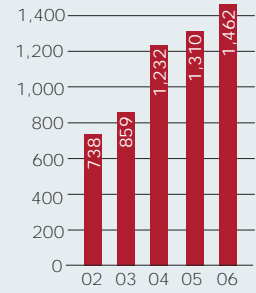


Net sales



Operating profit

Average number of employees



## NIBE Heating

is the largest manufacturer of domestic heating products in the Nordic countries and a market leader in Northern Europe in the electric water heater and heat pump segments. Its mission is to supply homes and buildings with products that provide domestic hot water and ensure a comfortable indoor climate. Over the years the range has developed from fairly basic products to high-tech solutions for heating, cooling, ventilation and heat recovery.

## Strategy

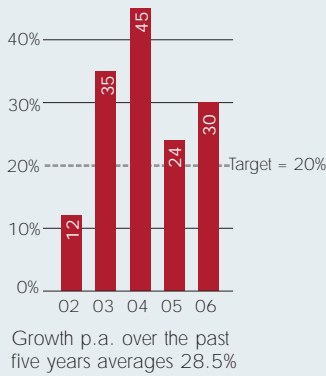
NIBE Heating's strategy is to consolidate its position as market leader in Northern Europe and to develop its position in the other European markets. The number of "domestic" markets will gradually be increased by acquisitions, the establishment of subsidiaries or the use of other established sales channels.

## Objective

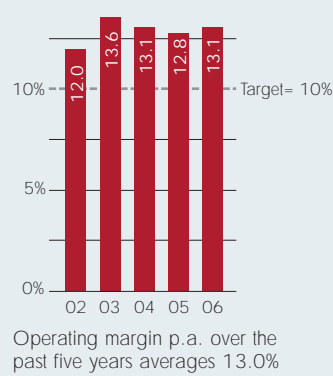
NIBE Heating's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

*NIBE Heating is constantly developing efficient new heat-pump solutions in modern designs.*

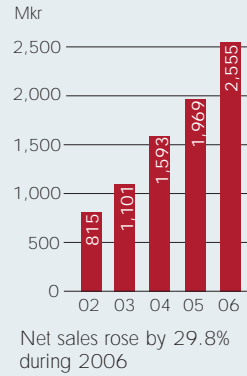
### Objective fulfilment Growth



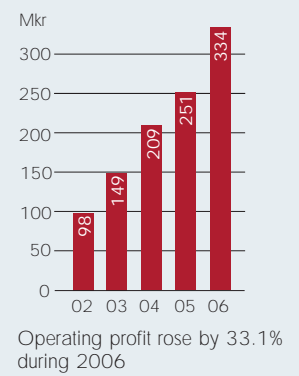
### Objective fulfilment Operating margin



### Net Sales



### Operating profit



## Review of 2006

The Swedish heat-pump market continued to expand in 2006. At the same time, there was no sign of any reduction in consumer zeal to convert oil-fired domestic boilers, a process driven by the Swedish government's conversion grants. Market volumes are at historically high levels for geothermal/ground-source heat pumps as well as exhaust-air and air/water pumps.

The market for electric water heaters and district-heating products has remained stable, while interest in conventional domestic boilers continues to wane. (The sole exception is pellet-fired heaters, where consumer interest has actually increased.)

Thanks to the conversion grant, the Swedish market for pellet burners expanded significantly during 2006. In June NIBE acquired the Swedish pellet-burner manufacturer Natur-energi Iwabo AB in a move which, together with the introduction of new products for wood-fired and pellet-fired heating, has given us a much stronger position in the market.

Developments have been positive in all our foreign markets. Interest in energy-saving solutions for heating and air conditioning is increasing as the prices of oil and gas rise, and this has been a great stimulus behind our expansion in Europe.

Our heat-pump business in Germany has gone from strength to strength during the year. Not only has the market as a whole developed favourably, but we have succeeded in capturing new market shares in a highly competitive climate.

In September NIBE acquired the Czech Republic's largest water-heater manufacturer, DZ Drazice strojirna s.r.o., with annual sales

corresponding to SEK 200 million, good profitability and a workforce of 250. This is yet another step in NIBE Heating's ongoing international expansion.

At the start of the year a unique new geothermal/ground-source heat pump was launched. This represents a genuine technological breakthrough in that the heat pump with its frequency-controlled compressor works as a variable speed unit. This provides numerous benefits compared with conventional solutions and confirms our position at the cutting edge of heat pump technology and performance.

The effects of our extensive investment and rationalisation programme have also contributed to maintaining a good operating margin.

## Outlook for 2007

Our international expansion is making an ever greater impact on operations. Product development, corporate acquisitions and our own organisation are increasingly being adapted to our ongoing internationalisation, which it is hoped will provide an even broader and firmer platform for the business area to stand on.

We market ourselves as a reliable supplier of complete, high-performance solutions. To live up to these high standards, we must continue to prioritise the development of high-quality, high-performance products, efficient production, and professional, internationally viable marketing.

It is our opinion that market developments for ground-source/geothermal heat pumps and for exhaust-air and air/water pumps will continue to remain positive. Sales of

exhaust-air pumps tend to follow trends in the construction of private houses, but are also affected to a lesser degree by the growth of the replacement market, which is expected to increase slightly. Plans to amend Swedish building regulations will also affect product development, and the product range will be adapted to reflect the new guidelines.

Interest in heat pumps is already keen and is expected to increase further throughout the rest of Europe in the wake of consistently high energy prices and burgeoning environmental concern.

In addition to heating during the winter months, there is an ever more urgent need for cooling during the summer months, especially in Southern Europe. This means that the heat pump will no doubt increasingly be regarded as essential for ensuring a pleasant indoor climate all year round.

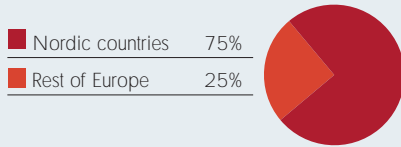
We believe that both the Nordic and other European markets for electric water heaters and district heating products will remain stable, while the market for conventional domestic boilers will decline, with the exception of pellet- and wood-fired boilers.

NIBE Heating is gradually expanding its international marketing efforts in line with the underlying ambitions for the business area. This is reflected in a more frequent participation in international fairs, the high point of which in 2007 was ISH in Frankfurt in March. This is Europe's largest trade show for kitchen and bath, plumbing, commercial/industrial PVF, heating and air conditioning.

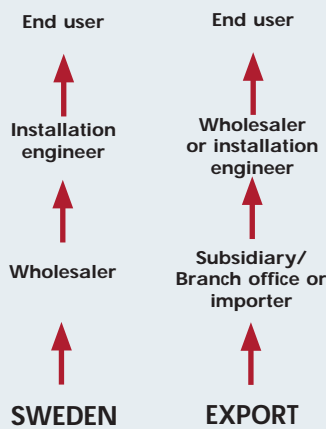
All in all, we see good potential for continued expansion both in the Nordic countries and the rest of Europe.

# NIBE HEATING

## Sales by geographical market



## Distribution



## Opportunities and threats

- + A very large market outside the Nordic region
- + Strong brands
- + Broad range of products
- + Europe's most modern heat-pump plant
- + Access to rational, low-cost production
- + Highly sophisticated in-house product development
- + Political decisions on energy and the environment
- + Expansion through acquisitions
- Hastily introduced laws, official decisions, energy taxes etc.
- Increased competition
- New technologies outside our current areas of expertise
- Low-price competition
- New distribution channels

## Market

### Sweden

The Swedish market, which is NIBE Heating's operational base, can be divided into two segments: the construction of new single-family homes and the home improvement or RMI sector (Renovation, Maintenance, Improvement), which currently accounts for the majority of sales.

The RMI sector has expanded as consumer interest in investing in and renovating homes has increased. Consumers' eagerness to cut their heating bills while also improving indoor comfort provides the perfect scenario for a heat pump installation. The most common and economical alternative is to replace the existing heating system – the domestic boiler – with a ground-source heat pump installation. The market for this type of heat pump and that for exhaust-air pumps rose in 2006. The market for air/water heat pumps showed the greatest rate of growth in 2006 but still accounts for a much smaller part of the RMI sector. The electric water heater market, which is again mainly RMI-oriented, remained stable during the year.

Around 13,000 new, single-family homes were built in Sweden in 2006, compared with around 12,200 in 2005. Despite the increase, this is still a relatively low level by both historical and international standards. The vast majority of new, single-family dwellings are fitted with a heating system based on exhaust-air heat pumps, which recover energy from the air leaving the building.

The second major alternative for newly built homes is district heating. However, as this is more or less confined to urban areas, in the first instance it tends to be favoured by the owners of large, new properties.

### Foreign markets

Our products have enormous sales potential in the European market. Interest in energy-efficient heat pumps is steadily increasing and, as these still constitute only a small proportion of the heating market as a whole, the potential for the future would seem to be extremely good.

We are already the market leader in the Nordic region, Poland and the Czech Republic. Now, as we expand beyond these regions, we are also gradually increasing our market share in our prioritised segments. It is our opinion that we lead the field in Europe as far as heat pumps for water-borne heating systems are concerned. Within the heating market as a whole we remain a small player across much of Europe, but are growing all the time. However, competition is fierce. Large international groups of companies are showing an interest in energy-efficient heating solutions now that oil and gas prices are soaring, although oil and gas remain the predominant source of heating in several European countries. Several of these corporate groups are investing in new production facilities to meet increased demand for alternative heating solutions.

Our very strong development on the large German market means that Germany now ranks alongside Denmark and Finland as one of the business area's major foreign markets.

We have also consolidated our position on the Czech market significantly with the acquisition of the heater manufacturer, DZ Drazice. Our existing heat-pump operations in the country will be integrated into DZ Drazice before the end of 2007.

There has been strong growth elsewhere, too: in Finland, Norway, Denmark, the Baltic states, Ireland and Poland.

We have set up our own subsidiary in the UK and business there is developing positively. As we believe that there is a great deal of opportunity for growth in this market, we will be expanding our product offer there during the year.

We have also established a presence in the rapidly growing French market for heat pumps, but are not yet among the big names in the country.

There has been positive growth in sales in Poland over the past year. Successful new product launches have helped boost our sales figures in an increasingly competitive market. NIBE-BIAWAR is continually expanding its production capacity to meet the rise in demand. NIBE-BIAWAR also provides a cost-effective solution for the production of heating products for market segments under strong price pressure elsewhere in Europe.

Marketing of our district heating products is concentrated mainly in Denmark, Sweden, the UK, Germany and the Netherlands, and has shown some signs of growth over the year.

### Industry trends

NIBE is actively involved in the process of structural rationalisation that is taking place in the European heating, ventilation and sanitation industry, an industry consisting of a large number of players of varying sizes. Our expertise in heat-pump technology together with the breadth of experience we possess in manufacturing electric water heaters are two decisive factors in this process that speak loudly in our favour.

Product design and distribution channels differ from country to country, but most markets show a clear trend towards more energy-efficient, environmentally adapted solutions. At the same time requirements for ventilation and heat recovery in newly built properties are becoming tougher than ever and there is a clear ambition on most markets to reduce energy consumption in new homes and offices. The process of drawing up common standards and regulations for the entire EU is now under way, but much remains to be done in a situation where local norms and conventions still frequently dictate the technical properties of saleable products.

In a number of markets government authorities are imposing measures designed to reduce the total amount of energy needed for heating domestic properties. Regrettably, measures in the form of short-term subsidies



*The Esrange Space Centre in Kiruna in the Swedish Arctic heats all 97 of its hotel rooms with NIBE heat pumps all year round.*

for different heating alternatives often create an imbalance, where the consumer's choice is governed by the nature of the grants and subsidies rather than by any objective consideration of the inherent features and properties of the product itself.

Spiralling electricity and oil prices have meant that the industry's focus on heating alternatives based on these energy sources has dwindled both in Sweden and most other European markets.

Increased competition and, in its wake, increased pressure on prices in a number of product segments has caused many industry players to transfer manufacture to low-cost countries. However, with modern, highly rational production facilities in the Nordic countries, Poland and the Czech Republic, NIBE Heating is well placed to assert itself on tomorrow's European market.

## Product areas



### ■ Ground-source/geothermal heat pumps

For heating single-family and multiple-unit properties, as well as large premises of all types. With or without an integrated water heater. The source of the heat can be either surface soil, bed rock or the water in a nearby lake.

### ■ Exhaust-air heat pumps

For heating domestic premises and tap water. An exhaust-air pump ventilates the building and recovers the energy in the warm air, reusing it to heat water or warm a central heating system.

### ■ Air/water heat pumps

These pumps extract heat from the ambient outside air. In contrast to simpler types of air-to-air heat pumps, this type is connected to the building's heating system and produces both heat and hot water.

### ■ Domestic boilers and pellet burners

A modern, properly designed boiler for wood or pellets can be a viable alternative for a reasonable investment cost.

### ■ Water heaters

NIBE Heating is the only supplier in Europe able to offer water heaters with a choice of three types of corrosion protection: copper, enamel or stainless steel.

### ■ Accumulators

Large heat accumulators for supplying hot water to apartment blocks, etc. can be manufactured in sizes of up to 4,000 litres in volume.

### ■ District heating products

District-heating substations developed in consultation with installation engineers and energy authorities for simple installation, dependability and easy servicing



## Products

NIBE Heating has a wide range of products enabling end-users to choose a solution that best suits their needs in the areas of domestic heating and indoor comfort. Our unique ability to offer, for example, water heaters with a choice of three types of corrosion protection – stainless steel, copper or enamel – underscores our resolve to satisfy the personal requirements of each and every customer.

Sales can be divided into the following seven product areas:

- heat pumps
- domestic boilers
- pellet burners
- district-heating products
- water heaters with direct or indirect heating
- instantaneous water heaters
- the sub-contracted production of non-corroding pressure vessels

The hallmarks of our products are:

- unsurpassed technical performance
- a high degree of innovation
- a competitive price
- high quality
- modern design

In order to live up to this, we maintain a sharp focus on the development, production and marketing chain, while working ceaselessly to increase efficiency in all areas.

The year saw a technological breakthrough in the form of the introduction of the market's first speed-regulated geothermal heat pump with a frequency controlled compressor. This innovation attracted a great deal of attention and reinforced market perceptions of NIBE Heating as the leading name for this form of technology. The pump produces exactly the right output to satisfy the requirements for heating a home on even the coldest days, without any need for a heating element or other additional source of heating.

A new generation of air/water heat pumps was also introduced both in Sweden and abroad.

In addition, the acquisition of pellet-burner manufacturer Naturenergi Iwabo AB and

the launch of a new pellet burner heralded an increased focus on biofuel-fired products. We now have a strong portfolio of products for anyone using pellets as a source of energy.

Complete solutions for indoor comfort, including cooling, were introduced in the international market during the year.

### Development process

To satisfy market demands for better energy efficiency and environmentally sound, cost-effective solutions for heating needs and a comfortable indoor climate, NIBE Heating is investing more than ever in product development. As part of our ambition to develop all-round solutions that meet every imaginable customer need with regard to hot water and a pleasant indoor climate, we are convinced that our future product programme must be characterised by:

- improved efficiency and use of energy
- improved control options (remote communication/control)
- convertibility (heating in winter/cooling in summer)
- recyclability/environmental adaptation
- continuous improvements in design
- better all-round economy

A process of continuous improvement and the rationalisation of product development are essential if we are to achieve the goals we have set for ourselves regarding the incorporation of innovative solutions in easy-to-use products with an appealing design. Continually reinforcing our team with highly educated engineers who possess the necessary skills is essential for success in this respect.

A substantial portion of our development resources is allocated to the heat-pump business, where much of the work is innovation-driven. Market demands are highly varied and the ambition is to meet different wishes with a standardised basic concept that nevertheless offers the potential to make market adaptations. Our dedicated development centre for heat pumps in Markaryd is considered to be of the very highest international class.

The technology for domestic boilers, water heaters and district heating substations is well established and so resources focus on developing high quality, cost-efficient, environmentally adapted products. Design, too, has become an increasingly significant feature for end-users. Our Norwegian subsidiary Høiax was awarded a design prize in the autumn for the modern styling of its new series of water heaters.

Environmental considerations are also very important and play a great role in all our product development work.

During the year NIBE Heating has continued to reinforce its development resources by initiating a major recruitment campaign to attract qualified new talent and by further expanding operations in Markaryd.

## Production

We have ten production plants in Sweden, Denmark, Norway, Finland, Poland and the Czech Republic, all of which are continuously engaged in rationalising production and modernising processes by investing in new machinery and production equipment.

The plant in Markaryd, Sweden, which is NIBE Heating's largest, has seen major investments over recent years, enabling us to meet the increased demand for new heating products.

Ongoing investment in the Polish factory in the form of new machinery and premises is aimed at rationalising the manufacture of products for both the Polish market and segments in other prioritised markets that are subject to fierce competition on price.

The acquisition of the Czech water-heater manufacturer DZ Drazice has further bolstered our manufacturing capacity and given us improved access to cost-effective production.

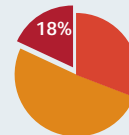
A review of manufacturing methods is undertaken each year within the Group in order to optimise the production process. The strategy of building up a number of manufacturing units, each highly skilled in its own specialist area, has already produced positive effects, both in terms of production control, productivity and, not least, quality.

## NIBE STOVES

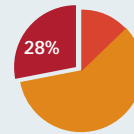


Niklas Gunnarsson,  
Business Area Manager

Contribution  
to Group

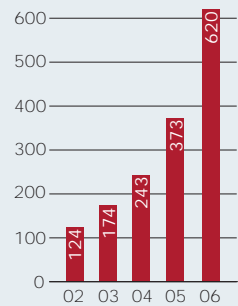


Net sales



Operating profit

Average number  
of employees



### NIBE Stoves

is the biggest manufacturer of wood-burning stoves in Sweden and the clear market leader in the country. Its mission is to supply the market with attractively designed, value-for-money solid fuel stoves and chimney systems developed and manufactured with genuine concern for the natural environment.

### Strategy

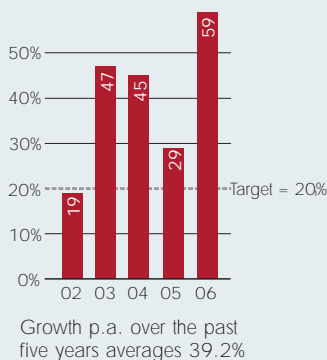
NIBE Stoves' strategy is to supply a wide and complete range of wood-burning products in order to confirm and consolidate its position as the market leader in Sweden. Foreign sales will be increased through the continuous development of products tailored to new markets, combined with moves into new markets through acquisitions, the establishment of new subsidiaries or the use of existing sales channels.

### Objective

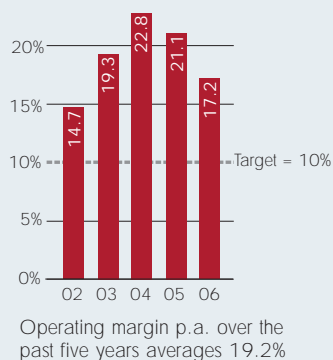
The business area's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

*The Contura 600 series is one of our best sellers – now with glass side panels.*

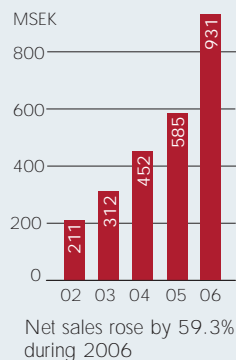
### Objective fulfilment Growth



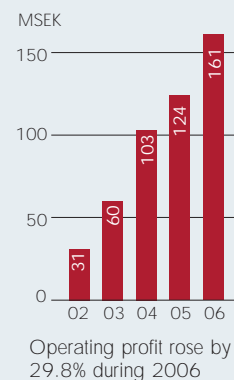
### Objective fulfilment Operating margin



### Net sales



### Operating profit



## Review of 2006

Throughout 2006 demand for wood stoves and related products remained good in Sweden. The market as a whole, buoyed up a strong economy and consumer willingness to invest in products for the home, appears to have stabilised at a relatively high level. Our own sales developed positively thanks to the combination of a comprehensive range of appealing products, well-known brand names and energetic marketing measures.

Developments in the rest of the Nordic market were more mixed. Overall the market for wood stoves expanded in Norway, particularly last autumn, while demand in Denmark was weaker than usual during the same period. Our own sales developed better than average on both of these markets, enabling us to win new market share and consolidate our already strong position. Investments to expand our distributor network in Finland proved successful, providing us with a firm foothold on the large Finnish wood-stove market.

In Germany demand remained brisk throughout the year, peaking sharply in the autumn. Thanks to the current strength of the economy and our strong position on the market, we have been able to capitalise on an increase in interest in energy-saving products and can report extremely positive sales trends.

As part of our ongoing expansion plans, we have established our own sales company in France. This has given us a stronger market presence and reactions from the market have been highly positive, resulting in a steep increase in sales.

Production capacity was gradually increased during the year at the same time as productivity remained consistently high. By build-

ing up stocks of finished products in our warehouses during the first six months of 2006, we were able to offer short delivery times and high levels of delivery reliability throughout the year.

Construction work has started on a new production plant in Markaryd, which is expected to be fully operational by early 2008. Parallel with this, production at the Northstar factory in Poland will be increased to ensure that deliveries can be met in the months ahead.

When NIBE acquired the Danish wood-stove manufacturer Varde Ovne at the start of the year, the company was in the process of establishing a totally new store concept for its domestic wood-stove market. However, it became apparent that not only would it be difficult to achieve the desired level of profitability within a reasonable period of time, but also that the venture could risk undermining Varde's traditional stove sales, so the investment was terminated, incurring a one-off cost in the accounts of some SEK 15 million.

## Outlook for 2007

It is our opinion that demand for heating products in Sweden will continue to be strong throughout the year as levels of interest in energy-saving products and in investing in the home remain high. Forceful marketing and a number of new product launches pave the way to enable us to consolidate our position as a market leader.

Following several years of resolute marketing efforts and boosted by exceptionally strong demand on certain of our major mar-

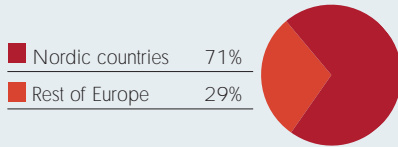
kets (often as a result of government grants or in expectation of future tax increases), sales outside Sweden have developed highly positively over the year. The drawback with such peaks in demand is, of course, the increased risk of a temporary slump in sales shortly afterwards. Sales abroad now account for more than half of the business area's revenue, which means that we have now achieved an important milestone in our ambitious expansion plans. There are still huge opportunities for continued growth outside Sweden by continuing to expand our international network of resellers and agents, launching new products and taking over more companies in the large European market.

Our product range is very strong but, in order to secure future growth, we need to prepare for regular launches of new products with the right design and a competitive price tag. We have already invested heavily in product development and will expand our activities in this area in the years to come. Even now, large numbers of new products in both existing and new product segments are ready to be introduced in 2007. To safeguard future production capacity, first and foremost of Handöl and Contura products, a brand new production plant is being built in Markaryd. Once this is in operation, early in 2008, we should be able to double our current production volume.

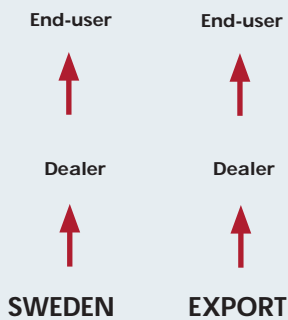
All in all, the outlook is positive for NIBE Stoves to continue to go from strength to strength.

# NIBE STOVES

## Sales by geographical market



## Distribution



## Opportunities and threats

- + Sales potential in some segments of the domestic market
- + Very large export market
- + Strong, in-house product development
- + Strong brands
- + Broad range of products
- + Many different types of products satisfy a broad customer segment and minimise exposure to risk
- + Rational production
- + Expansion through acquisitions
- Hastily introduced government energy policies
- Local authority decisions on restrictions relating to wood-burning products
- Low-price competition
- General economic climate

## Market

### Sweden

The market for wood-burning stoves tends to follow the business cycle, with sales of capital items rising during times of economic prosperity. However, energy prices and government energy policies also impact on sales. Demand for wood-burning stoves has increased constantly since the mid 1990s as a result of escalating energy costs and economic policies that have given Swedish households greater scope for consumption.

While the main bulk of sales is still to homeowners and people with weekend cottages, sales to new housing are rising constantly as more and more house-buyers choose a wood-burning stove as an additional source of heat for their new home.

Thanks to its broad and comprehensive range of products, NIBE Stoves is the undisputed market leader in Sweden. Our aim is to defend and strengthen this position by vigorous marketing and a steady stream of attractive, new products.

### Foreign markets

Demand varies from country to country in terms of product design, materials and technology. The Swedish market is dominated by lightweight stoves in steel plate with a Swedish or, increasingly, international design. Finnish consumers tend to favour the heavy, heat-retaining stoves finished in stone or tiles, while the Norwegians traditionally prefer cast-iron models or cast-iron inserts with a masonry surround. In recent years, however, there has been a marked shift in taste in Norway: today metal-bodied stoves with an international design account for an ever increasing share of sales.

Germans and Danes share basically similar tastes for lightweight, steel-plate stoves with contemporary styling. Such distinctive variations in taste are generally the result of the fact that a specific style has been established in a market by domestic manufacturers.

Demand in our export markets is governed by the same factors as those in Sweden. In the Nordic countries, where electricity serves as the source for a relatively large proportion of heating needs, demand tends to be driven by the price of electricity. In many other European countries it is dependent on the price of gas or oil. Recent price hikes in oil products have resulted in a dramatic increase in demand for wood-burning stoves throughout the whole of Central Europe, and our own sales have developed highly positively on all the markets in this area.

In recent years, several markets have also begun to show a much greater willingness than before to accept new products in a new design from foreign manufacturers.

### Industry trends

Over the past ten years the structure of the Swedish market has been totally transformed from a large number of small manufacturers to a handful of big names. NIBE has been a driving force behind this development, acquiring many of the market's best-known brands and setting a trend among competitors to build up large ranges to cater for all tastes.

Among our Scandinavian neighbours, however, the situation differs from country to country. In Norway, which has only a few domestic stove-builders, there has

recently been a marked shift in demand from the total dominance of traditional cast-iron stoves to stoves in sheet metal with an international design. Finland has several fairly large companies, mostly specialising in heavy, warm-body stoves, while Denmark has many small or medium-size manufacturers, almost all of them producing stoves in steel plate and many with a long tradition of supplying the German market. There are also a number of manufacturers of all sizes in Central Europe, for whom wood-burning stoves are just one of many different types of product in their range. It seems likely, therefore, that there will be some kind of structural change on several European markets in the near future.

The trend in most markets is a move away from big, bulky, heat-accumulating products towards relatively inexpensive, lightweight stoves. It is here that we believe tomorrow's growth is to be found – in the product segment where companies have proved their ability to offer modern design in combination with a competitive price.

Today most companies producing wood-burning stoves invest in their own product development, but some successful models are plagiarised, produced in low-cost countries and sold at low prices, first and foremost by the big European multiples. This suggests that in future it will be more than product technology alone that determines a manufacturer's success. The long-term planning of a company, its financial stability, environmental reputation and ability to show the proper concern for its dealers and end-customers will all grow in significance over the years to come



*Cronspisen tiled stoves retain their classic appearance but the construction system has been updated and improved during the year.*

## Product areas



### ■ Wood-burning stoves

Modern designs in sheet metal with optional surrounds in, for example, soapstone or tiles. Sold under the Contura, Handöl and Varde Ovne brands.



### ■ Masonry stoves

Stove bodies and fire boxes in steel or cast iron with concrete surrounds. Sold under the Nordpeis, Contura and Handöl brands.



### ■ Tiled stoves

Heat-retaining stoves, sold under the Cronspisen brand.



### ■ Cast-iron stoves

Stoves made completely from cast iron, sold under the Handöl and Nordpeis brands.



### ■ Stove inserts

Inserts for built-in or open fireplaces, sold under the Handöl, Nordpeis, Roslagsspisen and Varde Ovne brands.



### ■ Chimneys

Complete chimney/flue systems in stainless steel for all types of wood-burning stoves. Sold under the Premodul brand.

## Products

The NIBE Stoves product range is based on products with a Scandinavian design that have been adapted to the needs and expectations of targeted foreign markets in terms of both styling and technology. The range comprises five different product groups:

- Wood-burning stoves, with or without surrounds in soapstone, tiles, etc.
- Masonry stoves
- Cast-iron stoves
- Tiled stoves
- Stove inserts

Our brands and trademarks, which send out certain signals about product quality to our customers, will also become increasingly important. Today NIBE Stoves owns several well-known and highly respected brands and has a clear strategy for strengthening, integrating and developing these in the future.

We develop and sell our own products under the Handöl, Contura, Cronspisen, Roslagsspisen and Nordpeis brands. The Danish Varde Ovne brand acquired during the year consists mainly of sheet metal wood stoves with an international design. As all our brands are so strong, particularly on their own domestic markets, all have been duly protected as trademarks.

For customers who do not already have a chimney in their homes, NIBE offers a complete modular chimney system which has been specially designed for use with stoves sold by NIBE. This easily assembled system in stainless steel can be installed without the need for an existing chimney flue and is also the alternative which offers the best value for money on the Swedish market.

There is a clear trend towards products becoming more similar throughout Europe in terms of function and design. We believe that the current, international design trend for lightweight fire-boxes with uncluttered lines and large expanses of glass will gain ground on all of our sales markets. This is proved not least by the sales successes of our latest launches of stoves incorporating this kind of design.

## Development process

NIBE Stoves has a long tradition of product development. Substantial resources are allocated to developing combustion technology, primarily to minimise the impact of our products on the environment and to improve their efficiency.

As proof of this, NIBE Stoves has become the first stove manufacturer in Sweden to have a number of its products "P-marked" in accordance with criteria for enhanced quality and environmental certification drawn up by the Swedish National Testing and Research Institute (SP). These guarantee that the stove's heat output can be regulated and that the stove produces low emissions and delivers high efficiency.

In addition, a large number of Varde Ovne's products have the Nordic Swan mark, which means that the manufacturing process is environmentally adapted and that the products' combustion processes are highly efficient, with very low emissions.

Moreover, our products have consistently shown the highest rate of heating efficiency in comparison with competing products in a number of officially conducted performance tests in Sweden.

Product design accounts for much of our development work, as fashions in wood-burning stoves tend to reflect home furnishing trends. To this end, our development department works in close collaboration with external industrial designers in Sweden and abroad.

To maintain an attractive and profitable range in both the short and the long term, development projects are created around both existing fire-boxes and totally new combustion chambers and models. We have a very clear strategy governing what we believe a successful range of models should look like, and the sales performance of all our models is continuously assessed with an eye to profitability.

The general trend is for new models to be developed and launched with increasing rapidity, and thanks to our rational product development process, where much of the work is carried out in a 3D computer environ-

ment supported by prototype testing in our state-of-the-art laboratory, we have been able to reduce development times significantly.

As we owe much of our success to the appeal of our designs among consumers, we endeavour always to protect the design of new models by registering them with the relevant authorities.

## Production

Most of NIBE Stoves' products – lightweight, steel-plate wood stoves – are manufactured at our modern production plant in Markaryd. The plant is constantly updated and adapted to handle the steady flow of new models. Together with investments in new production equipment, this has resulted in much higher production capacity and increased productivity.

Sales have developed so well over recent years that the current production facilities are no longer able to support further expansion. Consequently, work has begun on a new production plant with twice the current capacity, which is scheduled for completion early in 2008. This, together with investments in new production equipment will make our manufacturing processes more efficient than ever.

The acquisition of Nordpeis has given NIBE Stoves access to its own unit in Poland for manufacturing concrete surrounds and tiled stove modules and assembling stove products. In future, all products which consist solely of assembly work will be transferred to this unit, which is also gradually being extended to cope with the rise in demand.

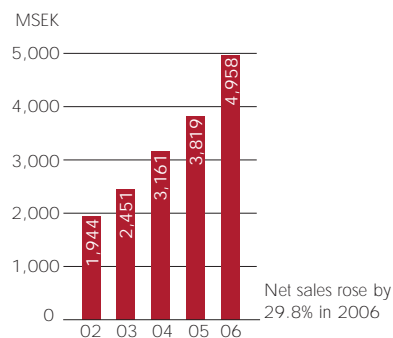
Varde Ovne's products are manufactured in Varde's own production plant in Denmark. This, too, has seen major changes during 2006 in order to increase capacity and make the production process more efficient.



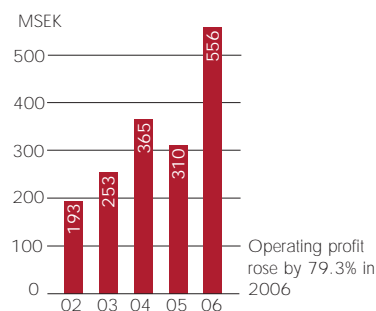
Leif Gustavsson, Financial Director

The Board of Directors and Managing Director of NIBE Industrier AB (publ), corporate identity number 556374-8309, with its registered office in the Municipality of Markaryd, Sweden, hereby present their annual report for the company and the NIBE Group for the 2006 financial year. (Figures in brackets relate to 2005.)

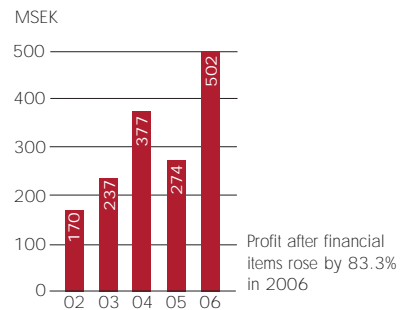
Net sales 2002 – 2006



Operating profit 2002 – 2006



Profit after financial items 2002 – 2006





## Business activities

NIBE Industrier is a European heating technology company whose operations are organised in three separate business areas: NIBE Element, NIBE Heating and NIBE Stoves.

The Group has more than 5,600 employees and has business activities in 15 countries in Europe, North America and Asia.

The legal structure of the Group consists of a number of subsidiaries, who run their own operations via their own companies or branch offices.

The operations of the parent company, NIBE Industrier AB, constitute group support functions such as financing, currency management, corporate acquisitions and new establishments together with financial management and other policy issues.

## Income statement over the past five years

Sales have grown steadily over the past five years. The target during the period was annual growth of 20%, preferably with half of this being organic and half via acquired business. Sales rose from SEK 1,677.1 million to SEK 4,958.0 million during the period, through a combination of organic growth and an aggressive acquisition strategy that has seen the Group take over some 16 different companies and lines of business.

Growth during the period averaged 24.2%, with organic growth accounting for 15.2% and acquired sales for 9.0%.

The profitability target during the period was an operating margin of at least 10% in each of the Group's business areas, and a return on equity of at least 20% for the Group as a whole.

NIBE Element's operating margin during the period has averaged 5.0% excluding provisions for the restructuring reserve, and 3.8% including these provisions. NIBE Heating has generated an average operating margin of 13.0%, and NIBE Stoves 19.2%.

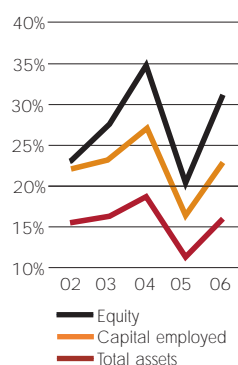
The Group's return on equity during the period averaged 27.8% including provisions to the restructuring reserve.

## Income statements

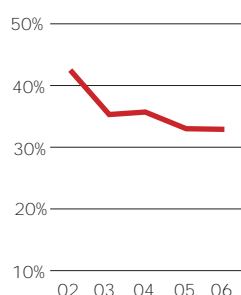
(in millions of SEK)	2006	2005	2004	2003	2002
Net sales	4,958.0	3,819.1	3,161.0	2,451.1	1,944.2
Cost of goods sold	- 3,409.0	- 2,763.9	- 2,170.8	- 1,736.3	- 1,389.3
<b>Gross profit</b>	<b>1,549.0</b>	<b>1,055.2</b>	<b>990.2</b>	<b>714.8</b>	<b>554.9</b>
Selling expenses	- 786.2	- 578.0	- 471.1	- 341.4	- 266.2
Administrative expenses	- 266.4	- 224.0	- 177.0	- 144.8	- 108.3
Other income	+ 59.6	+ 56.9	+ 23.3	+ 24.3	+ 12.1
<b>Operating profit</b>	<b>556.0</b>	<b>310.1</b>	<b>365.4</b>	<b>252.9</b>	<b>192.5</b>
Net financial items	- 54.5	- 36.5	11.8	- 16.0	- 22.7
<b>Profit after net financial items</b>	<b>501.5</b>	<b>273.6</b>	<b>377.2</b>	<b>236.9</b>	<b>169.8</b>
Tax	- 150.7	- 89.9	- 97.7	- 74.4	- 50.7
<b>Net profit for the year</b>	<b>350.8</b>	<b>183.7</b>	<b>279.5</b>	<b>162.5</b>	<b>119.1</b>
Minority participation in profit/loss after tax	0.0	+ 1.7	+ 1.1	+ 0.5	- 0.4
Includes the following amounts for depreciation according to plan	141.0	121.1	96.5	70.4	56.1

## FIVE-YEAR REVIEW

Returns 2002 – 2006



Equity/assets ratio  
2002 – 2006



### Balance sheet over the past five years

Over the past five years total assets have grown from SEK 1,194.5 million to SEK 3,902.8 million.

Inventories and current receivables (mainly trade receivables) account for around 48% of total assets. In principle, both of these items are directly related to sales and, therefore, growth.

Intangible assets consist mainly of goodwill arising on the acquisition of companies and lines of business. Goodwill is tested annually for impairment by calculating the present value of each business area's cash flows. When calculating these cash flows, account is taken of normal working capital requirements and the need for investments, corresponding to the annual rate of depreciation.

Tangible non-current assets consist solely of property, plant and equipment, the value of which has increased by SEK 721.8 million over a five-year period. Of this increase, around 50% was added through acquisitions of companies and lines of business, and around 50% through investments in existing businesses, primarily in the Group's facilities in Markaryd, Sweden, where most of the production facilities for NIBE Heating and NIBE Stoves are located.

Non-current non-interest-bearing liabilities and provisions consist mainly of deferred tax, warranty provisions and restructuring provisions, and have grown from SEK 76.4 million to SEK 247.8 million during the past five years. The increase is due primarily to last year's restructuring provision and deferred tax liabilities in untaxed reserves.

Current and non-current interest-bearing liabilities and provisions consist of pension provisions and loans from banks and other financial institutions, and grew from SEK 337.6 million to SEK 1,457.5 million during the period. The increase is due partly to the expansion of existing units in the NIBE Group and partly to interest-bearing liabilities at companies and lines of business acquired.

The Group's target is for the equity ratio (equity/assets) not to fall below 30%. The average for this key figure during the period was 34.8%.

Current non-interest-bearing liabilities and provisions grew by SEK 630.5 million from SEK 283.5 million to SEK 914.0 million during the period. Accrued expenses and traditional trade payables, which are both directly related to the expansion of the business, account for approximately 78% of the total.

### Balance sheets

(in millions of SEK)	2006	2005	2004	2003	2002
Intangible assets	670.3	458.5	304.7	210.7	114.6
Tangible assets	1,116.3	1,015.2	875.7	659.3	426.9
Financial assets	28.2	36.0	10.6	47.2	43.4
<b>Total non-current assets</b>	<b>1,814.8</b>	<b>1,509.7</b>	<b>1,191.0</b>	<b>917.2</b>	<b>584.9</b>
Inventories	1,007.9	831.1	690.2	445.6	377.7
Current receivables	857.0	651.2	525.4	443.3	306.1
Investments	4.8	1.1	0.9	2.3	0.9
Cash equivalents	218.3	132.2	88.6	81.5	67.1
<b>Total current assets</b>	<b>2,088.0</b>	<b>1,615.6</b>	<b>1,305.1</b>	<b>972.7</b>	<b>751.8</b>
<b>Total assets</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>2,496.1</b>	<b>1,889.9</b>	<b>1,336.7</b>
Equity	1,283.5	1,031.0	891.6	666.8	568.1
Long-term liabilities and provisions, non-interest-bearing	247.8	265.2	205.1	140.7	104.1
Long-term liabilities and provisions, interest-bearing	1,317.8	1,025.8	730.3	602.6	322.3
Current liabilities and provisions, non-interest-bearing	914.0	685.4	586.9	424.1	300.8
Current liabilities and provisions, interest-bearing	139.7	117.9	82.2	55.7	41.4
<b>Total equity and liabilities</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>2,496.1</b>	<b>1,889.9</b>	<b>1,336.7</b>

## Cash flow over past five years

### Cash flow before changes in working capital

Over the latest five-year period, cash flow from day-to-day operations has shown a positive trend.

### Working capital

The Group requires that working capital, measured as current assets minus current liabilities, is within the range of 20–25% of sales for all units. Over the past five years, the Group's working capital has averaged around 21% of sales.

### Investment in existing operations

In 2002 investment in existing operations was at a level of around SEK 100 million, rising to just over SEK 170 million in 2003 and 2004, and more than SEK 200 million in 2005 and 2006. Most of these investments have been in the Group's plants in Markaryd, Sweden, where most of the production facilities for NIBE Heating and NIBE Stoves are located. Major investments have also been made in Poland as part of the restructuring of the element business.

### Acquisition of businesses

Over the years, NIBE Industrier has pursued an aggressive acquisitions strategy. In the five years up to the end of 2006, 16 takeovers of companies and lines of business have been made, of which nine relate to the NIBE Element business area, five to NIBE Heating and two to NIBE Stoves. It is the company's intention to continue its acquisitions strategy in the future.

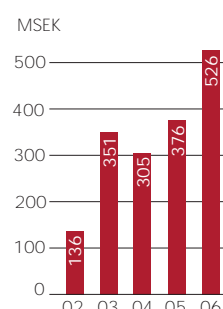
### Financing

All capital requirements over the past five years for takeovers, investments in existing operations and operating capital for organic expansion and share dividends have been financed exclusively by the company's own internally generated cash flows and by traditional bank financing.

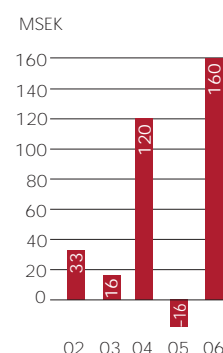
### Shareholders' dividends

NIBE Industrier aims to pay share dividends of 25–30% of the net profit for the year after full tax. Over the most recent five-year period, share dividends have accounted for between 25.3% and 30.8% of the net profit for the year after full tax but before allocations to the structural reserve.

### Investments in fixed assets 2002 – 2006



### Operating cash flow 2002 – 2006



## Cash flow statements

(in millions of SEK)	2006	2005	2004	2003	2002
Cash flow before change in working capital	489.9	312.6	381.8	240.7	176.0
Change in working capital	- 93.4	- 109.4	- 82.0	- 54.7	- 34.5
<b>Cash flow from operating activities</b>	<b>396.5</b>	<b>203.2</b>	<b>299.8</b>	<b>186.0</b>	<b>141.5</b>
Investments in current operations	- 236.6	- 219.0	- 179.5	- 170.4	- 108.6
<b>Operating cash flow</b>	<b>159.9</b>	<b>- 15.8</b>	<b>120.3</b>	<b>15.6</b>	<b>32.9</b>
Acquisition of companies	- 289.8	- 156.7	- 125.6	- 180.3	- 27.7
<b>Cash flow after investments</b>	<b>- 129.9</b>	<b>- 172.5</b>	<b>- 5.3</b>	<b>- 164.7</b>	<b>5.2</b>
Financing	291.4	296.1	54.8	212.9	34.6
Dividend to shareholders	- 70.4	- 70.4	- 43.4	- 32.3	- 25.0
<b>Cash flow for the year</b>	<b>91.1</b>	<b>53.2</b>	<b>6.1</b>	<b>15.9</b>	<b>14.8</b>
Liquid funds at the beginning of the year	132.2	88.6	81.5	67.1	53.4
Exchange rate difference in liquid funds	- 5.0	- 9.6	1.0	- 1.5	- 1.1
<b>Liquid funds at year-end</b>	<b>218.3</b>	<b>132.2</b>	<b>88.6</b>	<b>81.5</b>	<b>67.1</b>

### Dependence on customers

All three business areas work with a wide range of customers. None are so dependent on any one customer or group of customers that the loss of that customer/group could seriously impair the profitability of the business area in question.

### Bad debt losses

In operations where goods or services are supplied against subsequent payment, bad debt losses cannot be completely avoided. To minimise the risks, Group policy includes annual credit ratings of large customers. The credit period is normally 30 days, although regional variations do occur, with shorter or longer credit periods.

In our opinion, the Group has a highly effective system of credit safeguards: these have consistently ensured that the Group has not been affected by bad debt losses to any significant extent.

### Dependence on suppliers

All components in the products sold by the Group's three business areas are manufactured by a large number of suppliers in Europe and the rest of the world. When selecting suppliers, a thorough review is made of the supplier's ability to meet the Group's requirements. We always have alternative suppliers for all the components we use.

In our judgement, the Group would not suffer any serious harm as a result of an individual supplier being unable to meet our stipulated requirements.

### Price risks

#### Material prices

A fairly significant proportion of the materials used to manufacture the Group's products is priced in USD and quoted on the London Metal Exchange. To avoid overdependence on specific currencies and markets, purchasing procedures have been globalised.

#### Other operating expenses

Other operating expenses follow price trends in the markets in which the Group operates.

#### Currency risks

Currency risks are the risks of movements in exchange rates negatively affecting the Group's position and results. These risks can be divided into transaction risks and translation risks

#### Transaction risks

A total of 61.7% (2005: 67.0%) of Group invoicing from Sweden is in SEK. Estimated future net flows from invoicing and purchasing in other currencies are hedged for a period of 6–12 months. The total net flow of foreign currency translated into SEK was SEK 623.6 million in 2006.

The largest net inflows during the year were SEK 532.1 million in EUR and SEK 122.5 million in NOK, while the largest net outflows were SEK 51.0 million in HKD and SEK 51.0 million in USD.

#### Translation risks

Translation risks are the risks of currency losses from the translation of foreign subsidiaries' income statements and balance sheets into SEK.

The value of foreign net assets in the consolidated balance sheet as at 31 December 2006 was SEK 638.0 million. This broke down into net assets of SEK 244.7 million in EUR, SEK 125.1 million in PLN, SEK 116.0 million in NOK, SEK 52.7 million in DKK, SEK 48.7 million in CZK, SEK 20.9 million in GBP, SEK 19.9 million in USD, SEK 8.9 million in HKD and SEK 1.1 million in SKK.

A 1% fall in the value of the SEK against these currencies will increase the Group's equity by SEK 6.4 million, while a 1% increase will decrease equity by the same amount.

To minimise the impact of translation risks, net assets are financed in the same currency as far as possible.

#### Interest rate risks

Interest rate risks are the risks of changes in market interest rates negatively affecting the Group's interest income/expense. How quickly a change in interest rates impacts on interest income/expense depends on the length of a loan's fixed-interest period.

The Group's policy is that the fixed-interest period for loans should, as far as possible, match the fixed period for incoming cash flows.

The Group's interest-bearing liabilities amounted to SEK 1,457.5 million at the end of the year. The average interest rate was 4.4%. Assuming unchanged levels of debt, a 1% change in the interest rate will increase or decrease the Group's earnings by SEK 14.6 million.

### Financing risks/ future capital requirements

Financing risks are the risks of difficulties in financing the Group's operations, resulting in increased expense in the short and long term.

The Group's cash flow is good, and is expected to remain so. This is, of course, highly significant for the Group's ability to carry out any necessary investment activities and to ensure that other commitments can be fulfilled. The Group also has an acquisitive policy with regard to takeovers. The policy aims at growth of 20% per year, of which at least half is to derive from organic growth.

In any particular year, the total capital requirement may exceed internal cash flow. It is expected that it will be possible to meet any shortfall partly through the traditional banking system and partly through the stock market, without incurring any abnormal levels of expense.

### Risks relating to disputes over patents and other matters

The Group holds few patents and only for components which form part of its finished products. However, NIBE does have a number of registered designs and registered trademarks. As far as we are aware, we have not infringed any third-party patents.

During the year an agreement in principle was reached to take over the German district-heating and water-heater manufacturer, DMS Wasser-Wärmetechnik GmbH. After due diligence, further discussions were held with the sellers to negotiate a reduction of the purchase price or a revocation of the takeover agreement. However, in the absence of a settlement, the matter has now been referred to arbitration.

### Other risks

It is our considered opinion that the Group has adequate cover in respect of traditional insurance risks such as fire, theft, liability and so on. The excess on our policies is between three and five times the so called "basic amount" prescribed in Sweden for calculations of this kind.

Within the Group's product areas, there is always a risk that a series fault could lead to product recalls, through faults in materials or for other reasons. These risks are minimised by the fact that the majority of Group companies are certified in accordance with ISO 9001. Certification means that there are control procedures for internal processes and manufacturing as well as for the use of components manufactured by other suppliers. Insurance policies have been taken out as additional risk cover for similar events.

### Sensitivity analysis

The Group is exposed to a number of risk factors that affect earnings trends. Several of the risks are outside the Group's control. The table on the right shows the effect of a variety of changes on the Group's result, based on the income statement for 2006.

### Sensitivity analysis

	Base for calc. SEK m	Change %	Impact SEK m
Net sales (margin constant)	4,958.0	+/- 1.0	17.6
Operating margin (volume constant)		+/- 0.1	5.0
Material costs	2,068.3	+/- 1.0	20.7
Payroll expenses	1,194.0	+/- 1.0	11.9
Interest-bearing liabilities (interest constant)	1,457.5	+/- 10.0	6.4
Interest rate % (interest-bearing liability constant)	4.4%	+/- 1.0	14.6

Based on Income Statement 2006

### Sensitivity to currency movements in foreign net assets

	SEK change %	Impact SEK m
Swedish krona rises against all currencies in which NIBE Industrier has net assets	+ 1.0	- 6.4
Swedish krona falls against all currencies in which NIBE Industrier has net assets	- 1.0	+ 6.4

Based on net assets 31 December 2006

## Income statement 2006

### Net sales

Group net sales grew by 29.8% to SEK 4,958.0 million (2005: SEK 3,819.1 million). Sales increased in all three of the Group's business areas: by 18.2% at NIBE Element, of which 17.9% was organic and 0.3% acquired, by 29.8% at NIBE Heating, of which 24.9% was organic and 4.9% acquired, and by 59.3% at NIBE Stoves, of which 28.8% was organic and 30.5% acquired.

Group net sales outside Sweden amounted to SEK 3,212.1 million (2005: SEK 2,291.4 million), an increase of SEK 920.7 million. As such, net sales abroad accounted for 64.8% (60.0%) of total net sales. Net sales in the Swedish market climbed 14.3% to SEK 1,745.9 million (SEK 1,527.7 million).

Organic growth accounted for SEK 861.5 million of the total increase in the Group's net sales of SEK 1,138.9 million. The remaining SEK 277.4 million came from acquisitions: this breaks down into SEK 3.9 million at NIBE Element, SEK 95.4 million at NIBE Heating and SEK 178.1 million at NIBE Stoves.

### Operating profit

The Group's operating profit amounted to SEK 556.0 million, an increase of 79.3% from SEK 310.1 million in 2005. The operating margin was 11.2% (8.1%).

The figure for last year was affected by a restructuring provision at NIBE Element which reduced operating profit by SEK 70.0 million. Excluding this non-recurring charge, operating profit rose by SEK 175.9 million compared with 2005. The operating margin excluding the restructuring provision was 10.0%.

This restructuring provision meant that NIBE Element reported an operating loss for last year of SEK 49.0 million. If the SEK 70 million provision is excluded from the accounts, the business area generated an operating profit of SEK 21.0 million in 2005. For 2006 the operating profit was SEK 76.2 million. This means that the operating margin before the provision was 5.0%, against 1.6% in 2005 excluding the provision.

NIBE Heating's operating profit grew by SEK 82.4 million or 32.8% to SEK 333.8 million (SEK 251.4 million). The operating margin was 13.1% (12.8%).

NIBE Stoves' operating profit grew by SEK 37.0 million or 29.9% to SEK 160.6 million (SEK 123.6 million). The operating margin was 17.2% (21.1%).

### Goodwill

The Group's goodwill is tested annually for impairment by calculating the present value of each business area's cash flows. These are calculated on the basis of annual growth of 10% with deductions for increased working capital requirements and investments corresponding to the annual rate of depreciation. The calculations for 2006 did not provide any indication of impairment.

### Profit after financial items

Profit after financial items rose by 83.3% to SEK 501.5 million (SEK 273.6 million), giving a pre-tax profit margin of SEK 10.1% (7.2%). The profit for the previous year had been reduced by a restructuring provision in the NIBE Element business area of SEK 70.0 million. Excluding this provision, profit after financial items was SEK 343.6 million, which gives an improvement in profits of 46.0% for 2006. Financial items generated net expense of SEK 54.5 million for 2006 as against a net expense of SEK 36.5 million in 2005.

### Tax

The tax charge for the year was SEK 150.7 million (SEK 89.9 million), which gives an effective tax rate of 30.0% (32.9%). The nominal tax rate in Sweden is 28%. The main reason why the actual tax rate is higher than the nominal tax rate is that, for certain taxable deficits, no deferred tax asset has been estimated since it is considered unlikely that these deficits can be utilised against future surpluses.

## Balance sheet 2006

### Equity ratio and returns

The Group's equity ratio at the end of the year was 32.9% (33.0%). Equity including minority interests amounted to SEK 1,283.5 million (SEK 1,031.0 million).

The Group's return target is a return on equity of at least 20% in the long term. The return on equity in 2006 was 31.3% (20.4%). The return on capital employed was 22.9% (16.4%). The profitability target for the busi-

ness areas is an operating margin of at least 10% for each profit centre over a complete business cycle. NIBE Element's operating margin amounted to +5.0% (-3.8%). NIBE Heating generated an operating margin of 13.1% (12.8%), and NIBE Stoves 17.2% (21.1%). The operating margin for the Group as a whole was 11.2% (8.1%).

### Cash and cash equivalents

The Group had cash and cash equivalents of SEK 218.3 million (SEK 132.2 million) at the end of the year. It also had unused overdraft facilities of SEK 565.3 million (SEK 463.2 million). The Group's overdraft facilities were extended by SEK 249.3 million net during the year. Overdraft facilities of SEK 73.5 million were added through acquisitions, which means that existing facilities were increased by SEK 175.8 million.

## Key ratios

		2006	2005	2004	2003	2002
Net sales	MSEK	4,958.0	3,819.1	3,161.0	2,451.1	1,944.2
Growth	%	+ 29.8	+ 20.8	+ 29.0	+ 26.1	+ 15.9
Profit after net financial items	MSEK	501.5	273.6	377.2	236.9	169.8
Net investments in fixed assets	MSEK	526.4	375.7	305.1	350.6	136.3
Gross margin	%	14.1	11.3	14.6	13.2	12.8
Operating margin	%	11.2	8.1	11.6	10.3	9.9
Profit margin	%	10.1	7.2	11.9	9.7	8.7
Capital employed	MSEK	2,741.0	2,174.7	1,704.3	1,325.1	931.8
Equity	MSEK	1,283.5	1,031.0	891.6	666.8	568.1
Return on capital employed	%	22.9	16.4	27.1	23.2	22.1
Return on equity	%	31.3	20.4	34.8	27.6	23.1
Return on total assets	%	16.0	11.3	18.7	16.3	15.5
Asset turnover	times	1.41	1.36	1.44	1.52	1.54
Equity/assets ratio	%	32.9	33.0	35.7	35.3	42.5
Proportion of risk-bearing capital	%	36.1	36.7	40.4	40.1	47.9
Operating cash flow	MSEK	159.9	- 15.8	120.3	15.6	32.9
Interest cover	times	9.2	7.2	12.3	10.3	7.6
Interest-bearing liabilities/Equity	%	113.6	110.9	91.1	98.7	64.0
Average number of employees		5,111	4,339	3,755	2,881	2,444

## Definitions

### Growth

Percentage change in net sales compared with previous year.

### Gross margin

Operating profit before depreciation as a percentage of net sales.

### Operating margin

Operating profit as a percentage of net sales.

### Profit margin

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

### Capital employed

Total assets minus non-interest-bearing liabilities and deferred tax.

### Equity

Taxed equity plus untaxed reserves minus tax.

### Return on capital employed

Profit after net financial items plus financial expenses as a percentage of average capital employed.

### Return on equity

Profit after net financial items minus tax at standard rate (28%) as a percentage of average equity.

### Return on total assets

Profit after net financial items plus financial expenses as a percentage of average balance sheet total.

### Asset turnover

Net sales divided by the average balance sheet total.

### Equity/assets ratio

Assets as a percentage of balance sheet total.

### Proportion of risk-bearing capital

Equity, including minority participations and deferred tax liabilities, as a percentage of the balance sheet total.

### Operating cash flow

Cash flow after investments but before the acquisition of companies/businesses.

### Interest cover

Profit after net financial items plus financial expenses divided by financial expenses.

### Interest-bearing liabilities / Equity

Interest-bearing liabilities as a percentage of equity.

## Cash Flow 2006

### Cash flow from day-to-day activities

The consolidated cash flow for 2006 after changes in working capital amounted to SEK 396.5 million (2005: SEK 203.2 million).

### Investment

Group acquisitions of subsidiary companies/lines of business totalled SEK 289.8 million (SEK 156.7 million). Investment in existing units totalled SEK 236.6 million (SEK 219.0 million), allocated as follows:

(in millions of SEK)	2006	2005
Machinery and equipment	169.0	142.2
Properties	53.0	40.6
Construction in progress	2.5	0.1
Sale of associated company	0.0	-3.1
Other fixed assets	12.1	39.2
<b>Total</b>	<b>236.6</b>	<b>219.0</b>

Consequently, cash flow after investment activities was SEK -129.9 million (SEK -172.5 million).

Operating cash flow (i.e. after investments, but excluding acquisitions of subsidiary companies/lines of business) was SEK +159.9 million (SEK -15.8 million).

### Credits from finance institutions and pensions funds etc.

(in millions of SEK)	2006	2005
Loans with floating interest and repayments over 10 yrs	1,075.9	910.9
Utilised portion of overdraft facilities w. floating interest rate	357.7	210.4
Pensions provisions	23.9	22.4
<b>Total interest-bearing liabilities</b>	<b>1,457.5</b>	<b>1,143.7</b>
Unutilised overdraft facilities	565.3	463.2
<b>Total credit available</b>	<b>2,022.8</b>	<b>1,606.9</b>

The Group's total interest-bearing liabilities at the year-end amounted to SEK 1,457.5 million (SEK 1,143.7 million). The average interest expense for the total of interest-bearing liabilities was 4.4% (4.1%).

The Group's net liabilities, which consist of interest-bearing liabilities minus cash equivalents and short-term investments totalled SEK 1,234.4 million (SEK 1,010.4 million).

## Important events during the year

During the year the Group completed the takeover of the Finnish Jämä brand, the Danish Varde Group, Naturenergi Iwabo AB of Sweden, the Czech company DZ Drazice strojirna s.r.o. and Heatrod Elements in the UK. NIBE also acquired the remaining 20% stake in Denmark's Danotherm Electric A/S, which is now a wholly owned subsidiary. For further details of takeovers, please see Note 32.

In April an agreement in principle was reached to take over the German district-heating and water-heater manufacturer, DMS Wasser-Wärmetechnik GmbH after customary due diligence. Since then, discussions have been held with the sellers to negotiate a reduction of the purchase price or a revocation of the takeover agreement. However, in the absence of a settlement, the matter has now been referred to arbitration, the result of which will be made known around the end of the second quarter in 2007. Since NIBE has not had a controlling influence over this company during 2006, it has not been consolidated into the NIBE Group.

In August 2005 the Board decided to introduce a restructuring programme in the NIBE Element business area. The main thrust of the programme is the transfer of production from Western Europe to Eastern Europe and China. These measures, estimated to take 18 to 24 months to complete, are expected to boost earnings by around SEK 40 million a year. Implementation has proceeded according to plan in 2006, with approximately 120 of the total number of 200 full time jobs having been transferred to date.

## Research and development

The NIBE Group carries out pioneering research and development work within each of the three business areas. We believe that this is a crucial factor behind continued organic growth and our ability to establish a presence on new markets. It also means that we can react quickly to changes in what our customers want and convert these into the best possible solution in each market context.

## Outlook

NIBE has continued to strengthen its position in priority markets. The prospects for continued growth in market share are believed to be good in all three business areas. Work on improving internal efficiency is constantly under way in order to increase competitiveness. The prospects for a number of further acquisitions are believed to be good, and confidence in NIBE's performance in 2007 remains strong.

## Appropriation of profits

The financial resources at the disposal of the Annual General Meeting are:

Profit brought forward	SEK 116.7 million
Profit for the year	SEK 96.0 million
<b>Total</b>	<b>SEK 212.7 million</b>

The Board of Directors proposes issuing a dividend to shareholders of SEK 1.15 per share: in total, SEK 108.0 million. It is anticipated that the dividend will be paid on 24 May 2007.

The Board of Directors considers that the proposed dividend is reasonable with regard to the requirements that the nature, scope and inherent risks of the business operations make on the size of equity and the company's consolidation needs, liquidity and financial position as a whole. This shall be seen against the background of the information provided in the annual report. Before proposing this dividend, the board has paid due consideration to the investments planned.



## Income statements

(in millions of SEK)		Group		Parent company	
		2006	2005	2006	2005
Net sales	Note 3	4,958.0	3,819.1	2.3	2.4
Cost of goods sold		- 3,409.0	- 2,763.9	-	-
<b>Gross profit</b>		<b>1,549.0</b>	<b>1,055.2</b>	<b>2.3</b>	<b>2.4</b>
Selling expenses		- 786.2	- 578.0	-	-
Administrative expenses	Note 5	- 266.4	- 224.0	- 17.3	- 15.0
Other operating income	Note 10	59.6	56.9	-	0.2
<b>Operating profit</b>	Notes 3 - 10	<b>556.0</b>	<b>310.1</b>	<b>- 15.0</b>	<b>- 12.4</b>
<b>Profit from financial investments</b>					
Profit from participations in Group companies	Note 11	-	-	131.7	90.8
Profit from participations in associated companies	Note 11	0.1	3.1	-	3.1
Interest income and similar profit/loss items	Note 12	6.4	4.2	8.5	5.7
Interest expenses and similar profit/loss items	Note 13	- 61.0	- 43.8	- 28.9	- 16.1
<b>Profit after financial items</b>		<b>501.5</b>	<b>273.6</b>	<b>96.3</b>	<b>71.1</b>
Appropriations	Note 14	-	-	0.0	1.5
Tax on the profit for the year	Note 15	- 150.7	- 89.9	- 0.3	- 0.2
<b>Profit for the year</b>		<b>350.8</b>	<b>183.7</b>	<b>96.0</b>	<b>72.4</b>
Parent company's share of net earnings		350.8	182.0	-	-
Minority participation in net earnings		0.0	1.7	-	-
Depreciation according to plan		141.0	121.1	0.1	0.1
Number of shares at year-end <sup>1)</sup>		93,920,000	23,480,000		
Net earnings per share in SEK <sup>2)</sup>		3.74	1.94		
Proposed dividend per share in SEK <sup>2)</sup>		1.15	0.75		

<sup>1)</sup> In June 2006 a 4:1 share split was carried out.

<sup>2)</sup> Net profit and proposed dividend recomputed with regard to the 4:1 share split.

## Quarterly data

## Consolidated income statement

(in millions of SEK)	2006				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	1,033.8	1,066.4	1,237.6	1,620.2	800.9	868.9	977.5	1,171.8
Operating expenses	- 932.9	- 967.8	- 1,071.9	- 1,429.4	- 731.4	- 800.3	- 928.5	- 1,048.8
<b>Operating profit</b>	<b>100.9</b>	<b>98.6</b>	<b>165.7</b>	<b>190.8</b>	<b>69.5</b>	<b>68.6</b>	<b>49.0</b>	<b>123.0</b>
Net financial items	- 11.6	- 13.2	- 14.3	- 15.4	- 8.9	- 6.3	- 9.9	- 11.4
<b>Profit after net financial items</b>	<b>89.3</b>	<b>85.4</b>	<b>151.4</b>	<b>175.4</b>	<b>60.6</b>	<b>62.3</b>	<b>39.1</b>	<b>111.6</b>
Tax	- 26.8	- 24.8	- 45.9	- 53.2	- 19.1	- 19.9	- 17.8	- 33.1
<b>Net profit for the year</b>	<b>62.5</b>	<b>60.6</b>	<b>105.5</b>	<b>122.2</b>	<b>41.5</b>	<b>42.4</b>	<b>21.3</b>	<b>78.5</b>

## Net sales – by business area

NIBE Element	377.4	364.0	350.7	441.8	304.1	319.4	305.2	369.0
NIBE Heating	478.1	573.6	661.9	841.5	394.2	471.9	525.4	577.3
NIBE Stoves	192.7	141.8	237.4	359.3	109.9	85.3	154.6	234.8
Group eliminations	- 14.4	- 13.0	- 12.4	- 22.4	- 7.3	- 7.7	- 7.7	- 9.3
<b>Group</b>	<b>1,033.8</b>	<b>1,066.4</b>	<b>1,237.6</b>	<b>1,620.2</b>	<b>800.9</b>	<b>868.9</b>	<b>977.5</b>	<b>1,171.8</b>

## Operating profit – by business area

NIBE Element	19.1	19.1	20.4	17.6	11.7	3.7	- 58.9	- 5.5
NIBE Heating	50.4	70.4	104.7	108.3	41.6	55.4	79.0	75.4
NIBE Stoves	34.4	14.5	43.7	68.0	19.5	14.4	31.9	57.8
Group eliminations	- 3.0	- 5.4	- 3.1	- 3.1	- 3.3	- 4.9	- 3.0	- 4.7
<b>Group</b>	<b>100.9</b>	<b>98.6</b>	<b>165.7</b>	<b>190.8</b>	<b>69.5</b>	<b>68.6</b>	<b>49.0</b>	<b>123.0</b>

## Balance sheets

Assets (in millions of SEK)	Group		Parent company	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
<b>Non-current assets</b>				
<b>Intangible assets</b>				
Goodwill <i>Note 16</i>	643.4	452.5	-	-
Other intangible assets <i>Note 17</i>	26.9	6.0	-	-
<b>Total</b>	<b>670.3</b>	<b>458.5</b>	<b>-</b>	<b>-</b>
<b>Tangible assets</b>				
Land and buildings <i>Note 18</i>	507.1	483.0	-	-
Machinery and equipment <i>Note 19</i>	556.8	488.6	0.2	0.2
Construction in progress <i>Note 20</i>	52.4	43.6	-	-
<b>Total</b>	<b>1,116.3</b>	<b>1,015.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Financial assets</b>				
Shares in subsidiaries <i>Note 21</i>	-	-	1,112.6	834.0
Receivables from Group companies	-	-	306.7	231.1
Shares in associated companies <i>Note 22</i>	0.1	0.0	-	-
Long-term securities held	0.2	0.2	-	-
Deferred tax asset <i>Note 15</i>	22.2	30.1	-	2.3
Other long-term receivables	5.7	5.7	-	-
<b>Total</b>	<b>28.2</b>	<b>36.0</b>	<b>1,419.3</b>	<b>1,067.4</b>
<b>Total non-current assets</b>	<b>1,814.8</b>	<b>1,509.7</b>	<b>1,419.5</b>	<b>1,067.6</b>
<b>Current assets</b>				
<b>Inventories</b>				
Raw materials and consumables	527.0	409.0	-	-
Work in progress	140.2	120.5	-	-
Finished products and goods for resale	340.7	301.6	-	-
<b>Total</b>	<b>1,007.9</b>	<b>831.1</b>	<b>-</b>	<b>-</b>
<b>Current receivables</b>				
Accounts receivable – trade	721.8	552.5	-	0.0
Receivables from Group companies	-	-	11.5	7.8
Accounts receivable – associated companies	0.7	-	-	-
Tax asset	22.8	10.0	0.4	0.2
Other receivables	78.2	62.0	4.6	0.6
Prepaid expenses and accrued income	33.5	26.7	0.4	0.3
<b>Total</b>	<b>857.0</b>	<b>651.2</b>	<b>16.9</b>	<b>8.9</b>
Current investments <i>Note 23</i>	4.8	1.1	-	-
Cash and cash equivalents	218.3	132.2	1.0	0.1
<b>Total current assets</b>	<b>2,088.0</b>	<b>1,615.6</b>	<b>17.9</b>	<b>9.0</b>
<b>Total assets</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>1,437.4</b>	<b>1,076.6</b>

## Equity and liabilities

(in millions of SEK)	Group		Parent company	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
<b>Equity</b>				
			<i>Restricted equity</i>	
Share capital <i>Note 24</i>	58.7	58.7	58.7	58.7
Capital contributed/restricted reserves	67.4	67.4	74.9	74.9
<b>Total restricted equity</b>			<b>133.6</b>	<b>133.6</b>
			<i>Non-restricted equity</i>	
Other reserves/Fair value reserve	2.1	24.8	8.4	- 5.9
Profit brought forward incl. profit for the year	1,155.3	874.9	204.3	179.0
Minority interest	0.0	5.2	-	-
<b>Total non-restricted equity</b>			<b>212.7</b>	<b>173.1</b>
<b>Total equity</b>	<b>1,283.5</b>	<b>1,031.0</b>	<b>346.3</b>	<b>306.7</b>
<b>Untaxed reserves</b>				
Accelerated depreciation	-	-	0.1	0.2
<b>Total untaxed reserves</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>0.2</b>
<b>Non-current liabilities and provisions</b> <i>Note 27</i>				
Provisions for post-employment benefits <i>Note 25</i>	28.7	27.3	-	-
Provisions for taxes <i>Note 15</i>	126.6	116.4	3.3	-
Guarantee risk reserve <i>Note 26</i>	48.8	47.8	-	-
Restructuring reserve <i>Note 26</i>	27.6	60.6	-	-
Other provisions, non-interest-bearing <i>Note 26</i>	9.8	7.9	-	-
Bank overdraft facilities <i>Note 28</i>	357.7	210.4	-	-
Liabilities to credit institutions	929.4	792.2	756.9	464.1
Liabilities to Group companies	-	-	215.0	129.8
Other liabilities, interest-bearing	6.8	0.7	-	-
Other liabilities, non-interest-bearing	30.2	27.7	27.7	15.3
<b>Total non-current liabilities and provisions</b>	<b>1,565.6</b>	<b>1,291.0</b>	<b>1,002.9</b>	<b>609.2</b>
<b>Current liabilities and provisions</b>				
Liabilities to credit institutions	139.7	117.9	75.1	48.7
Accounts payable – trade	433.1	278.1	0.5	0.4
Advance payments from customers	3.7	2.2	-	-
Liabilities to Group companies	-	-	0.5	100.2
Tax liability	56.7	42.2	-	-
Other liabilities	135.2	108.2	7.4	7.4
Accrued expenses and deferred income <i>Note 29</i>	285.3	254.7	4.6	3.8
<b>Total current liabilities and provisions</b>	<b>1,053.7</b>	<b>803.3</b>	<b>88.1</b>	<b>160.5</b>
<b>Total equity and liabilities</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>1,437.4</b>	<b>1,076.6</b>
Pledged assets <i>Note 30</i>	1,716.0	1,553.0	335.0	335.0
Contingent liabilities <i>Note 31</i>	9.4	3.9	208.5	260.2

## Changes in equity

## Group

(in millions of SEK)	Share capital	Contributed capital	Other reserves <sup>1)</sup>	Profit brought forward incl. profit for the year	Minority interest	Total equity
Equity 31 Dec 2004	58.7	67.4	-1.1	763.3	3.3	891.6
Effect of change in accounting principles			3.3			3.3
Adjusted equity brought forward 1 Jan 2005	58.7	67.4	2.2	763.3	3.3	894.9
Market value of commercial forward exchange agreements after tax allowance			- 5.3			- 5.3
Exchange rate differences <sup>2)</sup>			27.9		0.2	28.1
Dividend				- 70.4		- 70.4
Profit for the year				182.0	1.7	183.7
Equity 31 Dec 2005	58.7	67.4	24.8	874.9	5.2	1,031.0
Market value of commercial forward exchange agreements after tax allowance			3.5			3.5
Exchange rate differences <sup>2)</sup>			- 26.2		- 0.2	- 26.4
Minority shares acquired					- 5.0	- 5.0
Dividend				- 70.4		- 70.4
Profit for the year				350.8		350.8
Equity 31 Dec 2006	58.7	67.4	2.1	1,155.3	0.0	1,283.5

## 1) Other reserves

(in millions of SEK)	Re-valuation reserve	Exchange rate difference	Total other reserves
Other reserves 1 Jan 2005	3.3	-1.1	2.2
Market value of commercial forward exchange agreements after tax allowance	- 5.3		- 5.3
Exchange rate differences <sup>2)</sup>		27.9	27.9
Other reserves 31 Dec 2005	- 2.0	26.8	24.8
Market value of commercial forward exchange agreements after tax allowance	3.5		3.5
Exchange rate differences <sup>2)</sup>		- 26.2	- 26.2
Other reserves carried forward 31 Dec 2006	1.5	0.6	2.1

## 2) Specification of the year's exchange rate difference in equity

The year's exchange rate difference for foreign subsidiaries recomputed in accordance with the current method	- 40.0
The year's exchange rate difference when recomputed for loans to foreign subsidiaries	- 1.6
The year's exchange rate difference when recomputing loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK 21.1 million, of which the tax effect is SEK 5.9 million	15.2
<b>Total exchange rate difference for the period</b>	<b>- 26.4</b>
<b>Specification of accumulated exchange rate difference when recomputing figures for foreign subsidiaries</b>	
Accumulated exchange rate difference at start of year	32.2
Exchange rate difference for the year in foreign subsidiaries	- 40.0
<b>Accumulated exchange rate difference at year-end</b>	<b>- 7.8</b>

## Parent company

(in millions of SEK)	Share capital	Statutory reserve	Fair value reserve	Profit brought forward	Total equity
Equity 31 Dec 2004	58.7	74.9		177.0	310.6
Effect of change in accounting principles <sup>3)</sup>			1.3		1.3
Adjusted equity brought forward 1 Jan 2005	58.7	74.9	1.3	177.0	311.9
The year's exchange rate difference when recomputing loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK - 10.0 million, of which the tax effect is SEK - 2.8 million.			- 7.2		- 7.2
Profit for the year				72.4	72.4
Dividend				- 70.4	- 70.4
Equity 31 Dec 2005	58.7	74.9	- 5.9	179.0	306.7
The year's exchange rate difference when recomputing loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK 19.9 million, of which the tax effect is SEK 5.6 million.			14.3		14.3
Group contribution				- 0.3	- 0.3
Profit for the year				96.0	96.0
Dividend				- 70.4	- 70.4
Equity 31 Dec 2006	58.7	74.9	8.4	204.3	346.3

<sup>3)</sup> With effect from 2006 financial instruments are recognised at fair value. A non-recurring effect of this was that equity as per 31 Dec. 2004 rose by SEK 1.3 million.

## Cash flow statements

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
<b>Operating activities</b>				
Operating profit	556.0	310.1	- 15.0	- 12.4
+ depreciation charged to this profit	143.9	121.1	0.1	0.1
+ capital losses / - capital gains	- 1.4	1.0	-	-
- minority participation in profits	0.0	- 1.7	-	-
<b>Total</b>	<b>698.5</b>	<b>430.5</b>	<b>- 14.9</b>	<b>- 12.3</b>
Interest received and similar items	6.6	4.2	9.5	5.7
Interest paid and similar items	- 61.0	- 41.5	- 28.9	- 16.1
Tax paid	- 154.2	- 80.6	- 0.5	- 0.3
<b>Cash flow before change in working capital</b>	<b>489.9</b>	<b>312.6</b>	<b>- 34.8</b>	<b>- 23.0</b>
<b>Change in working capital</b>				
Change in inventories	- 143.3	- 96.1	-	-
Change in current receivables	- 173.6	- 99.3	- 7.8	5.9
Change in current liabilities	223.5	86.0	- 72.5	117.1
<b>Cash flow from operating activities</b>	<b>396.5</b>	<b>203.2</b>	<b>- 115.1</b>	<b>100.0</b>
<b>Investment activities</b>				
Investments in machinery and equipment	- 174.1	- 146.2	-	-
Investments in buildings and land	- 61.7	- 43.6	-	-
Investment in construction in progress	- 2.5	- 0.7	-	-
Investment in goodwill	- 5.4	- 17.4	-	-
Investment in other intangible non-current assets	- 6.1	- 2.0	-	-
Disposal of associated companies	-	3.1	-	3.1
Sale of machinery and equipment	5.1	4.0	-	-
Sale of buildings and land	8.7	3.0	-	-
Sale of construction in progress	-	0.6	-	-
Sale of goodwill	-	0.3	-	-
Change in non-current receivables and other securities	- 0.6	- 20.1	- 75.6	- 113.9
<b>Cash flow from investment activities</b>	<b>- 236.6</b>	<b>- 219.0</b>	<b>- 75.6</b>	<b>- 110.8</b>
<b>Operating cash flow</b>	<b>159.9</b>	<b>- 15.8</b>	<b>- 190.7</b>	<b>- 10.8</b>
<b>Acquired companies/lines of business <sup>1)</sup></b>	<b>- 289.8</b>	<b>- 156.7</b>	<b>- 295.0</b>	<b>- 256.4</b>
<b>Financing activities</b>				
Change in minority interest	- 5.2	1.7	-	-
Profit from participation in Group companies	-	-	146.7	109.1
Amortisation of long-term loans	- 167.3	- 109.3	- 60.1	- 32.6
Other changes in non-current liabilities and provisions	463.9	403.7	470.4	260.6
Shareholders' dividend	- 70.4	- 70.4	- 70.4	- 70.4
<b>Cash flow from financing activities</b>	<b>221.0</b>	<b>225.7</b>	<b>486.6</b>	<b>266.7</b>
<b>Cash flow for the year</b>	<b>91.1</b>	<b>53.2</b>	<b>0.9</b>	<b>- 0.5</b>
Cash and cash equivalents at the beginning of the year	132.2	88.6	0.1	0.6
Exchange rate difference for cash equivalents	- 5.0	- 9.6	-	-
<b>Cash equivalents at year-end</b>	<b>218.3</b>	<b>132.2</b>	<b>1.0</b>	<b>0.1</b>

<sup>1)</sup> For further information about the acquisition of companies, please refer to Note 32.

## Note 1 General information about the business

NIBE Industrier is a European heating technology company whose business operations are organised in three separate business areas: NIBE Element, NIBE Heating and NIBE Stoves.

The Group has more than 5,600 employees and conducts business activities in 15 countries in Europe, North America and Asia. The legal structure of the Group consists of a number of subsidiaries, who run their own operations via their own companies or branch offices.

The operations of the parent company, NIBE Industrier AB, constitute group support functions such as financing, currency management, corporate acquisitions and new establishments together with financial management and other policy issues.

## Note 2 Accounting and valuation principles

The NIBE Group applies International Financial Reporting Standards (IFRS) as they have been adopted by the EU, the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RR 30:05 ("Supplementary accounting rules for groups"). The policies applied are unchanged from those adopted in the preceding year.

The parent company applies the Annual Accounts Act and recommendation RR 32:05 ("Accounting for juridical persons"). Where the parent company has adopted accounting policies that differ from the Group's, this is stated in the appropriate section in this note. With effect from 1 January 2006, the parent company values financial instruments at fair value. The adoption of these policies means that exchange-rate differences on the translation at the closing day rate of liabilities, such as acquisition loans, which constitute hedging instruments in relation to the company's investment in foreign operations, are recognised in the fair value reserve. Previously, this type of loan was recognised at the acquisition day rate. The effect of the change in policy on the parent company's equity is shown on page 50 under "Changes in equity".

The parent company's accounting policies are otherwise unchanged compared with the previous year's.

IFRS standards which have been published but had not yet come into force by 31 December 2006 are not anticipated to have any effect on the Group's financial reports for 2007.

### Classification

Non-current assets and long-term (non-current) liabilities including any relevant provisions and allocations consist of items that it is expected will be regained or paid for more than 12 months after the closing date. Current assets and current liabilities including any relevant provision and allocations are items that it is expected will be regained or paid for within 12 months from the closing date. Any deviations from this principle are explained in the notes to the relevant items.

### Consolidated accounts

The consolidated accounts cover the parent company NIBE Industrier AB (publ) and subsidiaries in which NIBE Industrier directly or indirectly holds more than 50% of the votes, or has a dominating influence. Companies acquired/sold 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, with the application of IAS 27 and IFRS 3.

Items included in the financial reports for the different units in the NIBE Group are valued in the currency of the primary economic environment in which the company operates (functional currency). In the consolidated financial statements, the parent company's functional and presentation currency is used, which is the Swedish krona (SEK). All income statement items are translated at the average rate for the year. Translation differences are booked directly against Group equity. In some cases, long-term monetary dealings arise between a parent company and an independent foreign operation, in which the dealings are

of such a type that they are unlikely to be settled. The exchange differences which arise through these are recognised against equity in the consolidated financial statements.

One of the implications of IFRS 3 is that the net assets in an acquired company are determined on the basis of a market valuation of assets and liabilities on the date of acquisition. Such market valuations constitute the Group's acquisition cost, which is referred to as "historical cost". The historical cost of an acquired business consists of the fair value of assets transferred in settlement and liabilities that arise or are taken over from the date of transfer plus costs directly attributable to the acquisition itself. The difference between the historical value of the shares in the subsidiary and the value of the net assets calculated in the acquisition analysis is recorded as Group goodwill. If the difference is a negative one, it is recognised in the income statement.

In the preparation of the consolidated balance sheet, untaxed reserves have been divided into a portion recognised as a deferred tax liability under the heading non-current liabilities and provisions, and a residual portion which is recognised under profits brought forward including net profit for the year. Accordingly, appropriations which involve changes in untaxed reserves have been omitted. The tax portion of these changes is recognised along with the tax cost for the year in the income statement, while the equity portion is included in net profit for the year. The percentage rate used in calculating deferred tax in Swedish subsidiaries is 28 per cent, and for foreign subsidiaries the appropriate tax rate in each country. The necessary provisions have been made for internal profits.

### Associated companies

Companies in which NIBE Industrier AB has a long-term shareholding equivalent to between 20 and 50 percent of the votes, or those in which it has a significant influence over operations and financial management in some other way are classified in the accounts as associated companies. Holdings in associated companies are recognised in the Group according to the equity method and in the parent company according to the cost method. The equity method means that the participation is initially reported at the value at the time of acquisition and subsequently adjusted according to the Group's participation in the associated company's profit.

### Group contributions

The company shows Group contributions and shareholders' contributions in accordance with the directive from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force.

### Cash flow statement

The cash flow statement is drawn up in accordance with IAS 7. The indirect method has been used: accrual basis net profit is thus adjusted for transactions which have not given rise to receipts or disbursements during the period, as well as for any income and expense attributable to cash flow from investment or financing operations. Cash equivalents include cash and bank balances.

### Revenue recognition

Sales revenue is recognised with VAT, returns and discounts deducted. Revenue is generated almost exclusively from the sale of finished products. Sales revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer, when the Group no longer has possession or management control over the goods and when the revenue can be measured reliably. This means that revenue is recognised when the goods are placed at the customers' disposal in accordance with the delivery terms arranged. Interest revenue is recognised using the effective interest method. Dividend revenue is recognised when the right to receive the dividend is established.

### Segment reporting

Operationally, the primary segmentation of the Group's activities is into product group orientated business areas. The secondary segmentation is geographical by markets. See also Notes 3 and 4.

### Transactions with related parties

Orders between Group companies are invoiced on commercial terms and at market prices. Internal profits arising on sales between Group companies have been eliminated in their entirety.

Parent company sales refer in their entirety to sales to Group companies.

### Other operating revenue

Gains on the sale of fixed assets, exchange differences, etc. are reported under this heading. See specification in Note 10.

### Accounting of income tax

Income tax accounting has been carried out using IAS 12.

Reported income tax includes actual tax, adjustments for the previous year's actual tax and changes in deferred tax. Income tax liabilities and tax assets are valued at the nominal amount in accordance with the tax regulations and tax rates approved or announced, when there is good reason to believe these will be confirmed.

For items reported in the income statement, the associated tax effects are also reported in the income statement. Tax is recognised directly in equity if the tax is attributable to items which are recognised in equity.

Deferred tax is calculated in accordance with the balance sheet method for all essential temporary differences that arise between the value in the accounts and the value for tax purposes of assets and liabilities. Such temporary differences have arisen mainly through untaxed reserves. Deferred tax assets in respect of loss carry-forwards or other future taxable deductions are recognised to the extent that it is probable that the deduction can be utilised against future taxable surpluses.

Due to the connection between accounting and taxation, the deferred tax liability on untaxed reserves is reported in the accounts of the parent company, as part of untaxed reserves.

### Currency hedging

The NIBE Group applies IAS 39 ("Financial Instruments: Recognition and Measurement") for hedge accounting of currency futures. The application of this recommendation involves, among other things, that derivatives in the form of future contracts are recognised at fair value in the balance sheet. For a hedging of cash flows, changes in the fair value of the hedging instruments are recognised under equity until the underlying hedged item is recognised in revenue.

### Leasing

The Group follows IAS 17 in respect of finance leasing. Leased assets classified as finance leases are recognised as non-current assets, and future lease charges as interest-bearing liabilities. For leased assets classified as operating leases, annual lease expenses are recognised as an operating expense in the income statement.

### Borrowing costs

In recognising borrowing costs, the benchmark treatment described in IAS 23 is applied. This means that borrowing costs are treated as expenses for the period to which they relate.

### Goodwill

Goodwill has arisen in connection with the acquisition of operations and companies. The useful life of these assets cannot be calculated with certainty, since it is dependent on a number of unknown factors such as technological developments and market trends. NIBE applies IFRS 3 ("Business combinations"), which means that goodwill is no longer amortised. Instead, an annual impairment test is carried out in accordance with IAS 36. The assets are valued by business area, which means that future cash flows from each business area as a cash generating unit are estimated. The value recognised per business area is shown in Note 16. In estimating future cash flows, the following assumptions have been made:

– An annual growth rate of 10.0%, which experience has shown to be conservative.

– A discount rate of 10.6%, based on actual cost of capital.

– A forecast period of 5 years.

The estimates have not indicated that there is a need for impairment in any business area. In the calculations for the NIBE Element business area, expenditure on ongoing restructuring measures has been eliminated as have the estimated efficiency gains resulting from the measures.

### Other intangible and tangible assets

The heading "Other intangible assets" refers to tenancy rights, patents, licences, trademarks and similar assets, and the Group considers that these assets have a limited useful life.

Other intangible and tangible non-current assets are recognised at historical costs less accumulated amortisation/depreciation and any impairment. Borrowing expenses are not included in historical cost, but are recognised as an expense on a current basis. Expenditure on improving the performance of the assets, above the original level, increases the carrying value of the assets. Expenditure on repairs and maintenance is recognised as an expense on a current basis.

Amortisation/depreciation according to plan is based on historical cost, which, after the deduction of any recoverable amount, is allocated over the estimated useful life of the asset. The following amortisation/depreciation periods have been used:

Intangible assets	10 – 20%
Buildings	2.5 – 5%
Land improvements	3.75 – 5%
Machinery and equipment	10 – 25%
Fixtures and fittings	4%

### Research and development costs

Expenditure on research activities is written off as it arises.

The NIBE Group incurs expenditure for product development within every business area. During the development phase, a number of criteria are used for recognising development projects as intangible assets. The expenditure is capitalised where it is technically possible and the intention is to complete the asset either for use or sale, the asset is expected to generate future economic benefits, it is financially possible to complete the asset, and the cost of the asset can be measured reliably. The expenditure is capitalised from the date on which all the above criteria are met.

Amortisation according to plan is based on acquisition values and is apportioned over the estimated useful life of the assets.

### Inventories

IAS 2 is applied to the accounting of inventories. Inventories have been valued at the lower of historical cost and current cost for raw materials, consumption materials and finished goods purchased, and at manufacturing cost for goods produced. In no case have inventories been recognised at above net realisable value. Interest is not included in the inventory values. Pricing of deliveries between Group companies is at market prices. Internal gains in Group companies' inventories are eliminated in the consolidated accounts. These eliminations affect operating profit.

### Financial instruments

NIBE classifies its financial instruments in the following categories: financial instruments valued at fair value through profit or loss, financial assets held to maturity, financial instruments held for sale, and financial instruments associated with operations. The classification is dependent on the purpose for which the instrument has been acquired.

### Financial instruments valued at fair value through profit or loss

This class of financial instrument includes assets and liabilities which the company's management wishes to value at fair value, and changes in the value of which affect profit or loss. Derivative instruments are always included in this class unless the derivative constitutes part of a hedging transaction. NIBE holds short-term investments which fall within this category.

### Financial instruments held to maturity

Financial instruments in the held-to-maturity category are acquired with the intention and financial ability on the part of the Group to hold them until the date of maturity. These financial instruments are valued at accrued cost of purchase using the effective interest method. The Group held no instruments belonging to this category during the financial year.

### Financial instruments held for sale

This class contains financial instruments available for sale which are not derivatives. Financial instruments in this category are valued at fair value, and changes in value are recognised in equity. The Group held no instruments belonging to this category during the financial year.

### Financial instruments associated with operations

Loan receivables and loan liabilities, accounts receivable and accounts payable are examples of financial instruments associated with operations. This type of financial instrument is held with no intention of trading in receivables or liabilities. Valuation is at accrued historical cost using the effective interest method.

The purchase and sale of financial instruments is recognised on the trading date (the date on which a binding agreement is entered into). All financial instruments which are not valued at fair value are initially valued at historical cost plus transaction costs. Assessments are made to ensure that the fair value of the asset is not lower than the historical cost, in which case impairment may be appropriate. Where impairment does take place, this is specified separately in the notes.

The fair value of the Group's assets and liabilities conforms to the carrying value in the balance sheet unless otherwise specified in a separate note.

### Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the closing day rate. In the event that hedge accounting is applied, see the separate section above on currency hedging.

### Impairment

Intangible assets which have an indeterminate period of use, such as goodwill, are not amortised, but are subject to an annual impairment test. Tangible assets and intangible assets with a defined useful life are tested for impairment if there is some indication that the asset may have fallen in value. Impairment is recognised in accordance with IAS 36. When considering the requirement for impairment, the Group determines the recoverable amount of the asset. The recoverable amount is the higher of the net realisable value and value in use. In assessing the value in use, an estimate is made of future cash flows discounted to present value using a discount factor before tax. A weighted average cost of capital is used in this calculation.

An impairment is recognised whenever the carrying value of the asset or its cash-generating unit exceeds the recoverable amount. For NIBE, cash-generating units are equivalent to business areas. Impairments are recognised in the income statement.

### Provisions

IAS 37 is applied to the accounting of provisions. Provisions are recognised when the Group has or may be regarded as having an obligation as a result of events that have occurred, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. A further requirement is that it is possible to make a reliable estimate of the amount that will have to be paid. Guarantee risk provision is recognised on the date of sale of the products to which the guarantee refers, and is estimated on the basis of the cost history of equivalent obligations.

### Employee benefits – post-employment benefits

The post-employment benefit liability is calculated in accordance with IAS 19 ("Employee benefits"). This means that the post-employment benefit liability is calculated with reference to, among other things, estimated future salary increases and inflation. Within the Group, there are a number of pension plans including both defined-contribution plans and defined-benefit plans.

In respect of defined-benefit plans, the costs of post-employment benefits are calculated using the Project Unit Method.

These obligations are valued at the discounted present value of expected future payments.

Actuarial gains and losses outside the 10-percent "corridor" are divided over the average lifespan of the employees.

The Group's payments in respect of defined-contribution plans are recognised as an expense during the period in which the employee carried out the services to which the contributions refer.

The Group's payments in respect of the ITP occupational pension financed via Alecia are recognised as a defined-contribution plan. See the information in Note 25.

### Significant estimates and assumptions for accounting purposes

Company management makes estimates and assumptions about the future, and these affect carrying values. Consequently, the carrying amount in these cases is rarely equivalent to fair value. Estimates and assumptions which may involve a risk of significant adjustments in carrying values during the next financial year are reported below.

### Period of use of intangible and tangible assets

Group management determines the estimated period of use, and thereby the associated amortisation/depreciation of the Group's intangible and tangible assets. These estimates are based on historical knowledge of the period of use of equivalent assets. The period of use and the estimated recoverable amount are tested for every accounting date and adjusted as necessary.

### Impairment test for goodwill

Every year, the Group tests whether any impairment is required for goodwill in accordance with the accounting policy described under "Impairment". The estimates which must be made and the effect of these estimates are shown under "Goodwill". Neither a reduction of the assumed growth rate nor an increase in the assumed discount rate of two percentage points would lead to an impairment requirement arising.

### Provisions

The structural reserve is recognised as a provision. The reserve is valued on the basis of the measures decided upon and announced which will take effect during financial year 2007.

The estimate for the guarantee risk reserve is shown above under the heading "Provisions".

Further information in respect of provisions for the year for the structural reserve and the guarantee risk reserve are shown in Note 26.

Provisions for the present value of post-employment benefit obligations are dependent on a number of factors determined on the basis of actuarial assumptions. Every change in these assumptions will affect the carrying value of the post-employment benefits obligations. Significant assumptions relating to post-employment benefit obligations are based partly on prevailing market conditions. Further information is given in Note 25.



### Note 3 Net sales and operating profit by segment

#### Breakdown by business area

(in millions of SEK)	Net sales		Operating profit	
	2006	2005	2006	2005
NIBE Element	1,533.9	1,297.7	76.2	- 49.0
NIBE Heating	2,555.1	1,968.8	333.8	251.4
NIBE Stoves	931.2	584.6	160.6	123.6
Group adjustments	- 62.2	- 32.0	- 14.6	- 15.9
<b>Group total</b>	<b>4,958.0</b>	<b>3,819.1</b>	<b>556.0</b>	<b>310.1</b>

#### Breakdown by geographical region

(in millions of SEK)	Net sales		Assets		Investments	
	2006	2005	2006	2005	2006	2005
Nordic countries	3,112.4	2,572.4	3,106.7	2,503.4	193.5	124.7
Rest of Europe	1,703.8	1,114.0	751.3	599.3	47.1	75.2
Other markets	141.8	132.7	44.8	22.6	2.1	1.6
<b>Group total</b>	<b>4,958.0</b>	<b>3,819.1</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>242.7</b>	<b>201.5</b>

All parent company sales are sales to Group companies.

### Note 4 Information about business areas

(in millions of SEK)	Element		Heating		Stoves		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Income</b>										
Total earnings	2,054.9	1,580.4	2,890.1	2,200.0	1,015.1	607.6	- 1,002.1	- 568.9	4,958.0	3,819.1
Internal sales	- 521.0	- 282.7	- 335.0	- 231.2	- 83.9	- 23.0	939.9	536.9	0.0	0.0
<b>External sales</b>	<b>1,533.9</b>	<b>1,297.7</b>	<b>2,555.1</b>	<b>1,968.8</b>	<b>931.2</b>	<b>584.6</b>	<b>- 62.2</b>	<b>- 32.0</b>	<b>4,958.0</b>	<b>3,819.1</b>
<b>Profit/loss</b>										
Profit/loss per business area	76.2	- 49.0	333.8	251.4	160.6	123.6	-	- 3.3	570.6	322.7
Undistributed costs									- 14.6	- 12.6
<b>Operating profit</b>									<b>556.0</b>	<b>310.1</b>
Financial income									6.5	7.3
Financial expenses									- 61.0	- 43.8
Tax for the year									- 150.7	- 89.9
<b>Net profit for the year</b>									<b>350.8</b>	<b>183.7</b>
<b>Other information</b>										
Assets	1,347.4	1,305.7	2,023.6	1,571.8	764.0	562.6	- 1,392.2	- 1,409.3	2,742.8	2,030.8
Undistributed assets									1,160.0	1,094.5
<b>Total assets</b>									<b>3,902.8</b>	<b>3,125.3</b>
Liabilities	1,293.5	1,265.2	1,437.5	1,102.0	439.5	307.9	- 1,364.9	- 1,362.7	1,805.6	1,312.4
Undistributed liabilities									813.7	781.9
<b>Total liabilities</b>									<b>2,619.3</b>	<b>2,094.3</b>
Investment	54.0	77.2	118.0	96.0	70.7	28.6				
Depreciation/amortisation	49.0	42.6	71.9	61.5	20.1	13.7				

## NOTES

### Note 5 Payments to the auditors

During the year the Group paid SEK 4.8 million for auditing services (SEK 0.3 million of this sum related to the parent company) and SEK 1.8 million for financial services other than auditing (SEK 0.2 million for the parent company).

(in millions of SEK)	2006		2005	
	Auditing services	Other services	Auditing services	Other services
SET Revisionsbyrå AB	1.8	0.7	1.9	1.2
Other accountants	3.0	1.1	1.8	0.4
<b>Group total</b>	<b>4.8</b>	<b>1.8</b>	<b>3.7</b>	<b>1.6</b>

### Note 6 Salaries, average number of employees and numbers of men/women in senior positions

#### Salaries and other remunerations

(in millions of SEK)	2006	2005
Parent company	5.5	4.9
Subsidiaries	962.7	832.9
<b>Group total</b>	<b>968.2</b>	<b>837.8</b>

(in millions of SEK)	2006		2005	
	Social security contrib's	of which pension expenses	Social security contrib's	of which pension expenses
Parent company	4.0	1.6	3.5	1.3
Subsidiaries	251.9	57.2	226.6	54.0
<b>Group total</b>	<b>255.9</b>	<b>58.8</b>	<b>230.1</b>	<b>55.3</b>

Of parent company pension costs, SEK 0.4 million (2005: SEK 0.3 million) relate to the CEO. The parent company has no outstanding pension obligations to the Board or CEO. The corresponding sum for the Group is SEK 3.4 million (SEK 2.6 million). Outstanding Group pensions to the previous Board/CEO total SEK 1.2 million (SEK 1.3 million).

#### Salaries and other remuneration by country for the Board/MD and other employees

(in millions of SEK)	2006		2005	
	Board and MD	Other employees	Board and MD	Other employees
Parent company	2.9	3.3	2.6	3.0
Subsidiaries in				
Sweden	3.9	392.4	4.4	355.8
Norway <sup>1)</sup> (0.0 and 0.1)	3.9	65.3	2.8	52.4
Finland <sup>1)</sup> (0.3 and 0.1)	6.1	116.6	6.9	111.2
Denmark <sup>1)</sup> (0.5 and 0.5)	9.5	186.6	7.3	145.2
France <sup>1)</sup> (0.1 and 0.0)	0.3	1.1	-	0.6
Germany <sup>1)</sup> (0.5 and 0.2)	1.3	11.6	1.1	9.7
Poland <sup>1)</sup> (0.4 and 0.2)	3.5	71.0	3.0	55.5
Portugal	0.8	0.1	0.5	0.1
Czech <sup>1)</sup> (0.2 and 0.0)	3.5	21.7	2.7	15.7
Slovakia	0.0	0.1	-	-
Italy	0.8	8.2	-	10.8
Netherlands	1.6	10.6	1.4	9.6
UK	1.4	12.7	1.4	9.6
Spain	1.3	14.3	1.2	15.4
China	0.4	8.8	0.4	5.1
USA <sup>1)</sup> (0.0 and 0.2)	0.9	2.3	1.0	2.0
<b>Group total</b>	<b>42.1</b>	<b>926.7</b>	<b>36.7</b>	<b>801.7</b>

<sup>1)</sup> (of which bonus in millions of SEK)

### Note 6 cont'd

#### Agreement on severance pay

Applies only to the managing director in the parent company (CEO), for whom an agreement has been reached on severance pay amounting to one year's salary.

#### Average numbers of employees and gender distribution

	2006		2005	
	Number of employees	Number of men	Number of employees	Number of men
Parent company	5	3	5	3
Subsidiaries in				
Sweden	1,344	1,131	1,307	1,099
Norway	160	123	128	107
Finland	437	301	406	272
Denmark	470	347	366	269
France	3	1	1	0
Germany	35	25	22	18
Poland	1,542	864	1,324	772
Portugal	1	1	1	0
Czech Republic	423	233	341	187
Slovakia	1	1	0	0
Italy	40	24	47	28
Netherlands	31	25	27	22
UK	60	42	48	27
Spain	60	45	70	52
China	494	257	240	150
USA	5	5	6	5
<b>Group total</b>	<b>5,111</b>	<b>3,428</b>	<b>4,339</b>	<b>3,011</b>

#### Gender distribution at board/management level

	2006		2005	
	Total	Men	Total	Men
Board of directors				
Parent company	5	5	5	5
Subsidiaries	78	75	68	64
Corporate management				
Parent company	2	2	2	2
Subsidiaries	98	92	88	81

## Note 7 Financial instruments

At the end of 2006 the Group had outstanding contracts in EUR, DKK, GBP, NOK, USD and CHF. The total net amount of the contracts, translated into SEK at the closing rate at the end of 2006, was SEK 206.1 million.

The difference between the total contract amount translated to SEK using the contractual exchange rate and the total contract amount translated to SEK using the closing rate at the end of 2006 generated an unrealised exchange gain of SEK 2.1 million.

Operating exchange gains are recognised under "Other operating income" and exchange losses under "Cost of goods sold".

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Exchange gains affecting operating profit	36.7	44.5	–	–
Exchange losses affecting operating profit	– 42.2	– 34.1	–	–
<b>Net exchange rate difference affecting operating profit</b>	<b>– 5.5</b>	<b>10.4</b>	<b>–</b>	<b>–</b>

Under the Group's currency hedging policy, current sales and purchases which take place in foreign currency or are linked to fluctuations in foreign currency, are to be hedged in accordance with a rolling 12-month plan within the range of 60–100% of the estimated flows. The degree of certainty of the future flows determines where in the range the figure will lie.

## Note 8 Leasing

During the year, Group expenses relating to finance leasing agreements totalling SEK 0.7 million (SEK 0.3 million) were capitalised. Leasing charges amounting to SEK 9.5 million (SEK 3.7 million) in respect of operating leases in the Group were expensed. The parent company has no leasing agreements. The value of the Group's agreed future leasing charges, relating to agreements for which the remaining term exceeds one year, are distributed as follows:

(in millions of SEK)	Financial leases	Operating leases
	Current value	Nominal value
Due for payment within 1 yr	0.5	10.3
Due for payment within 2 – 5 yrs	0.6	27.5
Due for payment in 6 yrs or more	0.0	22.1
<b>Total</b>	<b>1.1</b>	<b>59.9</b>

## Note 9 Research and development costs

A total of SEK 96.9 million (SEK 85.0 million) to cover the cost of research and development is included under the heading "Cost of goods sold".

## Note 10 Other operating income

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Profit on sale of non-current assets	2.6	0.6	–	–
Exchange gains	36.7	44.5	–	–
Other	20.3	11.8	–	0.2
<b>Total</b>	<b>59.6</b>	<b>56.9</b>	<b>–</b>	<b>0.2</b>

## Note 11 Result of participations in Group companies and associated companies

### Result of participations in Group companies

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Group contributions	–	–	36.0	21.7
Dividend	–	–	111.0	87.4
Capital gain	–	–	1.0	–
Impairment of participations in subsidiaries	–	–	– 16.3	– 18.3
<b>Total</b>	<b>–</b>	<b>–</b>	<b>131.7</b>	<b>90.8</b>

### Result of participations in associated companies

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Capital gain	–	3.1	–	3.1
Dividend	0.1	–	–	–
<b>Total</b>	<b>0.1</b>	<b>3.1</b>	<b>–</b>	<b>3.1</b>

## Note 12 Interest income and similar profit/loss items

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Interest income, Group companies	–	–	6.8	4.9
Interest income, other	3.6	2.0	0.2	0.1
Other financial income	2.8	2.2	1.5	0.7
<b>Total</b>	<b>6.4</b>	<b>4.2</b>	<b>8.5</b>	<b>5.7</b>

## Note 13 Interest expense and similar profit/loss items

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Interest expense, Group companies	–	–	2.0	1.1
Interest expense, other	56.7	39.7	25.7	13.2
Other financial expenses	4.3	4.1	1.2	1.8
<b>Total</b>	<b>61.0</b>	<b>43.8</b>	<b>28.9</b>	<b>16.1</b>

## Note 14 Appropriations

(in millions of SEK)	Parent company	
	2006	2005
Reversal of tax allocation reserve	0.0	1.5
<b>Change in tax allocation reserve</b>	<b>0.0</b>	<b>1.5</b>

## NOTES

### Note 15 Tax

Tax on profit for the year (in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Actual tax for the year	147.9	109.7	0.3	0.2
Actual tax attributable to preceding years	- 1.2	0.7	-	-
Deferred tax	4.0	- 20.5	-	-
<b>Total</b>	<b>150.7</b>	<b>89.9</b>	<b>0.3</b>	<b>0.2</b>

#### Tax in respect of items charged directly against equity

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Exchange rate diff's in acq. loans	5.9	- 3.1	5.6	- 2.3
Financial instruments	- 1.3	0.8	-	-
<b>Total</b>	<b>4.6</b>	<b>- 2.3</b>	<b>5.6</b>	<b>- 2.3</b>

#### Difference between the Group's tax expense and the tax expenses based on the current tax rate

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Pre-tax profit	501.5	273.6	96.3	72.6
Tax at current rate	140.4	76.6	27.0	20.3
Non-deductible expenses	15.9	5.0	4.7	5.2
Non-taxable earnings	- 0.5	- 3.4	- 0.3	- 0.8
Dividends from subsidiaries	-	-	- 31.1	- 24.5
Adjusted tax for preceding years	- 1.2	0.7	-	-
Deficit deductions not carried fwd	1.6	10.3	-	-
Effect of foreign tax rates	- 5.5	0.7	-	-
<b>Recognised tax expenses</b>	<b>150.7</b>	<b>89.9</b>	<b>0.3</b>	<b>0.2</b>

#### Tax rate

The current tax rate has been calculated on the basis of the tax rate which applies for the parent company, namely 28% (2005: 28%).

#### Temporary differences

Temporary differences arise in the event that the value in the accounts and the value for tax purposes of assets or liabilities differ. Temporary differences in respect of the following items have resulted in deferred tax liabilities and deferred tax assets.

Deferred tax liability (in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Group surplus value in non-current assets	19.1	12.5	-	-
Untaxed reserves	84.1	90.9	-	-
Temporary differences in non-current assets	13.0	7.6	-	-
Other factors	10.4	5.4	3.3	-
<b>Total</b>	<b>126.6</b>	<b>116.4</b>	<b>3.3</b>	<b>-</b>

### Note 15 cont'd

Deferred tax asset (in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Provisions for pension commitments	0.5	0.5	-	-
Non-current assets	2.6	2.3	-	-
Loss carry-forwards	7.7	10.9	-	-
Restructuring reserve	3.6	10.2	-	-
Other factors	7.8	6.2	-	2.3
<b>Total</b>	<b>22.2</b>	<b>30.1</b>	<b>-</b>	<b>2.3</b>

Deferred tax assets in respect of temporary differences attributable to investments in subsidiary companies are not reported as the parent company can determine the date for the reversal of the temporary differences.

Accumulated losses carried forwards/deficit deductions which do not correspond to deferred income taxes recoverable for the Group amounted to SEK 73.6 million. The due dates lie within the following intervals:

#### Due dates for loss carry-forwards/deficit deductions which have not been balanced

(in millions of SEK)	2006	2005
Due date 1 – 5 yrs	37.3	48.7
Due date 6 – 10 yrs	-	-
Due date 10 years –	14.5	26.4
Due date undetermined	21.8	14.6
<b>Total</b>	<b>73.6</b>	<b>89.7</b>

### Note 16 Goodwill

(in millions of SEK)	Group	
	2006	2005
<b>Acquisition value</b>		
Acquisition value brought fwd	535.8	380.2
Acquisition value in companies acquired	3.2	-
Investment for the year	211.7	138.6
Sales and retirements	-	- 0.3
Reclassifications	-	- 0.3
Translation differences	- 23.8	17.6
<b>Accumulated acquisition value carried forward</b>	<b>726.9</b>	<b>535.8</b>
<b>Depreciation</b>		
Depreciation brought forward	83.3	80.4
Depreciation in companies acquired	2.4	-
Translation differences	- 2.2	2.9
<b>Accumulated depreciation carried forward</b>	<b>83.5</b>	<b>83.3</b>
<b>Carrying value carried forward</b>	<b>643.4</b>	<b>452.5</b>

**Note 16 cont'd**

## Carrying value by business area

(in millions of SEK)	Group	
	2006	2005
NIBE Element	116.5	100.8
NIBE Heating	337.6	225.8
NIBE Stoves	189.3	125.9
<b>Total</b>	<b>643.4</b>	<b>452.5</b>

**Note 17 Other intangible assets**

Rights of tenancy, patents, development costs, licences, trademarks etc.

(in millions of SEK)	Group	
	2006	2005
<b>Acquisition value</b>		
Acquisition value brought fwd	13.3	10.3
Acq. value in companies acq'd	5.1	0.2
Investment for the year	25.5	1.9
Sales and retirements	- 0.4	-
Reclassifications	0.9	0.2
Translation differences	- 0.7	0.7
<b>Accumulated acquisition value carried forward</b>	<b>43.7</b>	<b>13.3</b>
<b>Amortisation</b>		
Amortisation brought forward	7.3	5.4
Amortisation in companies acq'd	3.6	0.1
Sales and retirements	- 0.3	-
Reclassifications	-	0.1
Amortisation for the year	4.1	1.5
Translation differences	- 0.2	0.2
<b>Accumulated amortisation carried forward</b>	<b>14.5</b>	<b>7.3</b>
<b>Impairment</b>		
Impairment for the year <sup>1)</sup>	2.4	-
Translation differences	- 0.1	-
<b>Accumulated impairment carried forward</b>	<b>2.3</b>	<b>-</b>
<b>Carrying value carried forward</b>	<b>26.9</b>	<b>6.0</b>

Amortisation of other intangible assets has been expensed in the following functions:

(in millions of SEK)	Group	
	2006	2005
Cost of goods sold	2.6	0.5
Selling expenses	0.1	0.1
Administrative expenses	1.4	0.9
<b>Total</b>	<b>4.1</b>	<b>1.5</b>

<sup>1)</sup> The impairment relates to the liquidation of a store concept for the Danish stoves market.

**Note 18 Land and buildings**

(in millions of SEK)	Group	
	2006	2005
<b>Acquisition value</b>		
Acquisition value brought fwd	707.3	591.3
Acq. value in companies acq'd	23.2	33.7
Investment for the year	61.5	43.8
Sales and retirements	- 8.7	- 4.6
Reclassifications	- 16.8	20.4
Translation differences	- 16.3	22.7
<b>Accumulated acquisition value carried forward</b>	<b>750.2</b>	<b>707.3</b>
<b>Depreciation</b>		
Depreciation brought forward	224.3	197.1
Depreciation in companies acq'd	2.9	3.3
Sales and retirements	- 1.1	- 1.5
Depreciation for the year	22.1	20.1
Translation differences	- 5.1	5.3
<b>Accumulated depreciation carried forward</b>	<b>243.1</b>	<b>224.3</b>
<b>Carrying value carried forward</b>	<b>507.1</b>	<b>483.0</b>
of which, land	37.2	37.2
Carrying value carried forward of land and buildings in Sweden	205.2	184.0
Assessed tax value (Sweden)	71.6	72.0
of which, land	12.9	12.4

New construction, renovations and rebuilds in Sweden during 2006 have not yet been assessed for tax purposes.

Revaluation surpluses have been reclassified so that they form part of acquisition value brought forward.

## NOTES

### Note 19 Machinery and equipment

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
<b>Acquisition value</b>				
Acquisition value brought fwd	1,216.4	1,049.7	0.4	0.4
Acq. value in companies acq'd	35.8	17.0	-	-
Investment for the year	174.2	147.6	-	-
Sales and retirements	- 21.3	-29.8	-	-
Reclassifications	8.1	- 5.5	-	-
Translation differences	- 29.0	37.4	-	-
<b>Accumulated acquisition value carried forward</b>	<b>1,384.2</b>	<b>1,216.4</b>	<b>0.4</b>	<b>0.4</b>
<b>Depreciation</b>				
Depreciation brought forward	726.2	624.7	0.2	0.1
Depreciation in companies acq'd	20.0	6.5	-	-
Sales and retirements	- 16.8	- 24.8	-	-
Reclassifications	- 0.5	- 0.1	-	-
Depreciation for the year	115.0	99.6	0.0	0.1
Translation differences	- 18.2	20.3	-	-
<b>Accumulated depreciation carried forward</b>	<b>825.7</b>	<b>726.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Impairments</b>				
Impairments brought forward	1.6	0.0	-	-
Impairments for the year <sup>1)</sup>	0.5	1.6	-	-
Translation differences	- 0.2	0.0	-	-
<b>Accumulated impairments carried forward</b>	<b>1.9</b>	<b>1.6</b>	<b>-</b>	<b>-</b>
<b>Reversal of impairment amounts</b>				
Reversal of impairment amounts for the year	0.2	-	-	-
<b>Accumulated reversal of impaired amounts carried forward</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount carried forward</b>	<b>556.8</b>	<b>488.6</b>	<b>0.2</b>	<b>0.2</b>

<sup>1)</sup> The impairment relates to the liquidation of a store concept for the Danish stoves market.

### Note 20 Construction in progress

(in millions of SEK)	Group	
	2006	2005
<b>Acquisition value</b>		
Acquisition value brought fwd	43.6	56.5
Acq. value in companies acq'd	2.5	0.7
Expenses during the year	41.1	70.0
Sales and retirements	0.0	- 0.7
Re-allocations during the year	- 34.2	- 85.0
Translation differences	- 0.6	2.1
<b>Accumulated acquisition value carried forward</b>	<b>52.4</b>	<b>43.6</b>

### Note 21 Shares in subsidiaries

(in millions of SEK)	Proportion of capital	Number of shares	Carrying value
Backer BHV AB	100%	37,170	137.0
Bröderna Håkansson Värme AB	100%	15,000	13.4
Calesco Foil AB	100%	10,500	37.5
DZD Strojirna s.r.o.	100%	7	198.9
Focus Värme AB	100%	3,000	2.4
Handöl-Form AB	100%	1,000	0.1
Jevi A/S	100%	1	29.9
Kaukora Oy	100%	1,100	116.8
Loval Oy	100%	768	39.6
METRO THERM A/S	100%	3,400	179.1
NIBE AB	100%	400,000	103.2
Nordpeis AS	100%	12,100	175.8
Nielsen A/S. Svend A.	100%	13	17.7
Turun Lämpötekniikka AB, Oy	100%	100	18.9
Vabro Holding ApS	100%	451	42.3
<b>Total parent company</b>			<b>1,112.6</b>

#### Shares owned via subsidiaries

	Proportion of capital	Number of shares
Archi Form Nemi GmbH	100.0%	
Backer Elektro CZ a.s.	100.0%	
Backer Facsa S.L.	100.0%	34,502
Backer Fer s.r.l.	100.0%	
Backer OBR Sp. z.o.o.	100.0%	10,000
Calesco Foil Inc	100.0%	100
Calesco Utveckling AB	100.0%	1,000
Danothem Electric A/S	100.0%	1,000
DZD Slovensko Spol s.r.o.	100.0%	
Eltop Praha s.r.o.	100.0%	
Høiax AS	100.0%	1,000
Kiloval Oy	100.0%	33
KVM-Conheat A/S	100.0%	600
Lodur A/S	100.0%	500,000
Lodur Amager A/S	100.0%	1,000,000
Lodur City Vest A/S	100.0%	1,000,000
Lodur Fields A/S	100.0%	1,000,000
Lodur Kolding A/S	100.0%	1,000,000
METRO THERM AB	100.0%	1,000
METRO THERM AB, Oy	100.0%	15
Meyer Vastus AB, Oy	100.0%	20
Naturenergi IWABO AB	100.0%	1,000
NIBE-BIAWAR Sp. z.o.o.	100.0%	83,962
NIBE Energietechnik B.V.	100.0%	180
NIBE Energy Systems Ltd	100.0%	100
NIBE Foyers France S.A.S.	100.0%	370
NIBE Systemtechnik GmbH	100.0%	
Norells Automotive Inc	100.0%	100
Norells France SA	99.8%	12,405
Norells Sweden AB	100.0%	3,250
Norske Backer AS	100.0%	12,000
Northstar Poland Sp. z.o.o.	100.0%	3,134
Sheathed Heating Elements Ltd	100.0%	68,000
Shel Holding Ltd	100.0%	50,000
Shel NIBE Manufacturing Co Ltd	100.0%	1,000
Sinus-Jevi Electric Heating B.V.	100.0%	180
Varde Ovne A/S	100.0%	801
World Trading ApS	100.0%	125,000

**Note 21 (cont'd)**

## Details of subsidiaries

	Corporate ID number	Registered office
Archi Form Nemi GmbH	HRB 1490	Elmshorn, Germany
Backer BHV AB	556053-0569	Hässleholm, Sweden
Backer Elektro CZ a.s.	60469617	Hlinsko, Czech Rep.
Backer Facsa S.L.	B-62.928.361	Aiguafreda, Spain
Backer FER s.r.l.	REA: 173478 (Ferrara)	Sant'Agostino, Italy
Backer OBR Sp. z.o.o.	008358936	Pyrzyce, Poland
Bröderna Håkansson Värme AB	556108-0259	Höör, Sweden
Calesco Foil AB	556000-5034	Hallstahammar, Sweden
Calesco Foil Inc	20-0507801	Chicago, USA
Calesco Utveckling AB	556662-3525	Hallstahammar, Sweden
Danotherm Electric A/S	10 12 60 61	Rødovre, Denmark
DZD Slovensko Spol s.r.o.	36372056	Vrútky, Slovakia
DZD Strojirna s.r.o.	45148465	Benátky nad Jizerou, Czech Rep.
Eltop Praha s.r.o.	44795751	Miretice, Czech Rep.
Focus Värme AB	556316-1412	Partille, Sweden
Handöl-Form AB	556194-1393	Markaryd, Sweden
Højax AS	936 030 327	Fredrikstad, Norge
Jevi A/S	12 85 42 77	Vejle, Denmark
Kaukora Oy	0138194-1	Raisio, Finland
Kiloval Oy	0754792-2	Lovisa, Finland
KVM-Conheat A/S	14 46 85 87	Vissenbjerg, Denmark
Lodur A/S	29 39 99 64	Gram, Denmark
Lodur Amager A/S	29 68 64 67	Gram, Denmark
Lodur City Vest A/S	29 68 67 34	Gram, Denmark
Lodur Fields A/S	28 66 39 27	Gram, Denmark
Lodur Kolding A/S	29 68 67 42	Gram, Denmark
Loval Oy	0640930-9	Lovisa, Finland
METRO THERM AB	556554-1603	Kalmar, Sweden
METRO THERM AB, Oy	09314276	Espoo, Finland
METRO THERM A/S	20 56 71 12	Helsingør, Denmark
Meyer Vastus AB, Oy	02152198	Monninkylä, Finland
Naturenergi IWABO AB	556663-0355	Bollnäs, Sweden
NIBE AB	556056-4485	Markaryd, Sweden
NIBE-BIAWAR Sp. z.o.o.	050042407	Białystok, Poland
NIBE Energietechnik B.V.	20111793	Willemstad, Netherlands
NIBE Energy Systems Ltd	5764 775	Sheffield, UK
NIBE Foyers France S.A.S.	491 434 965	Lyon, France
NIBE Systemtechnik GmbH	HRB 5879	Celle, Germany
Nielsen A/S, Svend A.	42 16 59 13	Graested, Denmark
Nordpeis AS	957 329 330	Lierskogen, Norway
Norells Automotive Inc	36-4044600	Chicago, USA
Norells France SA	91379344781	Dieuze, France
Norells Sweden AB	556184-3581	Västerås, Sweden
Norske Backer AS	919 799 064	Kongsvinger, Norway
Northstar Poland Sp. z.o.o.	570844191	Trzcianka, Poland
Sheathed Heating Elements Ltd	766 637	London, UK
Shel Holding Ltd	1 309 597	London, UK
Shel NIBE Manufacturing Co Ltd	866 531	Hong Kong, China
Sinus-Jevi Electric Heating B.V.	37106129	Medemblik, Netherlands
Turun Lämpötekniikka AB, Oy	0623723-6	Turku, Finland
Vabro Holding ApS	21 08 92 30	Gram, Denmark
Varde Ovne A/S	21 55 49 79	Gram, Denmark
World Trading ApS	27 71 98 05	Svendborg, Denmark

**Note 22 Shares in associated companies**

## Shares in associated companies held by the Group/parent company

Name	Corporate ID number	Registered office	Number of shares
Linmet Glas-Keramik GmbH	HRB42968	Berlin, Germany	-
Calere Energisystem AB	556488-6967	Sollefteå, Sweden	20
Naturwärme GmbH	DE 218460267	Mühlau, Germany	7,500

(in millions of SEK)	Share of equity	Carrying value	Group share of profit after tax 2006	Group share of equity 2006
Linmet Glas-Keramik GmbH	33.3%	0.0	0.0	0.0
Calere Energisystem AB	20.0%	0.0	0.0	0.0
Naturwärme GmbH	30.0%	0.1	0.1	0.1
<b>Total</b>		<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

**Note 23 Current investments**

(in millions of SEK)	Acquisition value	Market value	Carrying value
Listed securities	4.8	4.8	4.8

**Note 24 Share capital**

	Quotient value (SEK)	Number of A shares	Number of B shares	Total shares
At year-end	0.625	13,160,256	80,759,744	93,920,000

The dividend for 2006 proposed but not yet resolved of SEK 1.15 per share, corresponds to a total payout of SEK 108.0 million.

Each class "A" share entitles the holder to ten votes at the Annual General Meeting. Each class "B" share entitles the holder to one vote. All shares give the same right to dividends.

At the end of 2006 there were no convertible bonds or options that can dilute the share capital.

**Note 25 Provisions for post-employment benefits**

(in millions of SEK)	Group	
	2006	2005
FPG/PRI-pensios	23.9	22.4
Other pensions	4.8	4.9
<b>Amount at year-end</b>	<b>28.7</b>	<b>27.3</b>

**Note 25 cont'd****ITP occupational pension plan secured via Alecta**

The commitments for retirement pensions and family pensions for white-collar staff in Sweden are secured through an insurance policy with Alecta. In accordance with a statement from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, URA 42, this is a defined-benefit plan which covers a number of employers. For the 2006 financial year the company has not had access to the kind of information that would enable it to recognise this plan in the accounts as a defined-benefit plan. The ITP occupational pension plan secured through an insurance policy with Alecta is, therefore, recognised as a defined-contribution plan. The contributions for the year for pension insurance policies taken out with Alecta amounted to SEK 10.0 million (2005: SEK 8.6 million). Alecta's surplus can be distributed to the policy holders and/or the insured. At the 2006 year-end Alecta's surplus in the form of the collective funding ratio was 143% (2005: 128%). The collective funding ratio consists of the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's actuarial commitments, which is not in conformity with IAS 19.

**Defined-benefit pensions**

The Group has defined-benefit pensions for Swedish companies for which the calculations and payments are handled through PRI Pensionstjänst AB. Consequently, no assets under management are held for the purpose of securing retirement benefits. As far as other countries are concerned, Norway has defined-benefit pensions which are calculated and paid by the employer.

**Defined-contribution plans**

These plans primarily cover retirement pensions, disability pensions and family pensions. The premiums are paid continuously throughout the year by each Group company to a separate legal entity, such as an insurance company. The size of the premium is based on salary. The pension costs for the period are included in the income statement.

**Commitments in respect of employee benefits, defined-benefit plans**

(in millions of SEK)	Group	
	2006	2005
Pension commitments in unfunded plans, present value	35.7	34.3
Unrealised actuarial gains (+), losses (-), pension commitments	- 7.0	- 7.0
Provision for pensions, unfunded plans	28.7	27.3
<b>Net liability according to balance sheet</b>	<b>28.7</b>	<b>27.3</b>

**Total pension costs**

(in millions of SEK)	Group	
	2006	2005
Pensions earned during the period	0.9	0.4
Interest on the commitment	1.4	1.3
Actuarial gains/losses during the period	0.2	0.0
Retirement pensions	-	0.0
<b>Pension costs, defined-benefit plans</b>	<b>2.5</b>	<b>1.7</b>
Pension costs, defined-contribution plans	56.3	53.6
<b>Total pension costs</b>	<b>58.8</b>	<b>55.3</b>

**Note 25 cont'd**

Reconciliation of pension provisions (in millions of SEK)	Group	
	2006	2005
Pension liabilities, balance brought forward	27.3	26.4
Pension costs	2.5	2.0
Benefits paid	- 1.1	- 1.1
Reversals in provisions	0.0	0.0
<b>According to balance sheet</b>	<b>28.7</b>	<b>27.3</b>

Pension payments during 2007 are expected to total SEK 1.2 million.

**Actuarial assumptions**

(%)	Group	
	2006	2005
Discount rate on 1 January	4.50%	5.00%
Discount rate on 31 December	4.50%	4.50%
Expected salary increases	3.00%	3.00%
Expected inflation	2.00%	2.00%

**Parent company**

The parent company's reported pension liabilities amount to SEK 0.2 million (2005: SEK 0.1 million). They have been calculated in accordance with the provisions of the Swedish act on the safeguarding of pensions benefits (Tryggandelagen) and not in accordance with IAS 19.

**Note 26 Other provisions**

Group (in millions of SEK)	Guarantee	Restructuring	Other	Total
	risk reserve	reserve		
Amount at start of year	47.8	60.6	7.9	116.3
Provisions during the year	33.4	-	3.5	36.9
Amount utilised during year	- 30.1	- 32.1	- 1.9	- 64.1
Reversals in provisions	- 1.3	-	-	- 1.3
Translation differences	- 1.0	- 0.9	0.3	- 1.6
<b>Amount at year-end</b>	<b>48.8</b>	<b>27.6</b>	<b>9.8</b>	<b>86.2</b>

Guarantees are normally provided for 1 or 2 years. The guarantee risk reserve is calculated on the basis of the cost history of these commitments.

In August 2005 the board resolved to set aside SEK 70.0 million for a restructuring reserve for the NIBE Element business area. These funds were earmarked for use over a period of 18-24 months to implement a restructuring programme that, in the main, consists of transferring production from Western Europe to Eastern Europe and China. On completion of the plan these measures were expected to have a positive effect of approx. SEK 40 million p.a. Roughly halfway through the period it is possible to confirm that the project is proceeding according to plan, which means that some 120 of a total of 200 full-time jobs have been transferred.



### Note 27 Non-current liabilities

The following list shows non-current liabilities that fall due for payment more than five years after the accounting year-end.

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Liabilities to credit institutions	440.9	306.2	265.4	175.3
Liabilities to Group companies	–	–	–	28.5
Other liabilities	6.2	5.9	–	–
<b>Amount at year-end</b>	<b>447.1</b>	<b>312.1</b>	<b>265.4</b>	<b>203.8</b>

### Note 28 Bank overdraft facilities

The sum of bank overdraft facilities granted in the Group as a whole amounted to SEK 923.0 million. During the year these have increased by SEK 249.3 million from the 2005 total of SEK 673.7 million. There is an agreement for long-term refinancing.

### Note 29 Accrued expenses and deferred income

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Accrued salaries	115.6	100.9	1.5	1.4
Accrued social security contrib's.	52.7	49.3	1.7	1.2
Other items	117.0	104.5	1.4	1.2
<b>Amount at year-end</b>	<b>285.3</b>	<b>254.7</b>	<b>4.6</b>	<b>3.8</b>

### Note 30 Pledged assets

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Floating charges	177.3	182.9	–	–
Real estate mortgages	302.7	324.9	–	–
Equipment, fixtures etc. with retention of title	–	2.4	–	–
Receivables	21.6	12.7	–	–
Shares in subsidiaries <sup>1)</sup>	1,214.4	1,030.1	335.0	335.0
<b>Total pledged assets</b>	<b>1,716.0</b>	<b>1,553.0</b>	<b>335.0</b>	<b>335.0</b>

<sup>1)</sup> Liabilities for which shares have been pledged as collateral 860.9 131.2 848.2 116.0

### Note 31 Contingent liabilities

(in millions of SEK)	Group		Parent company	
	2006	2005	2006	2005
Retirement benefit obligations which have not been entered under liabilities or provisions	0.6	0.6	–	–
Contingent liabilities on behalf of other Group companies	–	–	208.5	260.2
Other contingent liabilities	8.8	3.3	–	–
<b>Total contingent liabilities</b>	<b>9.4</b>	<b>3.9</b>	<b>208.5</b>	<b>260.2</b>

### Note 32 Acquisitions of companies

In March 2006, NIBE acquired the Danish wood-stove manufacturer, Varde Ovne, with annual sales of SEK 95 million and a pre-tax profit of around SEK 6 million.

In April 2006, Naturenergi Iwabo AB was acquired. This company's principal operation is pellet burners, and the company has annual sales of around SEK 43 million and a pre-tax profit of around SEK 3 million.

In April 2006, an agreement in principle was signed on acquiring the district heating and water-heater company, DMS Wasser-Wärmetechnik GmbH in Germany, with sales of around SEK 120 million.

After due diligence, negotiations were held with the sellers on a reduction in the purchase price or, alternatively, the revocation of the acquisition agreement. To date, the negotiations have not resulted in an agreement, and the matter will be settled by arbitration. Consequently, this operation has not been consolidated into the NIBE Group for 2006.

In September 2006, the Czech company, DZ Drazice strojírna s.r.o. was acquired. The company is the market leader in electric water heaters in the Czech Republic and had annual sales of SEK 200 million with a pre-tax profit of SEK 20 million.

In November 2006, the operations of the British tubular element manufacturer, Heatrod Elements, were acquired. Annual sales amount to around SEK 54 million.

## NOTES

### Note 32 cont'd

The purchase prices are made up as follows:

Initial purchase price	289.7
Additional purchase price	19.1
Direct acquisition costs	8.8
<b>Total purchase price</b>	<b>317.6</b>
Fair value of net assets acquired	121.2
Goodwill	196.4
<b>Purchase price</b>	<b>317.6</b>
Cash and cash equivalents in acquired companies	- 27.8
<b>Effect on the Group's cash and cash equivalents</b>	<b>289.8</b>

Goodwill is attributable to the profitability of the operations acquired as well as to the synergy effects, particularly in material supply and distribution, that are anticipated within the Group.

The purchase prices are made up as follows:

(in millions of SEK)	Fair value	Carrying amounts acquired
Other intangible assets	21.7	2.4
Tangible assets	38.9	38.9
Financial assets	1.9	1.9
Current receivables	45.0	45.0
Inventories	53.1	53.4
Cash and bank balances	27.8	27.8
Provisions	- 6.9	- 0.9
Liabilities	- 60.3	- 60.2
<b>Assets acquired</b>	<b>121.2</b>	<b>108.3</b>

The Board of Directors and Managing Director herewith provide their firm assurance that this Annual Report is, to the best of their knowledge, presented in accordance with generally accepted accounting practice for stock market companies in Sweden. The information provided accords with the factual circumstances and nothing of significance that could affect the picture of the company as presented in the Annual Report has been excluded.

This assurance, provided in accordance with section 3.6.2 of the Swedish Code of Corporate Governance, does not imply that the Board of Directors or the managing director of the company accept any responsibility other than that placed upon them by the Swedish Annual Accounts Act (2005:551).

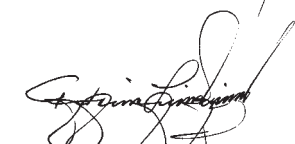
Markaryd, Sweden – 26 March 2007

  
Arvid Gierow  
Chairman of the Board

  
Georg Brunslam

  
Hans Linnarson

  
Bill Tunbrant

  
Gerléic Lindquist  
MD and Chief Executive Officer

The balance sheets and income statements will be presented for approval at the Annual General Meeting on 15 May 2007.

To the Annual General Meeting of NIBE Industrier AB (publ)  
Corporate Identity Number 556374-8309

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director/CEO of NIBE Industrier AB (publ) for the financial year 2006. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 38–64. The board of directors and the managing director/CEO are responsible for these accounts and the administration of the company as well as for the application of the Swedish Annual Accounts Act when preparing the annual accounts and the application of international financing reporting standards (IFRS) as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director/CEO and significant estimates made by the board of directors and the managing director/CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our

opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director/CEO. We also examined whether any board member or the managing director/CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financing reporting standards (IFRS) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director/CEO be discharged from liability for the financial year.

Markaryd, Sweden – 26 March 2007  
SET Revisionsbyrå AB



Willard Möller  
Authorised Public Accountant



Willard Möller, Senior Auditor

For further information about auditing,  
please refer to:  
page 56 Note 5 Payments to the auditors  
page 67 Corporate governance report



*The NIBE Industrier Board (left to right): Arvid Gierow, Hans Linnarson, Georg Brunstam, Gerteric Lindquist and Bill Tunbrant.*

NIBE Industrier AB's corporate governance is carried on through the annual general meeting, the Board of Directors and the Managing Director and CEO in accordance with the Swedish Companies Act, the company's Articles of Association, the listing agreement with the Stockholm Stock Exchange and the Swedish Code of Corporate Governance.

The parent company, NIBE Industrier AB, has its head office in Markaryd, Sweden, and has been listed on the Stockholm OMX Stock Exchange's Mid Cap list since 1997.

The Swedish Association of Exchange Listed Companies and the Stockholm Stock Exchange have agreed to incorporate the

Swedish Code of Corporate Governance into the Stockholm Stock Exchange's rules with effect from 1 July 2005. NIBE Industrier is covered by this decision and applies the Swedish Code of Corporate Governance.

The company's auditors have not reviewed this Corporate Governance Report.

### Annual general meeting

The annual general meeting is NIBE's highest decision-making body. The annual general meeting elects the company's Board of Directors and auditors, adopts the accounts, decides on dividends and other appropriations of profits/losses and discharges the Board of Directors and the managing director and CEO from liability.

At the most recent annual general meeting, held on 11 May 2006 in Markaryd, around 224 shareholders took part. Those present represented 49% of the number of shares and 70% of the total number of votes in the company. The annual general meeting was attended by the entire board, the managing director/CEO and the company's auditors.

### Board procedures

NIBE Industrier's Board of Directors consists of five members, elected by the annual general meeting. The members of the board are presented on page 72. Directors are elected annually at the general meeting to serve for the period until the next annual general meeting. The Chairman of the Board is appointed by the Board of Directors. Members of staff in the company participate in board meetings as required to submit reports or provide expert knowledge in individual matters.

The work of the board is governed by formal rules of procedures adopted annually to regulate the division of work, the decision-making process within the company, authority to sign for the company, meetings of the board and the duties of the Chairman of the Board.

The Board of Directors supervises the work of the managing director/CEO and is responsible for ensuring that the organisation, management and administrative guidelines for the company's funds are suitable for the purpose. The board is also responsible for developing and following up the company's strategies through plans and objectives, decisions on acquisitions, major investments, appointments to managerial positions and the continuous supervision of operations during the year. The board also sets the budget and is responsible for the annual accounts.

The Chairman of the Board leads the work of the board and ensures that it is carried out in accordance with the Companies Act and other relevant legislation. The Chairman monitors operations in consultation with the managing director/CEO, and is responsible for ensuring that other members of the board receive the necessary information to enable them to hold discussions and make the best possible decisions. The Chairman is also responsible for evaluating the work of the board.

### The work of the Board of Directors

During 2006 the Board of Directors held 14 meetings, seven of which were telephone conferences. All meetings were minuted.

Attendance at board meetings was high: all members of the board attended all meetings.

The agenda of the board includes a number of fixed points which are considered at every board meeting:

- **Situation report.** Report of significant events affecting operations which have not been listed in the written situation report that has been circulated.
- **Financial report.** Review of the financial information circulated.
- **Investments.** Decisions regarding investments exceeding SEK 3.0 million, based on the data circulated.
- **Acquisitions.** Report on ongoing discussions and decisions concerning the acquisition of companies, as and when appropriate.
- **Press releases.** Where appropriate, a review of proposals for external reports to be published as a result of the meeting.

Every ordinary board meeting has a principal topic which dominates the discussions during the meeting:

- **Accounts.** The meeting in February considers the annual accounts of the preceding year. The company's auditors present their comments to the entire board on this occasion.
- **Inaugural meeting.** Following the annual general meeting, the Board of Directors holds its inaugural meeting, at which the board discusses the rules of procedure and determines who has authority to sign for the company.
- **Strategy:** In September, the board holds strategic discussions over two working days.
- **Audit review.** In November, the company's auditor gives his view on the interim figures for the period January to September.
- **Budget.** At the end of the year, the board decides the Group's budget for the coming year.

In addition, the Board of Directors receives a written report every month on the company's results and position. The managing director/CEO is also in continual contact with the Chairman of the Board.

The work of the Board of Directors is evaluated once a year.

### External Auditors

NIBE's auditors are elected at the annual general meeting to serve for a period of four years. The current period began in 2004 and ends with the annual general meeting in 2008.

SET Revisionsbyrå AB, with Willard Möller as the senior auditor, was re-elected for a period of four years at the annual general meeting in 2004. Willard Möller has been the company's senior auditor since 2000.

The senior auditor has continual access to the approved minutes of company board meetings and the monthly reports which the board receives.

The company's senior auditor reports his observations from the audit and his assessment of the company's internal controls to the board as a whole.

Over and above normal auditing duties, SET Revisionsbyrå assists in particular with due diligence reviews in conjunction with corporate acquisitions and with accounting consultations. Information on the remuneration of auditors is given in Note 5.

### Group management

The CEO, who is also appointed by the Board of Directors as managing director of the parent company, exercises day-to-day control of the Group, and the three business area managers report to him.

The CEO leads operations in accordance with the instructions adopted by the board in respect of the division of work between the board and the managing director/CEO. The work of the managing director/CEO and the corporate management is evaluated annually.

Financing, currency management, corporate acquisitions, new businesses, financial control, financial information, human resources policy and other overall policy matters are co-ordinated at Group level.

### Governance of business areas

NIBE Industrier consists of three business areas. Each business area has its own operational management with profit responsibility. Each business area has a Business Area Board chaired by the Group's CEO. The boards also include external members with experience within the respective areas. Each Business Area Board, in addition to responsibility for day-to-day operations, is also responsible to the NIBE Industrier Board of Directors for the strategic development of its respective business area. Each Business Area Board holds one meeting per quarter.

### Internal controls

Internal controls were an important component of corporate governance even before the new code was introduced. The Board of Directors' responsibility for internal controls is set out in the Companies Act and in internal controls in respect of financial reporting covered by the board's reporting instructions.

NIBE is characterised by simplicity in its legal and operational structure, transparency in its organisation, clear divisions of responsibility and an efficient management and control system.

Over and above the external laws and regulations with which NIBE complies, there are, in respect of financial reporting, internal instructions and policies set out in the Group's Finance Handbook, which are applied by all companies in the Group, along with systems aimed at providing effective internal controls in financial reporting.

Consolidated financial reports are drawn up quarterly for the Group and its business areas, containing comprehensive analysis and comments. Results are also monitored on a monthly basis.

There are finance departments and controllers with responsibility for accounting, reporting and the analysis of financial trends at Group level, business area level and at major unit level.

In addition to the statutory audits of the annual report and statutory audits of the parent company and all subsidiaries, the auditors carry out an annual review of how the company is organised, existing routines and their compliance with the instructions issued, in accordance with a template drawn up by the corporate management and approved by the Board of Directors.

It is considered that this review increases insight and awareness, provides clear instructions and proposes a clear organisation in respect of internal controls.

The internal control report is not reviewed by the company's auditors.

### Decision-making process

The NIBE Industrier Board deals with all matters of significance. Issues such as the composition of the board and directors' fees are dealt with once a year prior to the AGM when the Chairman of the Board contacts major shareholders personally.

The company's auditor makes his report to the board as a whole.

Remuneration to the managing director is a matter determined by the Chairman of the

Board. Remuneration to other senior executives is determined by the managing director in consultation with the Chairman. These decisions are reported to the board.

The company does not have a Nomination Committee, a Remuneration Committee or an Audit Committee. The reason that NIBE does not comply with the Swedish Code of Corporate Governance in respect of nominations is the clear ownership structure with two principal shareholder constellations which together own 75% of the company's votes, and which also enjoy good relations with each other. The Board of Directors is not too large to carry out the audit and remuneration tasks in a manner consistent with the Swedish Code of Corporate Governance.

### Remuneration

The annual general meeting for 2006 resolved that the fees to the Board of Directors and the fees to the auditors should be paid in accordance with approved accounts. At the same time, the policies for the remuneration of the managing director/CEO and other key management personnel were set out.

The fees for the Board of Directors for 2006 amounted to SEK 650,000 in accordance with the resolution of the shareholders' meeting. Of this amount, the Chairman of the Board received SEK 260,000 in accordance with a resolution of the board. Fees are not payable to those members of the Board of Directors who are employed in the Group.

During 2006, salary and other remuneration paid to the managing director/CEO amounted to SEK 2,209,000. A free car is also provided. Salaries paid to other senior management executives amounted to SEK 6,619,000. These senior executives also enjoy free use of a company car.

### Severance pay

No severance pay or other benefits apply to the Chairman of the Board or to the directors, apart from the managing director/CEO. The period of notice for the managing director/CEO is six months in the event of the company giving notice. In addition to salary during the period of notice, the managing director/CEO is entitled to severance pay equal to 12 months' salary. Other senior executives are entitled to receive their salaries during a period of notice which varies between 6 and 12 months.

### Pensions

The Chairman of the Board and the directors receive no retirement benefits in respect of their work on the board. Retirement age for the managing director/CEO and other senior executives is 65. The managing director/CEO has an individual pension insurance arrangement equivalent to ITP (supplementary pensions for salaried employees). For 2006, the premium corresponded to 19% of salary up to 30 so called "basic amounts" (a statistical amount used in Sweden for calculating benefits, etc.). For salary in excess of this, a premium payment of 12% is made. This will provide a pension equivalent to the 20–30 basic amount range of the ITP plan, i.e. 32.5% of salary. For other senior executives in the Group, the ITP plan applies for that portion of salary up to 30 basic amounts. For that portion of salary in excess of this, fixed pension benefits are payable, equivalent to the ITP plan's level of 20–30 basic amounts. However, this does not apply to one business area manager, who, in his capacity as managing director, has an individual pension arrangement with premiums that correspond to the ITP plan.

### Incentive scheme

An incentive scheme applies to certain key members of staff, under which they are paid a variable bonus (equivalent to a maximum of three months' salary) if set targets are met. This programme does not extend to the managing director/CEO.

### Communication with the stock market

The ambition is to maintain a high standard of financial information issued by the Group. Such information must be accurate and transparent in order to create long-term confidence in the company.

Earnings and a summary of the Group's financial position are presented quarterly and, like the Annual Report, are issued to all shareholders in written form. All takeovers are announced via press releases. Full financial information relating to NIBE Industrier is available via our website [www.nibe.se](http://www.nibe.se). Press releases and reports are posted there at the same time as they are made public.

During the course of the year there have been a number of meetings with financial analysts, the media and Aktiespararna (the National Swedish Shareholders' Association).

NIBE's compliance with the Swedish Code of Corporate Governance is detailed on the following pages.

## Swedish Code of Corporate Governance

	Summary of points in the code	Compliance	Explanation/ Comments	
<b>1. Shareholders' meeting</b>				
<b>1.1 Notice of meeting</b>				
1.1.1	Date of meeting	At latest in connection with third quarterly report.	Yes	
1.1.2	Matters for the meeting	Information on the website in good time before the meeting, relating to how to raise an issue for discussion.	Yes	
1.1.3	Different methods of notification	By e-mail or via the company's website.	Yes	E-mail, fax, telephone, letter, but not via the website.
<b>1.2 Distance participation</b>				
1.2.1	Participate or follow the meeting at a distance	Distance participation warranted by ownership structure and financially feasible.	Yes	
<b>1.3 Attendance by Board of Directors, management and auditors</b>				
1.3.1	Attendance by the Board of Directors, management and auditors	If possible, the board, management and at least one auditor shall attend.	Yes	
1.3.2	Report of committees' proposals	The Chairman of the committee or another member shall attend and describe and give cause for the proposals.	No	No committees.
<b>1.4 Conducting the Shareholders' Meeting</b>				
1.4.1	Proposal for Chairman of the meeting	The proposal is to be presented in the notification of the meeting and at the meeting by the Nomination Committee	Yes	There is no Nomination Committee, see 2.1.1
1.4.2	Verifiers of minutes	Appoint shareholders or representatives of shareholders who are neither directors nor employees of the company.	Yes	
1.4.3	Language of the meeting	Swedish, with simultaneous translation if warranted.	Yes	
1.4.4	Questions to the meeting	Opportunity for questions and to submit proposals.	Yes	
1.4.5	Minutes	Minutes are to be posted on the company's website, and, if warranted by the ownership structure, translated.	Yes	
<b>2. Appointment of the Board and Auditors</b>				
<b>2.1 Nomination Committee</b>				
2.1.1	Nomination Committee	To be appointed by the shareholders' meeting or criteria for appointment to be specified.	No	The clear ownership structure makes a Nomination Committee unnecessary.
2.1.2	Composition	At least three members. The majority of the Nomination Committee shall not be members of the board. The Chairman of the Board of Directors is not to chair the Nomination Committee.	No	See above
2.1.3	Announcement of members of the Nomination Committee	Must be announced at least six months before the meeting.	No	See above
<b>2.2 Appointment of Board of Directors</b>				
2.2.1	Chairman and members	The Nomination Committee submits proposals for the Chairman and members, as well as for fees.	No	The requirement profiles of new directors are produced by the board and presented to the principal shareholders. After approval, head-hunters are appointed for recruitment.
2.2.2	Requirement profile	The Nomination Committee assesses the Board on the basis of future direction, draws up requirement profiles for new members and seeks candidates for board appointments.	Partial	
2.2.3	Presentation	Detailed presentation in the notification of the meeting and on the website. A report on how the Nomination Committee has conducted its work is to be posted on the company website.	Partial	New board members are presented in the notice of the meeting. Other members are presented in the annual report and on the website. There is no Nomination Committee. See above.
2.2.4	Reasons	At the general meeting the Nomination Committee is to present and give reasons for its recommendations and submit a report on how it has conducted its work.	Partial	The Chairman, since there is no Nomination Committee.
2.2.5	Attendance	Persons recommended for election to the board are to be present at the meeting.	Yes	
2.2.6	Fees	The shareholders' meeting is to decide on the allocation of fees to the Chairman and other members of the board and remuneration for committee work.	–	This rule in the code has been replaced by the provisions of the Swedish Companies Act.
2.2.7	Incentive schemes	Directors are not to participate in share or share-price incentive schemes aimed at company management.	Yes	

## Summary of points in the code

## Compliance Explanation/ Comments

**2.3 Appointment of Auditors**

2.3.1 Recommendations for auditors	The Nomination Committee or a specially appointed committee for nominating the company's auditors is to make recommendations.		Auditors are elected for the period 2004–2008
2.3.2 Selection and fees	The Nomination Committee makes recommendations on the selection of auditors as well as on audit fees. These are to be included in the notice of the shareholders' meeting and posted on the company website.		
2.3.3 Information on the auditors	Details of the competence, independence and scope of services offered by the auditors, as well as a report on how the Nomination Committee has conducted its work are to be posted on the company's website.		
2.3.4 Motivation	A presentation of reasons, as well as a report on how the Nomination Committee has conducted its work are to be submitted to the shareholders' meeting.		
2.3.5 Attendance	The proposed auditors are to be present at the meeting.		

**3. Board of Directors****3.1 Tasks**

3.1.1 Particular attention	The board is to pay particular attention to the company's overall goals, strategies, appointment/dismissal of the managing director, follow-up, control of financial position, and ensure that external communication is open, objective and appropriate.	Yes
3.1.2 Evaluation	Annual evaluation of the work of the board.	Yes

**3.2 Size and composition**

3.2.1 Composition	Composition appropriate for the purpose.	Yes
3.2.2 Size	Size appropriate for the purpose; no deputies to the directors chosen by the shareholders' meeting.	Yes
3.2.3 No more than one person from senior management on the board	Only one person from senior management on the board.	Yes
3.2.4 Independence	The majority of the directors elected by the shareholders' meeting are to be independent of the company.	Yes
3.2.5 At least two members independent of the company's major shareholders		Yes
3.2.6 Mandate period	To be appointed for one year at a time.	Yes

**3.3 Directors**

3.3.1 Other duties	Not to have too many duties.	Yes
3.3.2 Independent judgment	Form an independent judgment on matters.	Yes
3.3.3 Familiarity	Obligated to acquire familiarity with the company's operations.	Yes
3.3.4 Introductory training	Training of new directors to be carried out by the company.	Yes

**3.4 Chairman of the Board**

3.4.1 Elected at the shareholders' meeting	The Chairman of the Board is to be elected at the shareholders' meeting.	Yes
3.4.2 Outgoing MD	If the outgoing managing director is to be elected as Chairman of the Board, special cause must be given.	Yes
3.4.3 Division of work	Clear division of work between the Chairman and the managing director.	Yes
3.4.4 Effective board work	Lead the board's work through planning, controlling and evaluating etc.	Yes

**3.5 Board procedures**

3.5.1 Instructions	Formal work plan, instruction to the managing director and reporting.	Yes	
3.5.2 Committees	Committees may be established. The board's formal work plan is to specify the duties and decision-making powers that the board has delegated to the committees, and indicate how the committees are to report to the board.	No	No committees have been established.
3.5.3 Evaluation of the MD	At least once a year.	Yes	
3.5.4 Agenda	No important decisions are to be taken unless the matter has been placed on the agenda.	Yes	
3.5.5 Secretary	Not to be a member of the board.	Yes	
3.5.6 Minutes	Clear minutes to be sent to directors as soon as possible.	Yes	



Summary of points in the code	Compliance	Explanation/ Comments
<b>3.6 Financial reporting</b>		
3.6.1 Reports	Yes	
3.6.2 Certification	Yes	
3.6.3 Review	Yes	
<b>3.7 Internal control</b>		
3.7.1 Internal control	Yes	
3.7.2 Report	Yes	Not reviewed by the auditors
3.7.3 Internal auditing	Yes	
<b>3.8 Accounting and Auditing Issues</b>		
3.8.1 Quality of reports	Yes	
3.8.2 Audit Committee	Yes	The auditors report to the entire board. The entire board constitutes the Audit Committee.
3.8.3 Work of the Audit Committee	Partial	The work is performed by the Board of Directors.
3.8.4 Meetings with Auditors	Yes	
<b>4. Company management</b>		
<b>4.1 The Managing Director's duties</b>		
4.1.1 Information	Yes	
4.1.2 Professional commitments outside the company	Yes	
<b>4.2 Senior Management Remuneration</b>		
4.2.1 Remuneration Committee	Yes	A Remuneration Committee is to be established. The entire board constitutes the Remuneration Committee. The managing director's salary is determined by the entire board and reported to the shareholders' meeting. Remuneration of other senior company executives is determined by the managing director in consultation with the board.
4.2.2 Remuneration policy	–	This rule in the code has been replaced by the provisions of the Swedish Companies Act.
4.2.3 Share-price related remuneration	Yes	
<b>5. Information on corporate governance</b>		
<b>5.1 Corporate Governance Report</b>		
5.1.1 Report attached to annual report	Yes	The Corporate Governance Report is drawn up in accordance with the code, but is not reviewed by the auditors.
5.1.2 Departures from the code	Yes	Reasons for any departures from the code are stated in this report.
5.1.3 Quality of financial reports	Yes	
5.1.4 Other information in the Corporate Governance Report	Yes	This rule in the code has in certain respects been replaced by the provisions of the Swedish Annual Accounts Act.
<b>5.2 Report on internal controls</b>		
5.2.1 Report	Yes	Included this year in the Corporate Governance Report, but not reviewed by the Auditors.
<b>5.3 Information on the company's website</b>		
5.3.1 Website	Yes	

## BOARD OF DIRECTORS



**Arvid Gierow** (born 1943)  
Chairman since 2003 and board member since 1997. Graduate in business administration.  
Chairman of the Board of Marka Pac AB and director of Bong Ljungdahl AB and SHB, Stortorget, Helsingborg.  
Shareholding in NIBE Industrier: 86,400 B shares.  
Independent director.



**Gerteric Lindquist** (born 1951)  
Board member since 1989. Chief Executive Officer. MD of NIBE Industrier AB and NIBE AB. Graduate in engineering and business administration. NIBE employee since 1988.  
Shareholding in NIBE Industrier: 1,504,560 A shares and 3,563,440 B shares.  
In view of his position, his shareholding and the length of time during which he has been a member of the board, Gerteric Lindquist can not be considered an independent director of the company.



**Georg Brunstam** (born 1957)  
Board member since 2003.  
Graduate in engineering.  
Group President and Managing Director of Nolato AB. Director of Nolato AB and DIAB International AB.  
Shareholding in NIBE Industrier: 0.  
Independent director.

**Hans Linnarson** (born 1952)  
Board member since 2006.  
B.Sc. (Electrical Engineering).  
Business Area Manager for Outdoor Products at Husqvarna and member of Husqvarna AB's management group.  
Shareholding in NIBE Industrier: 0.  
Independent director.



**Bill Tunbrant** (born 1950)  
Board member since 1997.  
Graduate in engineering.  
Vice President, Nordic Modular Holding.  
Shareholding in NIBE Industrier: 3,200 B shares.  
Independent director.



## SENIOR EXECUTIVES



**Gerteric Lindquist** (born 1951)  
Please refer to Board profile on left.



**Leif Gustavsson** (born 1945)  
Financial Director, NIBE Industrier AB. Economics graduate.  
NIBE employee since 1966. Board member of Markaryd Sparbank savings bank. Shareholding in NIBE Industrier: 1,504,128 A shares and 3,053,312 B shares.



**Christer Fredriksson** (born 1955)  
Graduate in engineering. Business Area Manager for NIBE Element and MD for Backer BHV AB. NIBE employee since 1992.  
Shareholding in NIBE Industrier: 375,840 A shares and 716,960 B shares.



**Kjell Ekermo** (born 1956)  
Graduate in engineering. Business Area Manager for NIBE Heating. NIBE employee since 1998.  
Shareholding in NIBE Industrier: 107,200 B shares.



**Niklas Gunnarsson** (född 1965)  
Engineer. Business Area Manager for NIBE Stoves. NIBE employee since 1987. Shareholding in NIBE Industrier: 107,200 B shares.

## AUDITOR



**SET Revisionsbyrå AB**  
Senior Auditor  
Willard Möller (born 1943)  
Authorised Public Accountant.

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## Bringing warmth to the world

NIBE Industrier is a European heating technology company whose business operations are organised in three separate business areas: NIBE Element, NIBE Heating and NIBE Stoves.

- Our vision is to create a world-class heating company.
- Our mission is to offer high-quality, innovative heating products. This work builds on the NIBE Group's wide-ranging expertise in the fields of development, manufacturing and marketing.

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