

Corporate governance report



Hans Linnarson
Chairman of the Board

Corporate governance in NIBE Industrier AB (publ) (NIBE) is performed by the Annual General Meeting, the Board of Directors and the Managing Director/CEO in accordance with the Swedish Companies Act (Swedish Code of Statutes 2005:551), the company's Articles of Association, the Swedish Annual Accounts Act (1995:1554), the listing agreement with the Nasdaq Stock Exchange in Stockholm, and good practice on the stock market.

It is good practice for Swedish companies whose shares are traded on regulated markets to comply with the Swedish Code of Corporate Governance (the Code). NIBE complies with the Code, and this corporate governance report has been drawn up in accordance with the Code. The current Code may be accessed on the Swedish Corporate Governance Board's website, www.bolagsstyrring.se. In addition, NIBE also provides information via the company's website in accordance with the Market Abuse Regulation and other requirements.

The corporate governance report is not part of the formal annual report documents. The company's auditors have examined the corporate governance report, and it is their opinion that the corporate governance report has been properly drawn up and that the statutory information in the report is consistent with other parts of the annual report and consolidated financial statements.

Ownership

NIBE has its registered office in Markaryd, Sweden, and has been listed on Nasdaq Stockholm since 1997.

NIBE class B shares have also had a secondary listing on the SIX Swiss Exchange since August 2011. On 31 December 2019, NIBE had 51,722 registered shareholders, excluding previous shareholders in Schulthess Group AG who have become shareholders in NIBE. As the Swiss authorities do not report any details relating to individual shareholders in Switzerland to NIBE, it is not possible to determine the total number of shareholders.

The ten largest shareholders comprise the constellation of 'current and former board members and senior executives' with a total of 21% of the capital and 46% of voting rights, followed by Melker Schörling who holds 11% of the capital and 20% of the voting rights, and eight institutional investors with a total of 26% of capital and 13% of voting rights. Together these ten constellations of investors hold a total of 58% of the capital in the company and 79% of the votes.

Annual General Meeting

The Annual General Meeting (AGM) is NIBE's highest decision-making body. The AGM elects the company's Board of Directors and auditors, adopts the accounts, makes decisions on dividends and other appropriations of profits/losses, and discharges the Board of Directors and the MD/CEO from liability.

The most recent AGM, held on 14 May 2019 in Markaryd, was attended by 546 shareholders. Those present represented 53% of the shares and 77% of the total number of votes in the company. The AGM was attended by the Board of Directors, the MD/CEO and the company's auditors. The minutes of the AGM and the company's articles of association are available on the company's website.

There are no limitations in the articles of association as to the number of votes a shareholder may hold at a general meeting of the company. Nor are there any provisions on the appointment or dismissal of directors of the company, or changes to the company's articles of association.

The 2019 AGM gave the Board of Directors a mandate to issue new class B shares in the company, on one or more occasions and with or without regard for the shareholders' preferential rights, to be

used to finance the acquisition of companies or businesses. This mandate is valid until the 2020 AGM and is restricted to a maximum of 10% of the number of shares issued at the time of the AGM.

Communication with the stock market

The ambition is to maintain a high standard of information issued by the company to the stock market. Such information must be accurate and transparent 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 in printed form to all shareholders who so wish. All information that may have an effect on the company's share price and information on all acquisitions is announced via press releases. All financial information is also available on the website, www.nibe.com. Press releases and reports are posted there at the same time as they are made public.

During the course of the year there were several meetings with Swedish and foreign investors and financial analysts, the media and Aktiespararna, the Swedish Shareholders' Association.

Board procedures

The NIBE Board of Directors consists of six members, elected by the AGM. Directors of the company and the Chairman of the Board are elected annually by the AGM to serve for the period until the next AGM. Company employees participate in board meetings as required to submit reports or to contribute expert knowledge in individual matters.

The Board of Directors in 2019 comprised Hans Linnarson (Chair), Georg Brunstam, Anders Pålsson, Helene Richmond, Jenny Sjö Dahl and Gerteric Lindquist. Under the Code, no more than one director may work on the company's management or the management of a company subsidiary. Gerteric Lindquist is both the Group CEO and a director. On 1 November 2019, Helene Richmond became MD of the subsidiary Enertech AB. This means that, as from 1 November 2019, two directors have been active in Group operations. However, Helene Richmond is leaving the Board at the 2020 Annual General Meeting. In the period from 1 November up to the 2020 Annual General Meeting, Helene Richmond will not have participated in any discussions or decisions relating to Enertech AB.

NIBE's Board of Directors assesses that all directors are independent of the company apart from the MD, Helene Richmond (as from 1 November 2019), who are both employed by the Group, and Georg Brunstam, due to his position in Melker Schörling AB, which is owned by one of the principal shareholders. Please see page 124 for a brief presentation of the directors of the company.

The work of the Board is governed by formal rules of procedure adopted annually to regulate the decision-making processes 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 has not otherwise distributed responsibilities among its members. However, some Board members are more familiar with certain matters than others due to their particular expertise and experience.

The Board of Directors oversees the work of the MD/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 monitoring the company's strategies through plans and objectives, decisions on acquisitions, major investments, appointments to managerial positions and the continual supervision of operations during the year. In addition, the Board sets the budget and is responsible for the annual accounts.

The Chairman leads the work of the Board and ensures that it is carried out in accordance with the Swedish Companies Act and other relevant legislation. The Chairman follows the progress of operations through consultations with the MD, and is responsible for ensuring that other members of the Board receive the information they need to hold discussions of a high quality and make the best possible decisions.

The Board of Directors evaluates its work every year. The evaluation is carried out by means of a survey of the directors. The results of the survey are then presented to the full Board, which uses them to make specific proposals on how its work can be developed, improved and made more efficient, where necessary. The Board survey for 2019 revealed an open, constructive climate with well-functioning control and decision-making processes. The areas covered by the evaluation included the composition, working methods, communication and internal control of the Board, the Board's evaluation of the MD/CEO and other company management, and the need for committees.

Decision-making process

The NIBE 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.

The company does not have a Nomination Committee (Section III, item 2.1, of the Code), a Remuneration Committee (Section III, item 9.1, of the Code) or an Audit Committee (Section III, item 7.2, of the Code). NIBE does not comply with the Code in respect of nominations because of the clear ownership structure with two principal shareholder constellations, which together control 66% of the company's votes, and which also enjoy mutually cordial relations. The Board of Directors is not too large to carry out the audit and remuneration tasks in a manner consistent with the Swedish Companies Act and the Code.

Group management

The CEO, who is also appointed by the Board of Directors as Managing Director of the parent, exercises day-to-day control of the Group, and the three directors of the Group's business areas report to him.

The CEO leads operations in accordance with the instructions adopted by the Board in respect of the division of duties between the

The work of the Board in 2019

The agenda includes several standing items, which are considered at every meeting.

Status report	Report of significant events affecting operations that have not been listed in the written report that has been circulated.
Financial report	Review of the financial information circulated.
Investments	Decisions regarding investments exceeding SEK 10 million, based on the data circulated.
Legal processes	Review of new or ongoing legal processes, where appropriate.
Acquisitions	Report on ongoing discussions and decisions concerning the acquisition of companies, as and when appropriate.
Press releases, etc.	When appropriate, a review of proposals for external reports to be published after the meeting.
Internal control	Report on the internal control work.

Every ordinary board meeting focuses on one principal topic of discussion

February	May	August	November	December
Financial statements The meeting in February considers the financial statements for the preceding year. The company auditor presents his comments to the entire Board of Directors on this occasion.	Inaugural meeting Following the AGM, 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 August, the Board holds strategic discussions over two working days.	Auditor's 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 discusses the Group's budget for the coming year.

Board and the MD/CEO. The work of the MD/CEO and of Group management is evaluated annually.

Financing, currency management, corporate acquisitions, new establishments, financial control, financial information, human resources policy, sustainability and other overall policy matters are coordinated at Group level.

Governance of business areas

NIBE 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.

Each Business Area Board, in addition to responsibility for day-to-day operations, is also responsible to the NIBE Board of Directors for the strategic development of its respective business area. Each Business Area Board meets once per quarter.

Management of the Group's sustainability work

The Group's sustainability workgroup reports to the Sustainability Council which, in addition to the workgroup, consists of the CEO, CFO and business area managers.

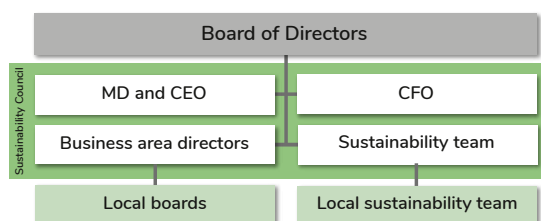
Much of the work is regulated in national legislation, such as environmental laws and labour law, but we are also obliged to comply with regional and international law and voluntary commitments such as the UN Global Compact.

NIBE's Board has the ultimate responsibility for ensuring that risks are managed and that sustainability initiatives comply with the requirements of authorities, shareholders and other stakeholders. The Managing Director reports to the Board. The business area managers are responsible for communicating and implementing their strategic work at the local board level.

The management of each company is responsible for local operational sustainability work and for compliance with Group guidelines. These managers report to the business area managers in each area.

The sustainability workgroup regularly visits companies in the Group to monitor compliance with common policies and guidelines. The workgroup also works strategically and reports on sustainability issues to the Boards at Group and business area level.

Any need for improvement or nonconformities are documented and reported to the individual company, business area managers and Group management. Each business area manager is responsible for ensuring that measures proposed are taken.



Code of conduct

NIBE has a code of conduct that reflects the NIBE culture and the ten principles of the UN Global Compact.

The Code of Conduct is reflected in NIBE's documents on business principles, values and working methods and the content of these is based on a long tradition of honest and sincere business practices. The information can be found on page 25.

All companies receive the printed version in the local language. When a new company joins the Group, its management is obliged to communicate and implement the Code of Conduct in the organisation.

The Code of Conduct is available to external parties and stakeholders on NIBE's website at nibe.com.

All businesses comply with national legislation regarding financial, environmental and labour legislation, and are also obliged to comply with regional and international law and voluntary commitments such as the UN Global Compact. Management is responsible for seeking advice on ethical and legal behaviour according to established escalation procedures when their knowledge or mandate is insufficient.

NIBE has a whistleblower function through which all Group employees can confidentially report suspicions of serious deviations from NIBE's values, business principles and applicable legislation without risking retaliation. To ensure the anonymity of the whistleblower and the proper, secure handling of submissions, whistleblower cases go directly to an external recipient who also leads the investigation of the case.

Diversity policy

NIBE has adopted a diversity policy for the Board.

NIBE's Board of Directors must have overall expertise and experience that is appropriate to its work and the business that is conducted, as well as to be able to identify and analyse opportunities for and risks to the Group. When new directors are nominated and elected, it is necessary to consider each director's suitability to obtain a Board of Directors with the overall expertise required for appropriate governance of the Group. The composition of the Board of Directors must be characterised by versatility and breadth in terms of the expertise, experience, gender, age, education and professional background of the directors elected. The objective of the policy is to achieve an appropriate composition of the Board as regards the company's operations and relationships in general. In 2019, the composition of the Board was evaluated within the framework of the Board's own annual evaluation (presented above under 'Board procedures').

Remuneration, 2019

The 2019 AGM 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, policies for the remuneration of the MD/CEO and other senior executives were detailed and approved. Further information about the principles that apply can be found in Note 6 to the annual report and on NIBE's website at www.nibe.com.

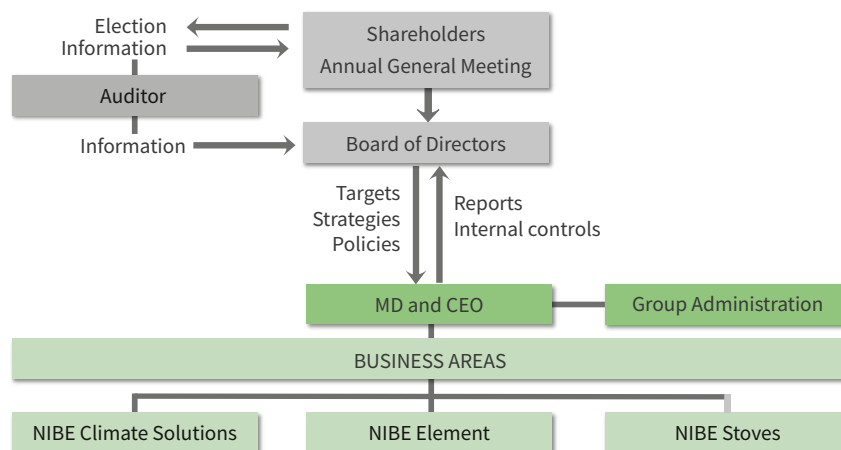
Remuneration to the Managing Director/CEO is a matter decided by the Board, but the preparatory work for this decision is undertaken by the Chairman of the Board after discussions with the Managing Director/CEO. The remuneration of other senior executives is determined by the Managing Director in consultation with the Chairman of the Board and in accordance with the guidelines adopted by the AGM. Decisions in this regard are reported to the Board of Directors.

Information on the fees paid to directors, as well as the salary and other remuneration paid to the MD/CEO and other senior executives can be found in Note 6 to the annual report.

Incentive programme

An incentive programme applies to certain key members of staff/senior executives, under which they are paid a variable bonus if set targets are met.

The variable bonus is limited to a maximum of four months' salary. It is also possible for an additional month's salary to be paid on condition that this additional payment plus another monthly salary paid as a variable bonus or part of a variable bonus is used to purchase NIBE shares on the stock market. A further condition for entitlement to receive this additional month's remuneration is that the NIBE shares purchased are retained for at least three years. Under normal circumstances, shares acquired in this way by members of staff shall be purchased on one occasion each year in February/March and the purchase shall be sub-



ject to the relevant market abuse regulations. No incentive programme is offered to the MD/CEO. Certain key individuals in the foreign companies acquired during the year have incentive programmes that, in certain respects, deviate from the principles for remuneration that are otherwise applied in the NIBE Group. Further information about the principles that apply for senior executives can be found in Note 6 to the annual report.

Severance pay

No severance pay or other benefits apply to the Chairman of the Board or to the directors, apart from the MD/CEO.

The period of notice for the MD/CEO is six months in the event that the company gives notice. In addition to salary during the period of notice, the MD/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 of the company receive no retirement benefits for their work on the Board.

No special agreements have been reached that entitle senior executives to retire before the official retirement age while still retaining part of their salary in the interim.

Information on the retirement benefits of the Managing Director/CEO and other senior executives can be found in Note 6 to the annual report.

Under the Group's policy, no further pension premium payments are made if employment continues after the age of 65.

Internal controls of financial reporting in 2019

Under the Swedish Companies Act and the Code, the Board of Directors is responsible for internal control.

This report on internal control and risk management as regards financial reporting complies with the requirements in Chapter 6, Section 6, of the Annual Accounts Act.

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.

NIBE complies not only with laws and regulations regarding financial reporting, but also with internal instructions and policies set out in a finance handbook. These are applied by all companies in the Group,

along with systems aimed at ensuring effective internal control of financial reporting.

Consolidated financial statements containing comprehensive analyses and comments are prepared each quarter for the Group and its business areas. Earnings are also monitored monthly.

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

In addition to the statutory audits of the annual report and statutory audits of the parent and all subsidiaries, the auditors carry out an annual review of how the companies are organised, of existing routines and of compliance with the instructions issued, based on guidelines drawn up by corporate management and approved by the Board of Directors. A summary of internal control procedures is presented each year as part of the Board meeting that deals with the year-end financial statements. The Board also has the option of requesting a special audit of a selected business during the year if the Board deems it necessary.

In 2019, the project aimed at reinforcing internal control continued. It is our opinion that this review increases insight and awareness, provides explicit instructions and proposes a clear organisation as regards internal control. It is therefore the opinion of the Board that, because of the implementation of this review, there is no need for any separate internal control (item 7.3 of the Code).

External auditors

NIBE's auditors were elected at the AGM to serve for a period of one year.

The registered public accounting firm KPMG AB has held the position of the company's auditors since the AGM in 2013. Dan Kjellqvist has been auditor in charge since the AGM in 2016.

The auditor in charge has continual access to the approved minutes of company Board meetings and the monthly reports that the Board receives.

The company's auditor in charge 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, KPMG AB 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 to the annual report.