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## Annual General Meeting

The Annual General Meeting of shareholders will be held at the NIBE Marketing Centre (Marknadscenter) in Markaryd in Sweden on Wednesday, 14 May 2008 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 2007, corresponding to a total pay-out 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, 22 May 2008.

## Financial information

The complete annual report and call to the AGM are sent to all shareholders who have not informed the company that they do not wish to receive any written information. The annual report is also published on our website [www.nibe.com](http://www.nibe.com)

## Shareholders' diary

- ▲ 14 May 2008  
First quarter report, January – March 2008
- ▲ 14 May 2008  
Annual General Meeting
- ▲ 14 August 2008  
Second quarter report, January – June 2008
- ▲ 13 November 2008  
Third quarter report, January – September 2008

# 2007

## The past 12 months

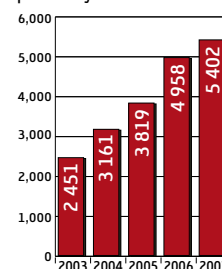
- ▲ Net sales rose to SEK 5,402.5 million (figure for 2006: SEK 4,958.0 million)
- ▲ Growth totalled 9.0% (29.8%) of which 3.7% (22.5%) was organic
- ▲ Profit after net financial items fell to SEK 445.0 million (SEK 501.5 million)
- ▲ Earnings after tax fell to SEK 314.7 million (SEK 350.8 million)
- ▲ Operating cash flow was SEK –350.8 million (SEK +159.9 million)
- ▲ Earnings per share totalled SEK 3.35 (SEK 3.74)
- ▲ The Board of Directors proposes an unchanged dividend of SEK 1.15/share
- ▲ Acquisition of Lübcke Rail A/S, a Danish manufacturer of systems for heating railway switch points, with annual sales equivalent to approximately SEK 20 million.
- ▲ Agreement reached on the acquisition of a 25% stake in CJSC EVAN, a Russian manufacturer of electric boilers and large water-heaters, with annual sales equivalent to approximately SEK 70 million.

## The year in figures

		2007	2006	Change
Net sales	SEK m	5,402.5	4,958.0	9 %
Growth	%	9.0	29.8	– 70 %
Operating profit	SEK m	528.0	556.0	– 5 %
Profit after net financial items	SEK m	445.0	501.5	– 11 %
Investments in non-current assets	SEK m	404.1	526.4	– 23 %
Gross margin	%	12.8	14.1	– 9 %
Operating margin	%	9.8	11.2	– 13 %
Profit margin	%	8.2	10.1	– 19 %
Capital employed	SEK m	3,552.9	2,741.0	30 %
Equity	SEK m	1,547.7	1,283.5	21 %
Return on capital employed	%	17.2	22.9	– 25 %
Return on equity	%	22.6	31.3	– 28 %
Return on total assetss	%	12.8	16.0	– 20 %
Assets turnover	times	1.28	1.41	– 9 %
Equity/assets ratio	%	34.2	32.9	4 %
Proportion of risk-bearing capital	%	36.8	36.1	2 %
Operating cash flow	SEK m	– 350.8	159.9	– 319 %
Interest cover	times	5.7	9.2	– 38 %
Interest-bearing liabilities/Equity	%	129.6	113.6	14 %
Average number of employees		5,439	5,111	6 %

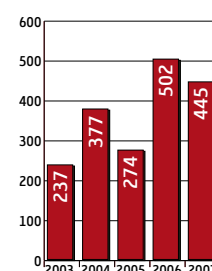
Please refer to page 45 for definitions.

Net sales  
past five years SEK m



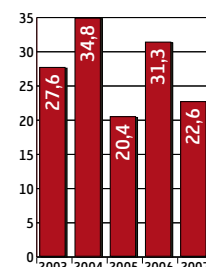
Net sales rose by 9.0% in 2007

Profit after financial items  
past five years SEK m



Profit after net financial items fell by 11.3% in 2007

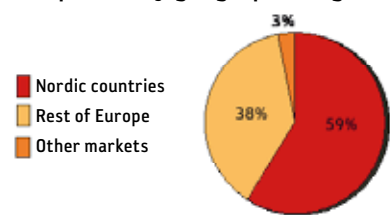
Return on equity  
past five years %



Return on equity has averaged 26.8% p.a. over the past five years.

# Operations at a glance

Group sales by geographic region

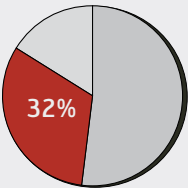


## PROPORTION OF GROUP

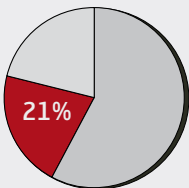


### NIBE Element

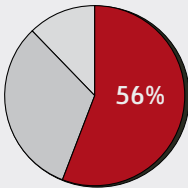
Operating profit



Operating margin



Proportion of Group employees



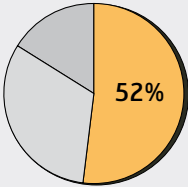
Net sales

6.4%

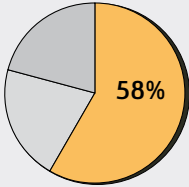


### NIBE Heating

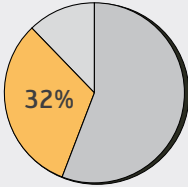
Operating profit



Operating margin



Proportion of Group employees



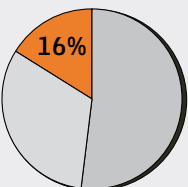
Net sales

11.1%

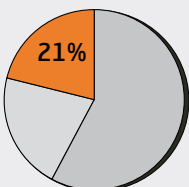


### NIBE Stoves

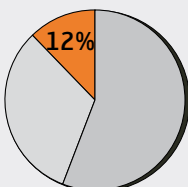
Operating profit



Operating margin



Proportion of Group employees



Net sales

13.1%

## GROUP TOTAL

Net sales	Operating profit	Average number of employees	Operating margin
SEK 5,402.5 m	SEK 528.0 m	5,439	9.8%

## KEY FACTS AND FIGURES

NIBE Element is the market leader in Northern Europe for components and systems for electric heating applications, and one of the leading manufacturers in the rest of Europe. Customers are industrial users and components users.

Net sales 2007	SEK 1,779.1 million
Growth	+ 16.0%
Operating profit	SEK 113.0 million
Operating margin	6.4%
Average number of employees	3,022

## BRANDS



Read more about NIBE Element operations on pages 22–27.

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

Net sales 2007	SEK 2,859.9 million
Growth	+ 11.9%
Operating profit	SEK 317.6 million
Operating margin	11.1%
Average number of employees	1,729



Read more about NIBE Heating operations on pages 28–33.

NIBE Stoves is the market leader in Sweden for wood-burning stoves, and one of the leading manufacturers of in the rest of Europe. Customers are private homeowners in the new and existing housing market and in the holiday homes sector.

Net sales 2007	SEK 874.1 million
Growth	– 6.1%
Operating profit	SEK 114.8 million
Operating margin	13.1%
Average number of employees	683



Read more about NIBE Stoves operations on pages 34–39.





Gerteric Lindquist, Managing Director and CEO

The NIBE Group's sales rose to SEK 5,402.5 million in 2007, an increase of 9% on 2006 figures. Overall growth has been impeded by a general slow-down in demand in several market segments and on several markets, particularly in the second half of the year. The main reasons for this are the phasing out of consumer grants and subsidies, widespread concern among end-users over an impending downturn in the economy and the general disinclination to invest that this engenders.

However, all three business areas continued to capture new shares of the market on the back of successful product development work and aggressive marketing.

For 2007 as a whole the Group reported an operating profit that was 5.0% down on 2006 results: as a consequence, profit after net financial items was 11.3% down on 2006.

Expected sales increases for NIBE Heating and NIBE Stoves did not materialise in the autumn, so fixed costs were, in relative terms, too high. Compounded by steep rises in material prices, this has eaten into the operating margins of these two business areas.

In order to maintain an equilibrium with current market conditions, a programme to reduce stocks and cut costs, especially in Markaryd, was initiated in the autumn. As a result of this, fixed costs for 2008 will be SEK 50 million less than in 2007.

The restructuring programme within NIBE Element that has had a major impact on the business since it was unveiled in the autumn of 2005 was brought to a close in the fourth quarter, having followed the schedule and kept to budget.

The completion of the project means we have now taken another step in our internal efforts towards raising NIBE Element to the desired level of profitability. However, if we are to achieve the target of an operating margin of 10%, we need the economy to remain buoyant at the same time as material prices stabilise or, preferably, fall.

# 2007 – a strong start, but a weaker second half

Despite a weaker than anticipated outcome for 2007, operating margins for NIBE Heating and NIBE Stoves remain comfortably above the 10% target.

## Investments for continued rational expansion

The Group's overall investments in existing businesses totalled around SEK 391 million in 2007, which is SEK 154 million more than in 2006 and no less than SEK 227 million higher than the rate of depreciation. The main reasons for this steep rise are NIBE Stoves' new production plant and the new production warehouse in Markaryd.

The rate of investment will be significantly lower in 2008: the production warehouse was completed last year, but there still remain around SEK 50 million of further investments before the new NIBE Stoves plant is fully finished.

Thanks to the massive investment programmes over the past few years, the Group is now well equipped to handle future expansion in a rational manner.

## Stock levels and cash flow

Our own expectations for 2007 were far in excess of the outcome. In consequence, our long-established strategy of building up of stocks during the first six months of the year to cope with anticipated demand in the second half resulted in excessively high stocks at the end of 2007.

We will be working throughout 2008 to reduce these to more acceptable levels which, together with a lower rate of investment, will improve our cash flow.

## Strategic acquisitions

The acquisition of Løbcke Rail A/S of Denmark in June is a further crucial step towards increasing the proportion of components and system products in the business area's portfolio of products.

The acquisition of a 25% stake in the Russian company CJSC EVAN in December and the takeover in January this year of KNV of Austria both offer further evidence of our strategy of increasing NIBE Heating's sales in these two markets through a broader market presence.

## Our next sales target - SEK 10 billion

Our long-term goal is to double our sales from their 2006 levels by 2011 at the latest. This equates to sales of SEK 10 billion without compromising good profitability.

However, as we have already made clear, we have no illusions about the size of this challenge. As far as internal factors are concerned, we believe that we have what it takes in terms of production focus, manufacturing expertise, corporate culture and financial muscle.

When it comes to external factors, it is our opinion that the market for our products will benefit from spiralling energy prices and the huge need for more efficient and eco-friendlier heating alternatives that will remain dominant driving forces in society for the foreseeable future.

The greatest uncertainty among external parameters that can affect our progress towards our SEK 10 billion target is, of course, the future state of the economy. When we confirmed our target for 2011 last year, we assumed that development would be weak in one of the coming five years. If the current dip in the economy were to be longer-lived, this might delay our arrival at the SEK 10 billion milestone.

However, we should not overlook the fact that a poorer economy also presents opportunities: weaker competitors can fall by the wayside and the cost of acquisitions can fall.

## Strong corporate culture

The corporate culture that has evolved at NIBE over more than 50 years is difficult

to beat. The courage to question established ways of working, a refusal to make things more difficult than they need to be, and relentless efforts to improve the way things are done are all at the very heart of successful entrepreneurship.

We believe that NIBE's corporate culture fosters respect among customers and suppliers alike. And we also believe that it holds great appeal for new co-workers and for companies eager to become part of a larger corporate group.

The world around us is changing with ever increasing speed, but our corporate culture remains firmly anchored in the traditions of hard work, innovation and the spirit of enterprise for which the area of Sweden where NIBE is based is famous.

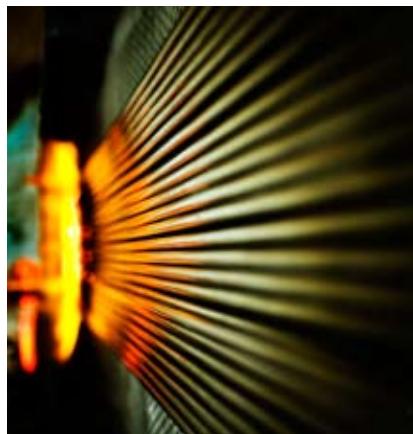
## Firm faith in the future

NIBE still enjoys a healthy financial position and our ambitions with regard to takeovers remain strong. Our internal work to boost profitability and reduce material costs and stock levels continues, as do our intensive product development activities. Parallel with this, we are working systematically to continue our organic expansion.

Our faith in the future remains unshakable. Even though we are, of course, dependent on developments in the world around us, we remain cautiously optimistic about the current year.

Markaryd, Sweden – March 2008

Gerteric Lindquist  
Managing Director and  
Chief Executive Officer.



### 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	7,000,00
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.

## NIBE shares

**NIBE Industrier AB's "B" shares were floated on the Stockholm Stock Exchange's OTC list (now the Mid Cap list, OMX Nordic Exchange 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.**

### 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 100 shares. At the end of 2007 the company had no outstanding convertible loans or options that could risk diluting the share capital.

Companies Index fell by 10% during the same period and the OMX Stockholm All-share Index (OMXS) fell by 6%. This means that, at the end of 2007 the market value of NIBE, based on the latest price paid, amounted to SEK 7,326 million. The number of NIBE shares traded on the Stockholm (OMXS) exchange during 2007 was 66,813,533; this corresponds to a share turnover of 71% over the year.

### 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 2007 financial year, which equates to 34.3% of Group profit after full tax.

### Share performance and turnover

During 2007 the NIBE share decreased in value by 32% from SEK 115.00 to SEK 78.00. The Carnegie Small

### 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.

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

		2007	2006	2005	2004	2003
Number of shares		93,920,000	93,920,000	93,920,000	93,920,000	93,920,000
Year-end share price	SEK	78.00	115.00	60.75	46.00	31.88
EPS (after full tax)	SEK	3.35	3.74	1.94	2.97	1.72
Equity per share	SEK	16.48	13.67	10.92	9.46	7.08
Proposed dividend	SEK	1.15	1.15	0.75	0.75	0.46
Price/equity		4.73	8.42	5.56	4.86	4.50
Dividend yield	%	1.47	1.00	1.23	1.63	1.45
Total yield	%	– 31.17	91.19	33.70	46.67	102.90
Operating cash flow/share	SEK	– 3.74	1.70	– 0.17	1.28	0.17
Payout ratio	%	34.3	30.8	38.7	25.3	26.8
PE ratio (after full tax)		23.3	30.8	31.4	15.5	18.5
Market value	SEK m	7,326	10,801	5,706	4,320	2,994
EBIT multiple	times	17.3	21.6	21.7	13.8	14.1
EV/sales	times	1.69	2.43	1.76	1.60	1.46
Share turnover	%	71.1	36.8	38.4	30.6	22.3

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

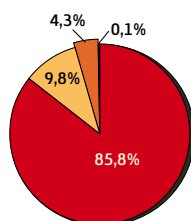


## Shareholder categories

(Source: VPC AB share register 28 Dec 2007)

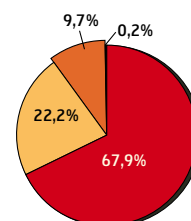
### Share of voting rights %

- Swedish individuals
- Swedish institutions
- Foreign institutions
- Foreign individuals



### Share of capital %

- Swedish individuals
- Swedish institutions
- Foreign institutions
- Foreign individuals



## Ownership

There was a further rise in the number of shareholders during the year. NIBE had 18,868 shareholders at the end of 2007, compared with 16,050 twelve months previously. The ten largest shareholders held 66.6% of the votes and 42.4% 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 8-566 286 00*

Carnegie  
*Adam Nyström, tel +46 8-676 88 00*

Danske Markets Equities  
*Jan Bjerkenheim, tel +46 8-568 805 69*

Handelsbanken Capital Market  
*Markus Almerud, tel +46 8-701 10 00*

HQ Bank  
*Alexander Vilval, tel +46 8-696 17 00*

Kaupthing Bank  
*Carl-Johan Blomqvist, tel +46 8-79148 55*

SEB Enskilda  
*Anders Eriksson, tel +46 8-522 295 00*

Swedbank Markets  
*Mats Larsson, tel +46 8-585 925 42*

## Major shareholders

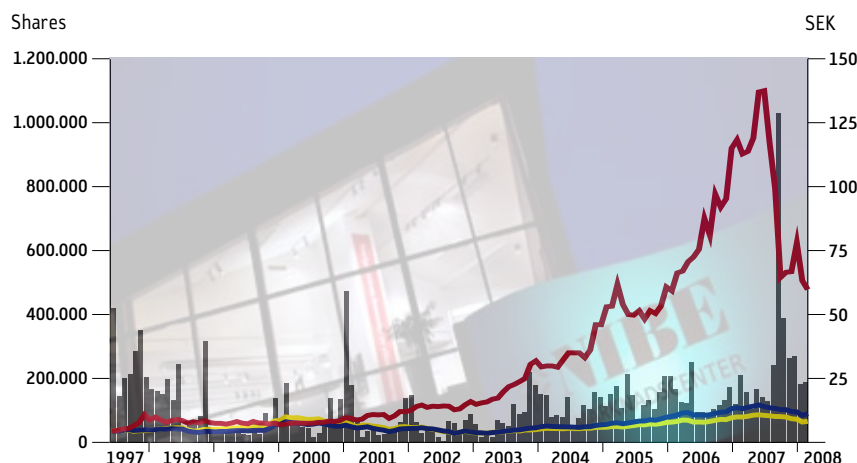
(Source: VPC AB share register 28 Dec 2007)

Shareholders	No. of shares (st)	Votes (%)
Current and former board members and senior executives <sup>1)</sup>	27,705,424	52.88
Melker Schörling	12,015,360	21.59
Alecta Pensionsföräkring	5,210,000	2.45
Roburs Exportfond	1,476,500	0.70
Lannebo Småbolag	1,400,000	0.66
The Northern Trust Company W9	1,099,346	0.52
Enter Sverige Fokus	1,061,100	0.50
Lannebo Småbolag Select	788,300	0.37
Dub-Non-Resident	639,214	0.30
Clearstream Banking S.A. W8IMY	590,634	0.28
Other holdings (18,839 shareholders)	41,934,122	19.75
<b>Total</b>	<b>93,920,000</b>	<b>100.0</b>

<sup>1)</sup> Please refer to page 70 for details of the current Board of Directors.

## NIBE share performance

- Share price in SEK
- Carnegie Small Companies index (SEK)
- OMX Stockholm All-Share (OMXS)
- Average number of shares traded per trading day (in thousands)



## Shareholder structure

(Source: VPC AB share register 28 Dec 2007)

Shareholding	Shareholders	Share of ownship (%)	No. of shares	Prop. of shares (%)
1 – 500	11,039	0.97	2,058,968	2.19
501 – 1,000	2,971	1.18	2,497,767	2.66
1,001 – 5,000	3,791	4.35	9,243,708	9.84
5,001 – 10,000	552	1.93	4,102,734	4.37
10,001 – 15,000	147	0.87	1,846,322	1.97
15,001 – 20,000	121	1.00	2,130,512	2.27
20,001 –	247	89.70	72,039,989	76.70
<b>Total</b>	<b>18,868</b>	<b>100.0</b>	<b>93,920,000</b>	<b>100.0</b>

# NIBE

brings warmth  
to the world –  
24 hours a day

## 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, 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.



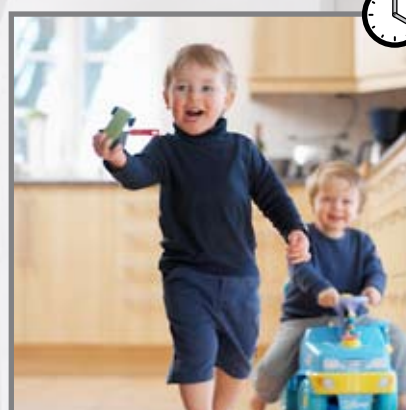
A crackling fire in a wood-burning stove from **NIBE Stoves** creates a welcoming atmosphere of cosiness and warmth on even the coldest of winter mornings.



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**.



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



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.



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.





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.



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**.



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**.



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



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.



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



# The factors behind our success

**Our management philosophy builds on eight principles which provide the impetus for continued profitable growth. These principles are the glue that holds the NIBE Group and all of its employees together. When we recruit employees or acquire companies, creating**

**an awareness of our management philosophy is crucially important. At NIBE, we believe there should never be any doubt about the principles that underpin our work and permeate the working environment that new employees are joining.**

## Good profitability

**Good profitability is, and has always 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 59 and 56 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.

## 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.

## 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 introduc-

tion 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.



## 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 strong growth in productivity 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

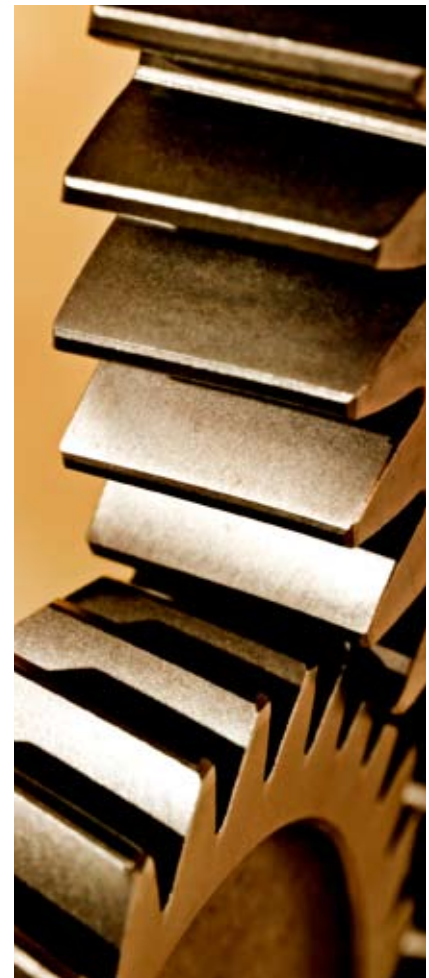
production processes, good use of time and flexible wage systems for as much of the workforce as possible.

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 by 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 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 a firm focus 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 phil-



osophy in a number of areas, particularly design tools, purchasing efficiency, production management and order management.

## 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 ideal conditions for all employees to develop, both through their own personal initiatives and through targeted training.

## Firm focus on 3 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.

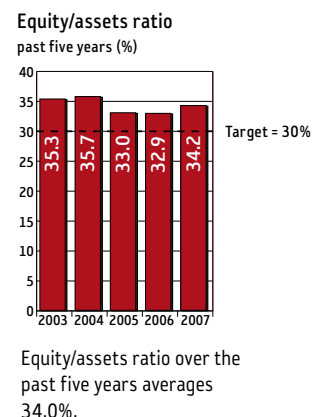
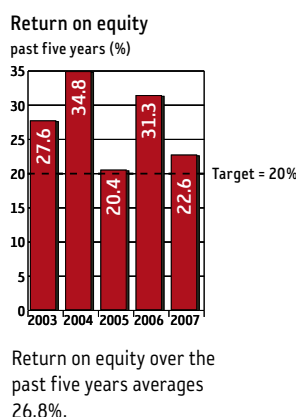
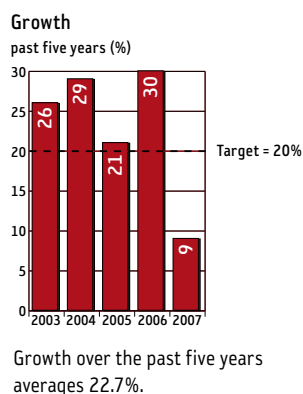
## A long-term approach

**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 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.

OBJECTIVE  
FULFILMENT

# 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. In addition NIBE's role in society must be characterised by openness and responsibility.

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

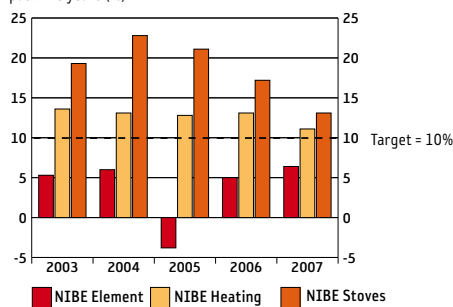
will be improved through:

- ▲ 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



**Operating margin**

past five years (%)

**Average operating margin over the past five years.**

NIBE Element 3.9%  
 NIBE Heating 12.5%  
 NIBE Stoves 17.8%



- ▲ 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 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.

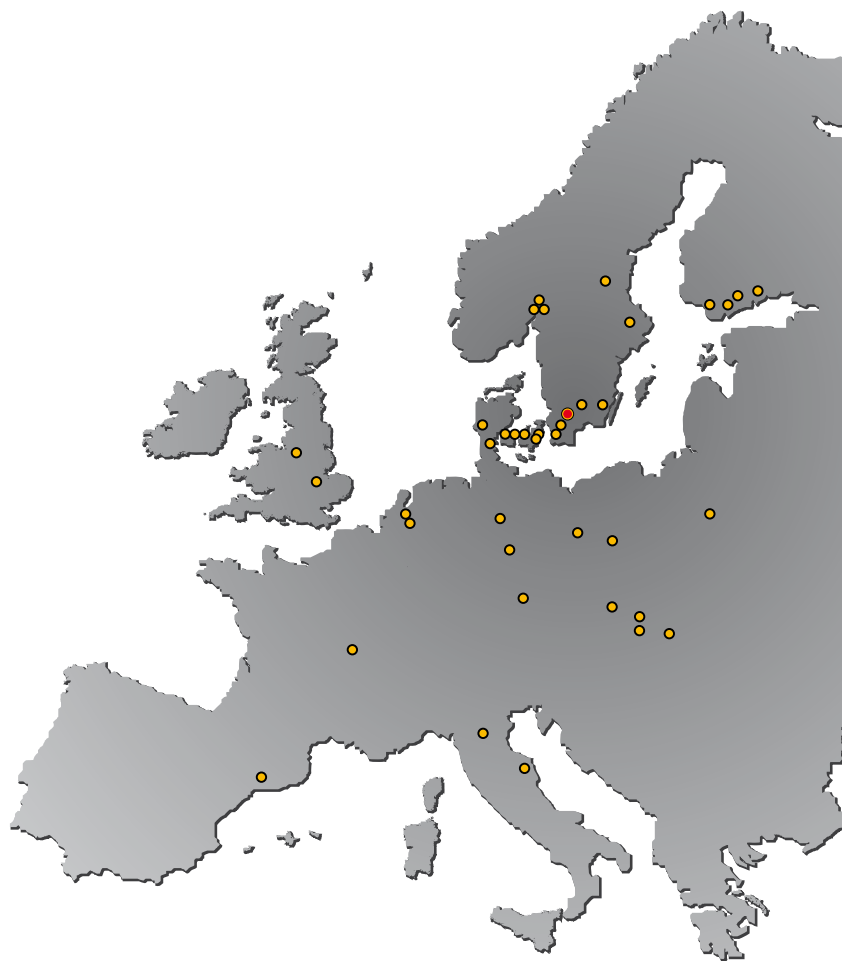
**Sincerity and an ethical attitude**

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.

# Profitable growth



NIBE currently has operations in 15 countries and is represented in another dozen or so through importers and dealers.



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 13%. 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% over an indefinite period of time. 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 is reasonable.

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

## Acquisition criteria

NIBE is constantly analysing potential takeover candidates. Talks are also constantly under way with various companies. The decisive factor for a possible acquisition is that it must add 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 spirit, and we must see further growth potential within the framework 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.

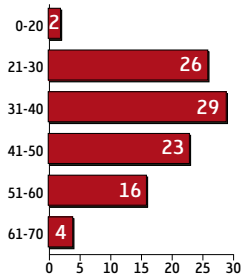
Generally speaking, our ambition is to create a decentralised organisation where new additions to the Group continue to enjoy considerable independence. We want integration into the NIBE Group to be about exploiting the obvious benefits of belonging to a much larger cluster of companies, and applying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

### Timeline for acquisitions and new establishments

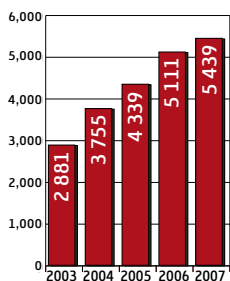
- 1994** — Backer OBR (32%)  
Backer Oy (new establishment)  
Contura
- 1995** — Vølund  
Loval OY
- 1996** — Pyrox  
TMV-Pannan
- 1997** — NIBE Polska (new establishment)  
Backer OBR (68%)  
EPD
- 1998** — Br Håkansson Värme AB  
Lodam Energi  
JEVI A/S  
Calesco Foil AB
- 1999** — Haato Varaajat
- 2000** — Cronspisen AB  
Biawar  
Backer F.E.R  
Coates  
Backer CZ  
Eltop Praha
- 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 establishment)  
METRO THERM A/S  
Finohm  
Sinus-Bobe  
Termos
- 2004** — NETEK  
Shel  
Calesco Foil Inc. (new establishment)  
Kaukora  
Avyttring 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 establishment)  
NIBE Foyers France (new establishment)  
DZ Drazice strojirna s.r.o.  
Heatrod Elements
- 2007** — Lübcke Rail A/S  
CJSC EVAN (25%)
- 2008** — KNV Umweltgerechte Energietechnik GmbH

# Natural values perceived as positive

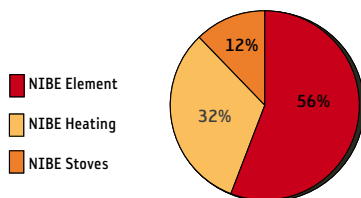
Age distribution among employees (%)



Average number of employees past five years



Employees – by business area



## Key figures

	2007	2006	2005
Average number of employees	5,439	5,111	4,339
– administrative staff	% 24	23	25
– production staff	% 76	77	75
– men	% 68	67	69
– women	% 32	33	31
Average age	yrs 39	37	37
Average length of employment	yrs 6.6	6.2	7.4
Workforce turnover	% 16.0	10.4	8.7
Number of graduates	546	504	475
Employees			
– in Sweden	% 25	26	30
– abroad	% 75	74	70
Sickness abs., short-term	% 2.9	2.5	2.8
Sickness abs., long-term	% 4.0	3.2	3.6

**Since the start of the new millennium, when NIBE had 1,900 employees in seven countries, and today, when the Group has a workforce of 5,400 in fifteen countries, many new people have joined a company founded on strong values. For the vast majority, the experience has been a positive one, regardless of their country of origin or local culture.**

Our values are always in focus when recruiting new co-workers, keeping co-workers informed of current developments and welcoming companies into the group following takeovers.

## Attractive place to work

Our ambition is to be an attractive place to work, filled with opportunities. For that reason we attach great importance to our success in attracting, retaining and developing personnel of the right calibre.

We set our sights high and demand a great deal of our employees. In return, they can enjoy freedom with accountability, a working atmosphere characterised by common sense and a simple straightforward approach, and excellent career opportunities. This creates an interest in work, with low absenteeism due to illness, a staunchly loyal workforce and many applications from hopeful job-seekers.

The strong increase in sales over the past 10 years has meant a steep rise in the number of employees, resulting in a combination of young, well-educated new recruits and highly skilled, long-serving employees. This reaps many positive benefits and enables us to preserve and transfer in a natural way the knowledge of products, production and markets that has been built up in the company over many years.

## Production in Sweden

With some 4,000 employees outside Sweden, NIBE is becoming increasingly international. However, despite reducing the number of employees in Sweden by around 100 in 2007, the Swedish workforce still constitutes around 25% of the total, as it has done more or less consistently in recent years. A conscious and unrelenting focus on productivity at all stages enables us to maintain competitively priced produc-

tion in Sweden, at the same time as we are also investing in production units in Eastern Europe and China to manufacture those products subjected to the very fiercest price competition.

Unswerving loyalty and a low turnover of staff are two of the hallmarks of most NIBE businesses. Even so, we have noticed that the overheated labour market, especially in Eastern Europe and Denmark, has led to increased turnover, most noticeably in production. Sickness absence is also rising slightly in these countries.

## Many different professions

NIBE offers a fascinating mix of careers in product development, marketing, manufacturing and administration. Our restrictive attitude to outsourcing ensures that a great deal of valuable knowledge is accumulated within the Group.

This paves the way to a mutually rewarding collaboration with universities and colleges on various levels, not least by offering interesting degree projects and work placement opportunities.

## The right kind of training

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

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 who possess unique skills – to share knowledge specific to NIBE's operations in a stimulating, cost-effective way.

## Continuous training in specialist skills

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. We also 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.



**Name:** Marcus Emilson  
**Age:** 28  
**Home:** Laholm, Sweden  
**Family:** Partner  
**Hobbies:** Golf, ski-ing – and gardening, soon!  
**Recruited:** 2005  
**Job:** Web designer, NIBE Stoves

Marcus Emilson is responsible for NIBE Stoves' homepage, which he has built up since joining NIBE.

*"Every day brings its own new tasks and challenges," he says. "I have many contacts inside and outside NIBE in Sweden and abroad. My job combines plenty of freedom with a fair share of responsibility, and I'm very happy with that."*

NIBE Stoves has many different brands with their own homepages,

often in five languages.

*"My vision is to build up a sustainable web infrastructure for all the various NIBE Stoves' stakeholders – customers, sales staff, retailers, subsidiaries and so on."*

A web designer's work involves a lot of sitting in front of a computer screen. So Marcus is looking forward to spending his spare time in the garden when his new home is ready to move in to.



**Name:** Natalie Folkunger  
**Age:** 35  
**Home:** Osby, Sweden  
**Children:** Twins, Thilde and Robin, 5 years old.  
**Hobbies:** New house and working with old people.  
**Recruited:** 2007  
**Job:** Assembly worker for heat pumps.

Natalie Folkunger has been working with the final assembly of exhaust-air heat pumps at the Markaryd plant since the beginning of 2007.

*"I'm really happy in my job at NIBE. And I get on very well with my colleagues. That's very important, of course."*

Natalie has previous experience of assembly line work and has also run her own restaurant.

*"I take things very much as they*

*come. I'm happy with the way things are right now. It feels secure to be in regular employment."*

When the working day is over, it's Natalie's children and her new house that take up most of her time, but there are opportunities to do other things, too.

*"I like to help elderly people, so I work part-time in a nursing home nearby."*



**Name:** Phil Hurley  
**Age:** 41  
**Home:** Sheffield, England  
**Hobbies:** Physical training and history. Rugby: formerly as a player, now as a keen spectator.  
**Recruited:** 2006  
**Job:** Managing Director, NIBE Energy Systems Ltd.

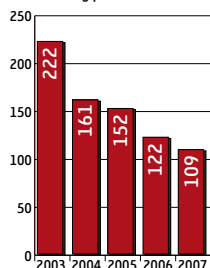
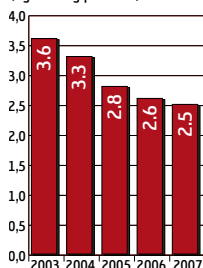
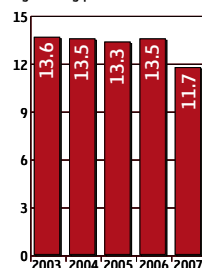
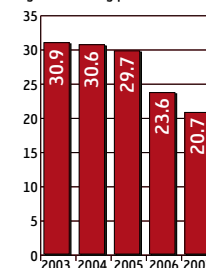
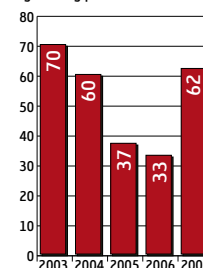
Phil Hurley has been managing director of NIBE's UK Heating subsidiary since it was established in 2006.

*"Our heat pumps arrived on the scene at exactly the right time in England," Phil says. "Escalating energy prices and increased environmental awareness are generating a great deal of interest in new heating solutions."*

Phil has many years' experience of the industry and feels secure working with NIBE.

*"It feels good to work for a company that thinks long-term, both as regards the technology and the market itself. And selling quality products gives you plenty of self-confidence."*

NIBE Energy Systems Ltd. is growing rapidly and the company already has ten employees. It means busy days for Phil, so much so that he's hard pressed to find time to watch Sheffield Wednesday, the football team closest to his heart.

Total energy consumption  
(kWh/100 kg product)Total amount of  
chemicals used  
(kg/100 kg product)Total amount of waste  
(kg/100 kg product)Total amount of carbon dioxide  
emissions  
(kg CO<sub>2</sub>/100 kg product)Total solvent emissions  
(g/100 kg product)

## Our environmental responsibility

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 in creating the right conditions for long-term sustainable development as supported by our environmental policy.

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.

### Five key areas

The NIBE Group's international expansion means that global environmental issues are becoming increasingly important. 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. 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 both fuel consumption and emissions.
- ▲ As a subcontractor, NIBE Element often liaises closely with clients in product development work to create end products that last longer and use less energy.

#### Choice of materials

- ▲ New production materials are being investigated with an aim to reducing our overall use of chemicals and, by extension, our environmental impact.
- ▲ When choosing suppliers we evaluate their environmental awareness and environmental management systems.

#### Production plant

- ▲ Improved, new production processes are being introduced continually to reduce our environmental impact.
- ▲ Use of heat pumps for heating and cooling.

#### 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!
- ▲ We make every endeavour to use recyclable packaging materials wherever possible.

### 2007

Worldwide there has been a huge surge of interest in climate issues. No one can have failed to be affected by the current debate.

NIBE's most important contribution to reducing environmental impact is through our products. Interest in, for example, heat pumps is no longer governed solely by economic savings,



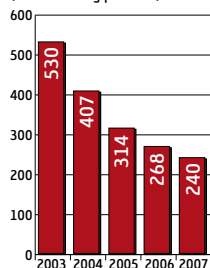
During the year all Contura stoves were awarded Swan-mark certification – yet another step towards a cleaner environment.

but also by the desire to make a positive contribution to the environment now that heat pumps are defined as renewable energy sources throughout the EU.

Another important environmental initiative is the large number of Swan-marked products launched by NIBE Stoves that provide supplementary heating from renewable biofuels with the minimum of carbon dioxide and particle emissions.

Our new production plant for stoves includes one of Sweden's largest heat pump configurations for heating the premises and recycling heat from the spent air to further reduce energy consumption.



Total water consumption  
(litres/100 kg product)

With five of our six environmental key figures showing a positive development, our environmental work is clearly producing results. The increase in solvent emissions is a consequence of a change in product mix, an increase in volumes of certain products and changes in the manufacturing processes. A package of measures has been implemented, including investing in a destruction plant which will reduce emissions in 2008 and halve them by 2009.

## Quality – a key factor behind competitiveness

The quality of our products and services is a key factor behind our competitiveness and a strong reason for choosing NIBE. If we are to meet customer demands, it is essential that our quality policy forms a common platform for all our work and that all employees in all areas of operations view quality as their own personal responsibility and strive to produce flawless products.

### Continuous improvement

Continuous improvement plays a crucial role in improved efficiency and quality, and we are constantly engaged in maintaining and improving the pace of this work. The work itself varies from unit to unit, but high priority is always accorded to problem-solving and to creating new habits: quantifiable quality targets are set and performance regularly monitored. We also seek to continually develop our operations by setting new objectives. In addition, we work closely with customers and suppliers to compare our performance with that of our competitors to ensure that we always lead the way in our three chosen segments.

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 cooperation with subcontractors to guarantee the quality of components and subassemblies.

### 2007

Over the past year we have further

reinforced our quality organisation and improved methods for meeting increasing competition within the industry. The Group's global expansion makes even greater demands on products and routines, and improved internal communication between production units is being prioritised to boost quality consciousness even further.

### Quality assurance

Quality assurance work is undertaken within the parameters of integrated quality management systems that accord with ISO 9001 specifications for internal and external checks and audits. Quality work is decentralised within NIBE: 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 all new products that our 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. Components are tested before they even leave our suppliers'



The seals on all stainless steel electric water-heaters are tested in a vacuum chamber.

premises and matched against our specifications. Products are tested repeatedly during the manufacturing process before they pass on to the next stage, and extensive functional tests are carried out prior to despatch to ensure the quality of the final product.

For NIBE Stoves quality means not only functionality and performance, but also the fact that all components 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.

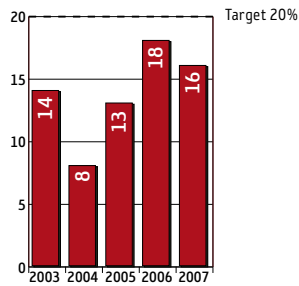
To ensure customer satisfaction and to focus more clearly on the most significant aspects of our quality control procedures, surveys are continuously carried out among customers within different market segments.

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.



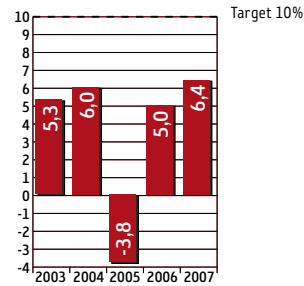
Christer Fredriksson,  
Business Area Manager

#### Objective fulfilment Growth (%)



Growth over the past five years  
averages 13.8%

#### Objective fulfilment Operating margin (%)



Operating margin over the past  
five years averages 3.9%

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

## NIBE Element

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

NIBE Element's 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

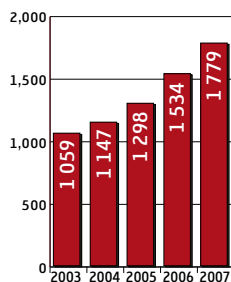
NIBE Element's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

Welding of stainless steel  
tubes for tubular elements.

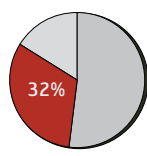


**Net sales**

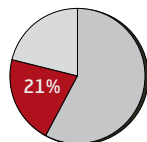
SEK m



Net sales rose by 16.0% during 2007

**Contribution to Group**

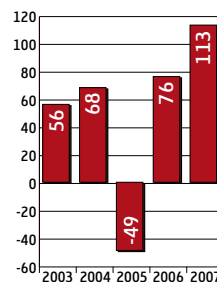
Net sales



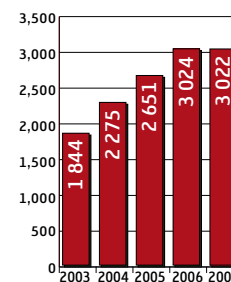
Operating profit

**Operating profit**

SEK m



Operating profit rose by 48.7% during 2007

**Average number of employees****The year in brief**

NIBE Element has seen strong sales growth in most product and market segments during 2007 thanks both to expansion in several segments of the market and to an increase in market shares.

High energy prices are fuelling strong growth among companies working with new, more efficient and eco-friendlier heating products such as heat pumps, and those involved in alternative energy sources such as wind power. Even so, we have observed a downward trend in certain of these segments during the year, especially where demand is – at least in part – driven by energy conversion grants.

Oil prices remain high and, with them, investments in extraction and refining. We supply various system solutions based on explosion-proof technology and enjoy a reputation as a European leader in this field. High oil prices also mean a steep rise in the market for the resistors that are an integral part of energy-saving control and regulation equipment.

For several years we have been involved in systematic development work to increase our sales of all-round solutions for electric heating. This has been highly successful and launches of several new products during the year have boosted sales in this segment.

Metal prices reached historically high levels in 2007 at the same time as wild fluctuations in the cost of materials – particularly nickel – and in

exchange rates created turbulence in the markets and confused the situation with regard to competition in certain product segments.

Internally, the restructuring programme approved in 2005 has had a significant impact in operations: the focus has been on transferring production equivalent to around 200 full-time jobs to our units in Eastern Europe and Asia. This has proceeded according to plan and was completed in the fourth quarter of 2007.

Production capacity in our Chinese operations has been doubled and the product programme has been expanded, primarily to serve the needs of the local Chinese market.

During the fourth quarter one of our English manufacturing units was closed and all production in the UK is now concentrated to the plant in Manchester.

In June 2007 NIBE Element acquired the Danish company Løbcke Rail A/S with six employees, annual sales of approximately SEK 20 million and operating profit of around SEK 3 million. This acquisition is a strategic step towards increasing the proportion of system products in the NIBE Element portfolio.

**Outlook for 2008**

The main focus for 2008 will be on continuing to develop product areas relating to the sales of system products to the professional sector. For many of

these market segments, especially in the energy sector, the planning horizon is long, so they are not directly affected by the kind of general turbulence in the market that marred the beginning of the year.

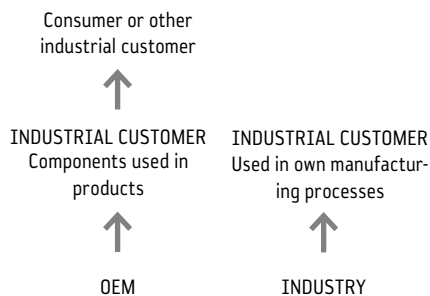
Within the more consumer-oriented volume business sector, volumes tend to reflect the current state of the economy. The process of structural change continues in this sector with manufacturing being transferred to countries with lower production costs. The improvement in capacity that we have overseen in recent years has thus proved to be a shrewd move, and during the course of the year we will expand our workforce at low-cost units in Poland, the Czech Republic and China.

It is our opinion that our strategy of combining intensive product development and rational production with a local presence means that we are well equipped to increase our market shares during the year.

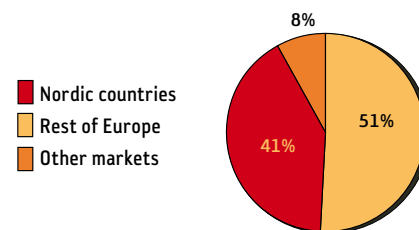
Raw material prices remain at historically high levels and we believe that this will continue to have a big impact on the competitive situation and on profitability throughout 2008.

Provided that the market remains more or less stable and in the hope that raw material prices will fall slightly, the restructuring measures we have carried out provide a good platform for continued positive development in 2008 and help to move NIBE Element one step closer towards achieving an operating margin of 10%.

## Distribution



## Sales by geographical market



## 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 2007. In countries with a strongly expanding GDP, such as those in Eastern Europe and Asia, demand has developed highly positively in our industry.

Many markets are showing considerable interest in alternative energy production and more efficient energy use, which is leading to strong growth in certain segments. However, it can be difficult to accurately forecast demand from year to year as sales in these segments are often dependent on various types of government grant.

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. Often these companies also develop their own products, specially adapted to local needs and conditions.

In certain major markets, either because of the prohibitive cost of running our own manufacturing operations, or simply because we prefer to adopt a cautious approach, we have chosen a presence in the form of a sales office instead. Today we have sales offices in the USA, Germany, France and Russia.

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 situation is less clear-cut. The trend is towards specialisation in European production plants at the same time as capacity is being increased in Eastern Europe.

Recent developments have also meant that products for electric direct heating of domestic properties, which have traditionally been manufactured in Western Europe, are now increasingly being made in low-cost countries in Eastern Europe and China. We believe that we are well placed to meet these trends thanks to our units in Poland, the Czech Republic and China.

For equipment for professional use, 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. To meet this increased demand we are expanding our capacity and increasing the breadth of our offer.



## Opportunities and threats

- + Industry restructuring and expansion through acquisitions
  - + Purchasing and production synergies
  - + Position on the various domestic markets provides opportunities to market a broader range of products
  - + Strong brands
  - + Rational, flexible production
  - + Access to rational production in countries with lower labour costs
  - + Market position as one of the leading manufacturers in Europe
  - + Intensive product development
- New technologies
  - Increased competition
  - Development in price of raw materials
  - Cost trends in our production countries
  - Low-price competition
  - Product liability in the event of series faults
  - Sharp downturn in demand from the engineering industry as a whole

## Industry trends

The industry has been buffeted for several years by fierce competition in those segments where elements are used in consumer products.

When it comes to products for professional users, the situation has been more stable and profitability has been satisfactory. The widespread trend towards expanding the product programme and increasing the content of deliveries to customers has fuelled relatively good growth in this segment.

The industry is gradually moving 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. But recent years have also heralded increased competition in Western Europe, particularly from the Chinese, who are successively increasing exports of their own products.

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 that manufacture for the volume segment, is well suited to industry trends, and that it will further strengthen our position and potential in the future.



Product development focuses on all-in-one systems for electric heating.

## PRODUCT AREAS

**Small household appliances**

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

**Domestic white goods**

Dishwashers	Ovens
Washing machines	Drying cabinets
Tumble-dryers	Mangles
Refrigerators	

**Comfort – water**

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

**Professional equipment**

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

**Comfort – air**

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

**Vehicles and transport**

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

**Products**

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

The range includes a number of technologies that can, in principle, be used both for heating elements and for resistors in 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 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, which are primarily used in the plastics industry, and ceramic elements for the surface treatment 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.

## PRODUCT AREAS



Jan Håkan Dahlström/ Bildhuset/Scanpix

**Process industry/projects**

Instantaneous water-heating elements  
Heater batteries  
Explosion-proof equipment

Disinfection equipment  
Galvanic baths  
Temperature control

**Maintenance/spares**

Plastic extrusion equipment  
Vacuum tables  
White goods spares

**Special**

Frequency converters  
Brake resistors  
Medical equipment

Load resistors  
Printing/photographic industry

**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, for example, to temperature ranges and insulation. One example of this is the new, water-cooled aluminium resistors that have been launched during the year.
- ▲ 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 launch during the year of instantaneous heating elements with integrated control functions for the heat-pump industry.
- ▲ Process development is carried out with the aim of optimising production as regards the choice of materials, the quality and the technical performance of a product. In 2007

we have carried out further materials optimisation projects in order to be able to use materials with lower nickel contents, which is important not least against the background of spiralling nickel prices.

- ▲ 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 radiator elements.

**Production**

NIBE Element has 23 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 with short lead times 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 2007 our new standardised business system was rolled out at our Finnish

unit. The system has a standard which paves the way for further co-ordination and the integration of the various production units.

Last year's move to new and larger premises has doubled our manufacturing capacity in China, and the Stargard plant in Poland is also being extended to increase production, primarily of resistors, and the assembly of electric control panels. This work is scheduled for completion during the spring of 2008.

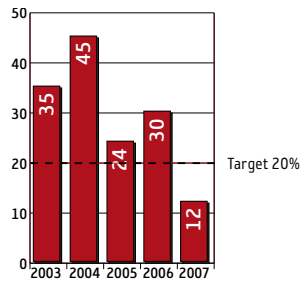
One of the production units in the UK has been closed and manufacturing operations are now concentrated to the plant in Manchester.

A number of product groups were transferred from units in Western Europe to low-cost units in Eastern Europe and China in 2006 and 2007, and this process will continue over the coming years. At the same time, individual production units will become increasingly specialised in order to boost efficiency even more.



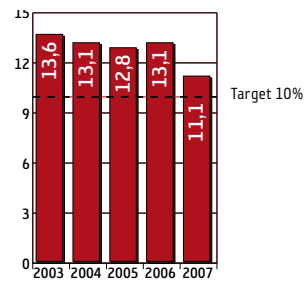
Kjell Ekermo,  
Business Area Manager

**Objective fulfilment**  
Growth (%)



Growth over the past five years averages 28.5%

**Objective fulfilment**  
Operating margin (%)



Operating margin over the past five years averages 12.5%

## NIBE Heating

is the largest manufacturer of domestic heating products in the Nordic countries and a market leader in Northern Europe in its main focus areas of electric water heaters and heat pumps.

NIBE Heating's 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 heating 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 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.

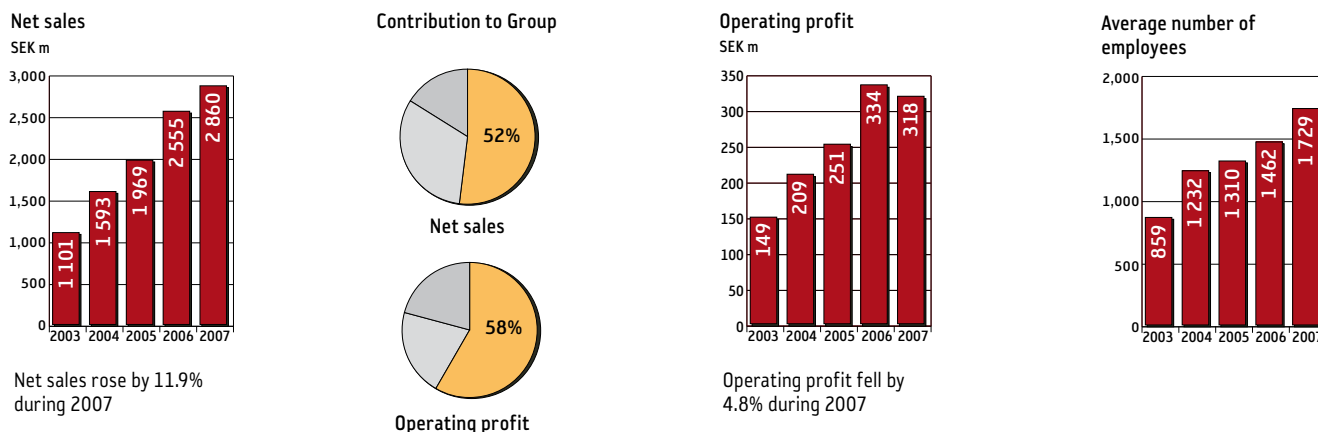
### Objective

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.

Heat-pumps are classed as a renewable source of energy and the technology is consequently of great significance in efforts to reduce energy consumption and carbon dioxide emissions in Europe.







## The year in brief

After many years of strong growth, sales on the Swedish heat pump market dipped relatively steeply in 2007. The biggest fall was in the high-volume market for ground-source/geothermal heat pumps – a result of the fact that conversion grants were discontinued at the start of the year. For other types of heat pump the reduction was minimal.

The phasing out of grants and steep rises in the price of pellets also contributed to a dramatic contraction in the markets for pellet burners and pellet boilers in 2007, both in Sweden and in Europe as a whole. We have therefore restructured our pellets business to reflect the current situation. The Swedish market for electric water-heaters and district heating products has remained stable while demand for conventional domestic water heaters continues to decline.

Developments on most of our foreign markets have been positive during the year. Interest in energy-efficient products for heating and indoor comfort continues to increase as gas and oil prices rise. This benefits our expansion in Europe, where our sales have risen especially strongly in Eastern Europe.

In Germany, on the other hand, the very strong growth in heat pump sales over recent years was checked in 2007 by a sharp fall in the number of new homes under construction following the withdrawal of state subsidies. As construction companies constitute a significant portion of our customer base, this had a negative impact on our sales growth. However, new political decisions in Germany late in 2007 have reintroduced grants for energy-saving measures, including the installation of heat pumps.

During the autumn NIBE Heating worked intensively to adapt production rates and fixed costs to lower levels of demand at the same time as work con-

tinued on the comprehensive material savings project.

Towards the end of the year NIBE acquired a 25% share in CJSC EVAN, the leading Russian brand for electric boilers, with 150 employees, annual sales of some SEK 70 million and an operating margin before tax of just over 20%. The intention is to gradually extend our holding to make EVAN a wholly owned subsidiary and the platform for the business area's other products in the huge Russian market.

Early in 2008 the Austrian heat pump company KNV Umweltgerechte Energietechnik GmbH was also acquired. KNV has 18 employees, annual sales of around SEK 50 million and pre-tax profits of approximately SEK 5 million. This acquisition ensures NIBE Heating of a prominent position on the expanding Austrian heat pump market.

## Outlook for 2008

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 and efficient production supported by professional, internationally effective marketing.

It is our opinion that the international market for ground-source/geothermal heat pumps and for exhaust-air and air/water pumps will continue to develop positively. In a directive published in January of this year promoting the use of renewable

energy, the EU Commission set a target of 20% renewable energy in Europe's total energy mix by 2020. At the same time its classification of heat pumps as a source of renewable energy will, we believe, support the future expansion of heat-pump use in Europe. State subsidies have already been introduced in a number of countries to encourage energy-saving investments, and there are strong signs that further financial incentives are in the pipeline.

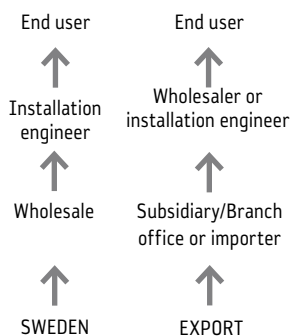
The Swedish heat-pump market has been Europe's largest for many years, but it is likely to lose this distinction during 2008. We predict a continued slide in sales of ground-source/geothermal heat pumps, while the situation remains stable for other types of heat pump. Sales of exhaust-air heat pumps are closely linked to new construction of residential properties, but are also governed by the growth of the market for replacement pumps. Planned changes in Swedish building standards will affect product development and the range will have to be adapted to the new requirements.

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.

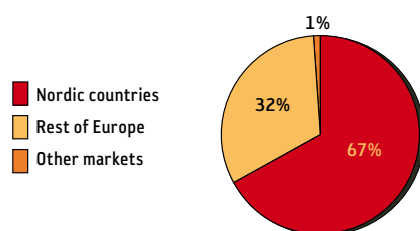
We believe that both the Nordic and other European markets for electric water heaters and district heating products will remain stable, while the market for conventional domestic boilers will decline.

On the whole, on the assumption that developments in the international economy will not lead to any further downturn in demand, we see good opportunities for continued expansion, chiefly in markets outside Sweden.

## Distribution



## Sales by geographical market



## 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/geothermal heat pump installation. While it is true that the Swedish market for this type of heat pump contracted significantly compared with figures from 2006, the number of units sold is still the highest in Europe. The market for air/water heat pumps, a much smaller segment in the RMI sector than ground-source/geothermal pumps, stagnated in 2007 after rapid growth the year before. The electric water heater market, which is again mainly RMI-oriented, remained stable during the year.

Around 13,800 new single-family homes were built in Sweden in 2007, compared with around 13,400 in 2006. Despite the increase, this is still a relatively low level by both historical and international standards. The vast majority of new, single-family homes are fitted with a heating system based on exhaust-air heat pumps that recover energy from spent air evacuated from 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

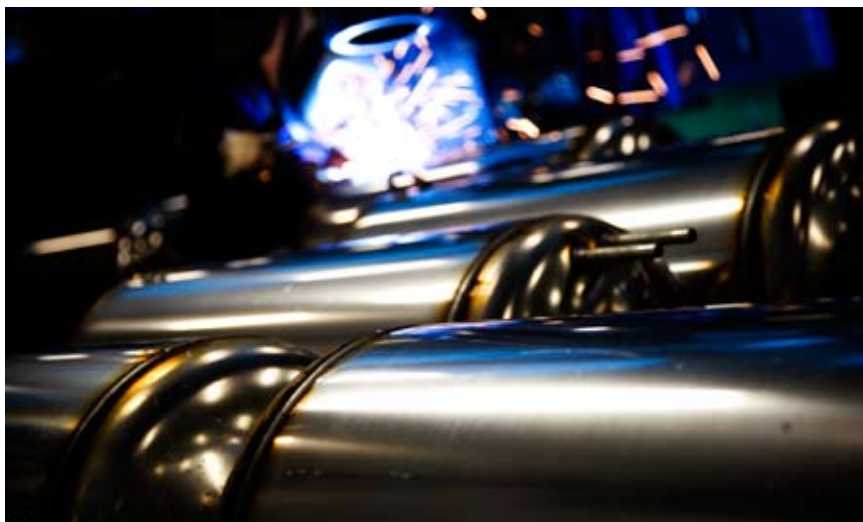
as far as heat pumps for water-borne heating systems are concerned. Within the heating market as a whole we remain a small player across much of Europe, since we do not work with gas-powered products: nonetheless, we are growing all the time. Competition, however, is fierce. Large international groups 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 many 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 French market for heat pumps means that France is now one of the largest markets in Europe for heat pumps for water-borne systems.

After several years' very strong growth, demand on the German heat-pump market slowed dramatically during the year as the construction of new single-family homes plummeted and state subsidies were withdrawn. However, a decision about a new programme for supporting investment in energy-saving technology – including heat pumps – was taken in Germany at the end of 2007 and extends to 2012. It is our opinion that this will contribute to a more stable development on the German market for heat pumps.

Most of our other foreign markets show strong growth figures, which is good news for our expansion 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.



For more than 50 years NIBE Heating has been perfecting state-of-the-art serial manufacture of welded pressure vessels.

## Opportunities and threats

- + A very large market outside the Nordic region
  - + Strong brands
  - + Broad range of products
  - + One of Europe's most modern heat pump plants
  - + Access to rational production in countries with lower labour costs
  - + Highly sophisticated in-house product development
  - + Political decisions on energy and the environment
  - + Expansion through acquisitions
- New laws, official decisions, energy taxes etc. with a short-term perspective
  - Increased competition
  - New technologies outside our current areas of expertise
  - Low-price competition
  - New distribution channels
  - Global economic downturn

## 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 and there is a clear ambition on most markets to reduce energy consumption. 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 specifications 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 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, gas and oil prices have meant that the industry's focus on heating alternatives based on these energy sources has dwindled both in Sweden and many other European markets.

Interest in energy-efficient heating solutions for large properties is growing both in Sweden and elsewhere. This represents a clear potential for the industry, but it also makes great



Copper is the commonest choice of non-corroding material on the Swedish and Dutch markets.

demands on knowledge in areas such as systems management and technical dimensioning.

Increased competition and, in its wake, increased pressure on prices in a number of product segments has led many companies to transfer manufac-

ture 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



### 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.



### 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.



### 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, bedrock 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.

## Products

NIBE Heating has a wide range of products enabling end-users to choose a solution that best suits their needs with regard to 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.

The range comprises 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
- ▲ high degree of innovation
- ▲ 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.

During the year a number of new products were launched in all product areas both in Sweden and elsewhere, reinforcing market perceptions of NIBE Heating as a leading European name in these fields.

Work is ongoing with a large number of products that can be used as components in existing and new product solutions.

Complete solutions for indoor comfort, including cooling, are being introduced all year round in the international market.

## Development process

To satisfy market demands for improved energy efficiency, 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



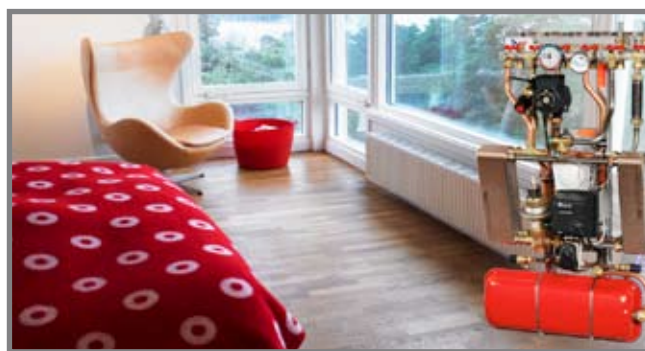
## PRODUCT AREAS

**Domestic boilers and pellet burners**

A modern domestic boiler for wood or pellets can represent a viable heating alternative for a reasonable outlay. And the design is appealing as well.

**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.

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 key 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 specialised R&D centre for heat pumps in Markaryd is considered to be of the very highest international class.

The technology for domestic boilers, pellet burners, water heaters and district heating substations is well established and so resources focus on developing high quality, cost-efficient, environ-

mentally adapted products. Design, too, has become an increasingly significant feature for end-users.

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

NIBE Heating has strong and highly competent R&D resources, both in Markaryd and out among the subsidiaries, and there is an increased focus on international product requirements in all areas of operation.

**Production**

NIBE Heating has ten production plants in Sweden, Denmark, Norway, Finland, Poland, the Czech Republic and Austria, 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 and Czech factories in the form of new machinery and premises is aimed at rationalising the manufacture of products for both the domestic markets and segments in other prioritised markets that are subject to fierce competition on price.

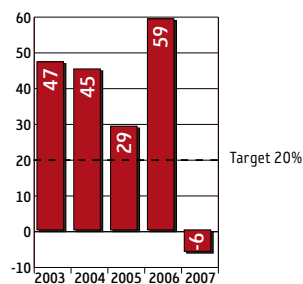
The acquisition of a stake in the Russian electric boiler manufacturer EVAN has further bolstered our manufacturing capacity and given us improved access to cost-effective production.

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 in terms of production control, productivity and, not least, quality.



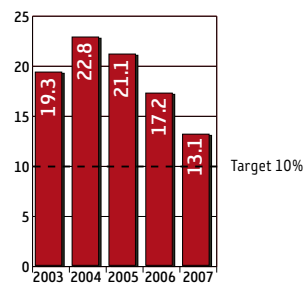
Niklas Gunnarsson,  
Business Area Manager

Objective fulfilment  
Growth (%)



Growth over the past five years averages 32.9%

Objective fulfilment  
Operating margin (%)



Operating margin over the past five years averages 17.8%

## NIBE Stoves

**is the market leader for wood-burning stoves in Sweden and one of the major players in the European wood-stove market.**

**NIBE Stoves' 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

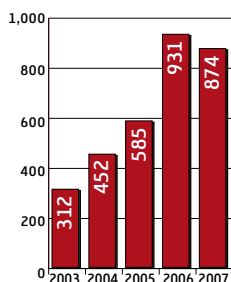
NIBE Stoves' strategy is to supply a wide and complete range of wood-burning products in order to confirm and consolidate its position as the market leader in Sweden. Expansion abroad will be supported by the continuous development of products tailored to new markets, combined with moves into new markets 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.

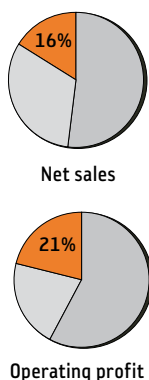
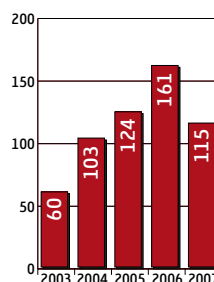


The Handöl 30 series was launched in 2007 – a strikingly contemporary design with glass panels.

Net sales  
SEK m

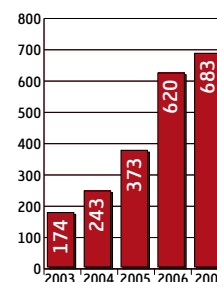
Net sales rose by 6.1% during 2007

Contribution to Group

Operating profit  
SEK m

Operating profit fell by 28.6% during 2007

Average number of employees



## The year in brief

While demand for wood stove products in Sweden fell slightly during the year, the market as a whole remains at a relatively high level, driven mainly by current high levels of consumption, strong figures from the construction industry and the general interest in home improvement projects. Our position as a market leader has been consolidated by forceful marketing and a large number of launches of Swan-marked, environmentally adapted products that reflect the mood of the times.

Developments in the other Nordic markets have varied. Sales of stove products in Norway have been relatively strong, and, while demand fell in the fourth quarter, our own share of the market continues to grow thanks to a series of successful product launches supported by a strong network of distributors. While sales in Finland have stabilised at a high level, there has been a steep fall in demand in Denmark.

The German market for stoves contracted dramatically compared with 2006, which must now be considered an exceptional year. The significantly lower demand is the result of negative factors such as an increase in VAT early in 2007, overstocks among resellers at the start of the year, an unusually mild winter, and a reduction in new homes. As neither 2006 nor 2007 can be considered truly representative years, we now await the stabilisation of the German market in the coming months. Our position in the industry remains very strong thanks to our systematic distribution strategy and ongoing product development activities.

Sales on our other foreign markets continue to develop well.

In Markaryd production has been scaled down and fixed costs reduced during the autumn to meet the generally lower level of current demand.

At the same time, construction of

the new production plant is proceeding according to schedule and the facility will be gradually phased into use from early 2008 onwards.

During the year far-reaching changes to the Varde Group have been made to improve profitability. A decision has been made to transfer the manufacture of large-volume series to the new Markaryd plant and smaller volume series to external suppliers. The production unit in Denmark will close at the end of June 2008, after which Varde Ovne will operate solely as a sales and development unit.

## Outlook for 2008

It is our opinion that there will be a slight decline in demand for wood-stove products in most European markets in the wake of an anticipated slowdown in economic growth as a whole. There are, however, other contributory factors, including a succession of warm or mild winters that have reduced demand, particularly under the traditional peak season for sales.

In addition there are discussions in a number of European countries about future limit values for wood-stove emissions. Unclear rules create uncertainty among consumers and have a negative impact on sales. At the same time, tougher criteria can represent a competitive advantage for NIBE in the long term, as we have a broad product range, are a forerunner in terms of environmental adaptation and are continually developing new products with even better performance.

Our strong product programme and systematic marketing measures have won us a strong market position in Germany and the Nordic countries, and we believe that this will be reinforced in a situation where demand begins to fall. We still have fairly small shares in many large European markets and the prospects are therefore good for us to



Much of today's manufacturing process is fully automated, but some complex operations still require skilled manual intervention.

grow through the continued expansion of our international network of distributors and via further takeovers.

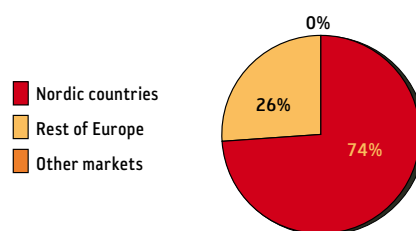
The cost-saving measures that we have implemented together with a strong market position and a brand new, highly efficient production plant in Markaryd mean that we are well placed to continue to deliver good profitability despite the uncertainties in the world around us.



## Distribution



## Sales by geographical market



## 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.

Most sales are made to home-owners and those with weekend cottages, but sales to new housing are rising constantly as more and more house-buyers opt for a wood-burning stove as an additional source of heat for their new home.

Thanks to a broad and comprehensive product range, 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.

Further south, in France and Italy for example, larger bodied stoves with a stone or concrete surround predominate. Similar designs are also common in Eastern Europe and Russia.

Such distinctive variations in taste are generally the result of the fact that a specific style has been established in a market by one or more domestic manufacturers.

Demand in our export markets is governed by the same factors as those in Sweden. In the Nordic countries, where electricity is used 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 stimulated interest in renewable energy and had a positive effect on demand for wood-burning stoves throughout the whole of Central Europe.

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.



## 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
- New government energy policies with a short-term perspective
  - Local authority decisions on restrictions relating to wood-burning products
  - Low-price competition
  - General economic climate

## 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 varying size 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 the process of structural change in Europe will continue over the next few years.

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 product segments where companies succeed in combining modern design with competitive prices.



The new stove production plant built in Markaryd in 2007 and brought into use in 2008 represents a major investment in highly automated manufacturing in Sweden.

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 Europe's big D-I-Y multiples. This suggests that it will be more than prod-

uct technology alone that determines a manufacturer's future success. Long-term planning, financial stability, a company's environmental reputation and its ability to show the proper concern for its dealers and end-customers will all grow in significance over the years to come.

## 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.

## 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 six different product groups:

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

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 prod-

ucts under the Handöl, Contura, Cronspisen, Roslagsspisen, Nordpeis and Varde Ovne names. 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, stainless steel system can be installed without the need for an existing chimney flue and is also the alternative that offers the best value for money on the Swedish market.

There are clear signs that products are becoming more similar throughout Europe in terms of function and design. We believe that the current, international design trend for lightweight fire-boxes with clean lines and large expanses of glass will gain ground on all of our sales markets – as evidenced by the sales successes of our latest 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.

As part of the process of reinforcing our reputation as a leading light in product development, we also have a number of products that carry the Nordic Swan mark. This means that the manufacturing process is environmentally adapted and that the products

## PRODUCT AREAS

**Stove inserts**

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

**Cast-iron stoves**

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

**Chimneys**

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



meet even higher environmental criteria than the regulations require, with highly efficient combustion processes and 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 based on 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. Thanks to our rational product development process, where much of the work is carried out in a 3D computer environment 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 in the 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.

Following strong developments in

sales over recent years a new production facility was built in Markaryd in 2007. Once this has been phased into use early in 2008, production capacity will be much greater and production itself will be even more efficient. Europe's most modern and most efficient plant for manufacturing stoves will give NIBE Stoves an even greater opportunity to lead the way in restructuring the European wood stove industry.

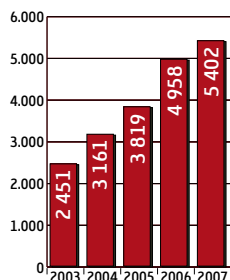
The acquisition of Nordpeis has given NIBE Stoves access to its own unit in Poland for manufacturing concrete surrounds and tiled stove modules and assembling stove products. In future, all products which consist solely of assembly work will be transferred to this unit, which is therefore also gradually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

Varde Ovne's production unit in Denmark will close during the year: large-volume series will be transferred to the new Markaryd plant and smaller volume series to external suppliers.



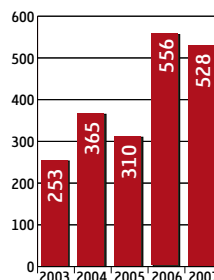
Leif Gustavsson, Financial Director

**Net sales**  
past five years (SEK m)



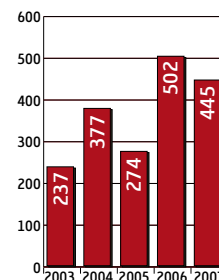
Net sales rose by 9.0% in 2007

**Operating profit**  
past five years (SEK m)



Operating profit fell by 5.0% in 2007

**Profit after financial items**  
past five years (SEK m)



Profit after financial items fell by 11.3% in 2007

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 2007 financial year.

## 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 5,400 employees and 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 has been annual growth of 20%, preferably with half of this being organic and half via acquired business. Sales rose from SEK 1,944.2 million to SEK 5,402.5 million during the period, through a combination of organic growth and an aggressive acquisition strategy that has seen the Group take over 16 different companies and lines of business.

Growth during the period has averaged 22.7%, with organic growth accounting for 13.8% and acquired sales for 8.9%.

The profitability target during the period has been an operating margin of at least 10% in each of the Group's busi-

ness areas, and a return on equity of at least 20% for the Group as a whole.

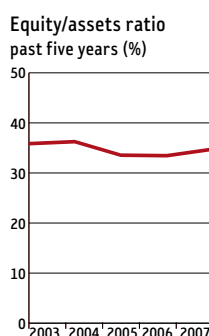
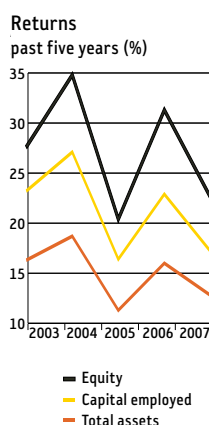
NIBE Element's operating margin during the period has averaged 4.9% excluding provisions for the restructuring reserve, and 3.9% including these provisions. The average operating margin for NIBE Heating is 12.5%, and for NIBE Stoves 17.8%.

The Group's return on equity during the period averaged 26.8% including provisions to the restructuring reserve.

## Income statements

(in millions of SEK)	2007	2006	2005	2004	2003
Net sales	5,402.5	4,958.0	3,819.1	3,161.0	2,451.1
Cost of goods sold	- 3,828.2	- 3,409.0	- 2,763.9	- 2,170.8	- 1,736.3
<b>Gross profit</b>	<b>1,574.3</b>	<b>1,549.0</b>	<b>1,055.2</b>	<b>990.2</b>	<b>714.8</b>
Selling expenses	- 838.2	- 786.2	- 578.0	- 471.1	- 341.4
Administrative expenses	- 292.3	- 266.4	- 224.0	- 177.0	- 144.8
Administrative expenses	84.2	59.6	56.9	23.3	24.3
<b>Operating profit</b>	<b>528.0</b>	<b>556.0</b>	<b>310.1</b>	<b>365.4</b>	<b>252.9</b>
Net financial items	- 83.0	- 54.5	- 36.5	11.8	- 16.0
<b>Profit after net financial items</b>	<b>445.0</b>	<b>501.5</b>	<b>273.6</b>	<b>377.2</b>	<b>236.9</b>
Tax	- 130.3	- 150.7	- 89.9	- 97.7	- 74.4
<b>Net profit for the year</b>	<b>314.7</b>	<b>350.8</b>	<b>183.7</b>	<b>279.5</b>	<b>162.5</b>
Minority participation in profit/loss after tax	-	-	1.7	1.1	0.5
Includes the following amounts for depreciation according to plan	163.7	141.0	121.1	96.5	70.4





## Balance sheet over the past five years

Over the past five years total assets have risen from SEK 1,336.7 million to SEK 4,523.5 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 947.5 million over a five-year period. Of this increase, around 37% was added through acquisitions of companies and lines of business, and around 63% 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 104.1 million to SEK 210.2 million during the past five years.

Current and non-current interest-bearing liabilities and provisions consist of pension provisions and loans from

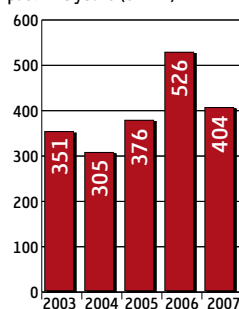
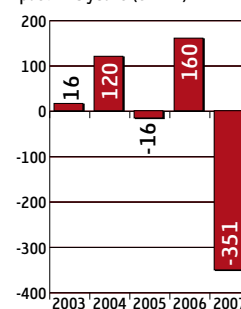
banks and other financial institutions, and grew from SEK 363.7 million to SEK 2,005.2 million during the period. The increase is due partly to the expansion of existing units in the NIBE Group and partly to interest-bearing liabilities at companies and lines of business acquired.

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 34.0%.

Current non-interest-bearing liabilities and provisions grew by SEK 459.5 million from SEK 300.8 million to SEK 760.3 million during the period. Accrued expenses and traditional trade payables, which are both directly related to the expansion of the business, account for approximately 79% of the total.

## Balance sheets

(in millions of SEK)	2007	2006	2005	2004	2003
Intangible assets	732.2	670.3	458.5	304.7	210.7
Tangible assets	1,374.4	1,116.3	1,015.2	875.7	659.3
Financial assets	35.7	28.2	36.0	10.6	47.2
<b>Total non-current assets</b>	<b>2,142.3</b>	<b>1,814.8</b>	<b>1,509.7</b>	<b>1,191.0</b>	<b>917.2</b>
Inventories	1,344.0	1,007.9	831.1	690.2	445.6
Current receivables	829.3	857.0	651.2	525.4	443.3
Investments	-	4.8	1.1	0.9	2.3
Cash and bank balances	207.9	218.3	132.2	88.6	81.5
<b>Total current assets</b>	<b>2,381.2</b>	<b>2,088.0</b>	<b>1,615.6</b>	<b>1,305.1</b>	<b>972.7</b>
<b>Total assets</b>	<b>4,523.5</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>2,496.1</b>	<b>1,889.9</b>
Equity	1,547.7	1,283.5	1,031.0	891.6	666.8
Long-term liabilities and provisions. non-interest-bearing	210.2	247.8	265.2	205.1	140.7
Long-term liabilities and provisions. interest-bearing	1,866.5	1,317.8	1,025.8	730.3	602.6
Current liabilities and provisions. non-interest-bearing	760.3	914.0	685.4	586.9	424.1
Current liabilities and provisions. interest-bearing	138.8	139.7	117.9	82.2	55.7
<b>Total equity and liabilities</b>	<b>4,523.5</b>	<b>3,902.8</b>	<b>3,125.3</b>	<b>2,496.1</b>	<b>1,889.9</b>

Investments in fixed assets  
past five years (SEK m)Operating cash flow  
past five years (SEK m)

## 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 23% of sales.

### Investment in existing operations

In 2003 and 2004 investment in existing operations totalled just over SEK 170 million, rising to more than SEK 200 million in 2005 and 2006 and almost SEK 400 million in 2007. Most of the investment has been in the Group's plants in Markaryd, Sweden, where the majority 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 element manufacturing operations.

### Operating cash flow

Apart from the past twelve months, the Group has had a stable operating cash flow throughout the past five-year period.

Sales expectations for 2007 were substantially higher than the actual outcome, which meant that the traditional stock-building during the first six months of the year resulted in excess stocks at the end of the year – and a large negative cash flow.

It is anticipated that stock levels will revert to normal during 2008 at the same time as the rate of investment will be lower.

### Acquisition of businesses

Over the years, NIBE Industrier has pursued an aggressive acquisitions strategy. In the five years up to the end of 2007, 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. The company intends to continue to make acquisitions in the future.

### Financing

All capital requirements over the past five years – for takeovers and investments in existing operations as well as for 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 34.3% of the net profit for the year after full tax but before allocations to the structural reserve.

## Cash flow statements

(in millions of SEK)	2007	2006	2005	2004	2003
Cash flow before change in working capital	439.5	489.9	312.6	381.8	240.7
Change in working capital	- 399.4	- 93.4	- 109.4	- 82.0	- 54.7
<b>Cash flow from operating activities</b>	<b>40.1</b>	<b>396.5</b>	<b>203.2</b>	<b>299.8</b>	<b>186.0</b>
Investments in current operations	- 390.9	- 236.6	- 219.0	- 179.5	- 170.4
<b>Operating cash flow</b>	<b>- 350.8</b>	<b>159.9</b>	<b>- 15.8</b>	<b>120.3</b>	<b>15.6</b>
Acquisition of companies	- 13.2	- 289.8	- 156.7	- 125.6	- 180.3
<b>Cash flow after investments</b>	<b>- 364.0</b>	<b>- 129.9</b>	<b>- 172.5</b>	<b>- 5.3</b>	<b>- 164.7</b>
Financing	451.6	291.4	296.1	54.8	212.9
Dividend to shareholders	- 108.0	- 70.4	- 70.4	- 43.4	- 32.3
<b>Cash flow for the year</b>	<b>- 20.4</b>	<b>91.1</b>	<b>53.2</b>	<b>6.1</b>	<b>15.9</b>
Liquid funds at the beginning of the year	218.3	132.2	88.6	81.5	67.1
Exchange rate difference in liquid funds	10.0	- 5.0	- 9.6	1.0	- 1.5
<b>Liquid funds at year-end</b>	<b>207.9</b>	<b>218.3</b>	<b>132.2</b>	<b>88.6</b>	<b>81.5</b>



## Sensitivity analysis

	Base for calc. SEK m	Change %	Impact SEK m
Net sales (margin constant)	5,402.5	+/- 1.0%	18.4
Operating margin (volume constant)		+/- 0.1%	5.4
Material costs	2,367.6	+/- 1.0%	23.7
Payroll expenses	1,333.3	+/- 1.0%	13.3
Interest-bearing liabilities (interest constant)	2,005.2	+/- 10.0%	10.2
Interest rate % (interest-bearing liability constant)	5.1 %	+/- 1.0%-point	20.1

Based on Income Statement 2007

## Risk Management

### 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.

### 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 US dollars 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.

### 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.

### 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 SEK 200,000 and SEK 1 million.

Within the Group's product areas, there is always a risk that a series fault could lead to product recalls, through problems with 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.

### Financial risks

Credit risks, currency risks, financing risks and interest-rate risks that can affect the NIBE Group are described in Note 7.

### 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 above shows the effect of a variety of changes on the Group's result, based on the income statement for 2007.



It has proved difficult to compensate for steep price rises in materials such as copper.

## Income statement 2007

### Net sales

Group net sales grew by 9.0% to SEK 5,402.5 million (2006: SEK 4,958.0 million). NIBE Element's sales grew by 16.0%, of which 12.0% was organic and 4.0% acquired. For NIBE Heating the increase was 11.9%, of which 4.0% was organic and 7.9% acquired. Sales for NIBE Stoves fell by 6.1%, without being affected by any acquisitions.

Group net sales outside Sweden amounted to SEK 3,717.5 million (2006: SEK 3,212.1 million), an increase of SEK 505.4 million: net sales abroad accounted for 68.8% (64.8%) of total net sales. Net sales in the Swedish market fell by 3.5% to SEK 1,685.0 million (SEK 1,745.9 million).

Organic growth accounted for SEK 181.7 million of the total increase in the Group's net sales of SEK 444.5 million. The remaining SEK 262.8 million came from acquisitions: this breaks down into SEK 61.5 million at NIBE Element and SEK 201.3 million at NIBE Heating.

### Operating profit

Group operating profit totalled SEK 528.0 million, a reduction of 5.0% from the figure of SEK 556.0 million recorded in 2006. The operating margin was 9.8% (11.2%).

NIBE Element's operating result grew by 48.3% or SEK 36.8 million from SEK 76.2 million in 2006 to SEK 113.0 million in 2007. The business area's operating margin was 6.4% (5.0%).

NIBE Heating's operating profit fell by SEK 16.2 million or 4.8% from SEK 333.8 million to SEK 317.6 million. The operating margin was 11.1% (13.1%).

NIBE Stoves' operating profit fell by 28.5% or SEK 45.8 million from SEK 160.6 million to SEK 114.8 million. The operating margin was 13.1% (17.2%).

### 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 the reporting year did not provide any indication of impairment.

### Profit after financial items

Profit after financial items fell by 11.3% to SEK 445.0 million (SEK 501.5 million), giving a pre-tax profit margin of SEK 8.2% (10.1%). Financial items generated net expense of SEK 83.0 million for the year as against a net expense of SEK 54.5 million in 2006.

### Tax

The tax charge for the year was SEK 130.3 million (SEK 150.7 million), which gives an effective tax rate of 29.3% (30.0%). 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.

## Key ratios

		2007	2006	2005	2004	2003
Net sales	SEK m	5,402.5	4,958.0	3,819.1	3,161.0	2,451.1
Growth	%	+ 9.0	+ 29.8	+ 20.8	+ 29.0	+ 26.1
Operating profit	SEK m	528.0	556.0	310.1	365.4	252.9
Profit after net financial items	SEK m	445.0	501.5	273.6	377.2	236.9
Net investments in fixed assets	SEK m	404.1	526.4	375.7	305.1	350.6
Gross margin	%	12.8	14.1	11.3	14.6	13.2
Operating margin	%	9.8	11.2	8.1	11.6	10.3
Profit margin	%	8.2	10.1	7.2	11.9	9.7
Capital employed	SEK m	3,552.9	2,741.0	2,174.7	1,704.3	1,325.1
Equity	SEK m	1,547.7	1,283.5	1,031.0	891.6	666.8
Return on capital employed	%	17.2	22.9	16.4	27.1	23.2
Return on equity	%	22.6	31.3	20.4	34.8	27.6
Return on total assets	%	12.8	16.0	11.3	18.7	16.3
Asset turnover	times	1.28	1.41	1.36	1.44	1.52
Equity/assets ratio	%	34.2	32.9	33.0	35.7	35.3
Proportion of risk-bearing capital	%	36.9	36.1	36.7	40.4	40.1
Operating cash flow	SEK m	- 350.8	159.9	- 15.8	120.3	15.6
Interest cover	times	5.7	9.2	7.2	12.3	10.3
Interest-bearing liabilities/Equity	%	129.6	113.6	110.9	91.1	98.7
Average number of employees		5,439	5,111	4,339	3,755	2,881





## Balance sheet 2007

### Equity ratio and returns

The Group's equity ratio at the end of the year was 34.2% (32.9%). Equity including minority interests amounted to SEK 1,547.7 million (SEK 1,283.5 million).

The Group's return target is a return on equity of at least 20% in the long term. The return 22.9%). The profitability target for the business 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 6.4% (5.0%); NIBE Heating's was 11.1% (13.1%), and NIBE Stoves' was 13.1% (17.2%). The operating margin for the Group as a whole was 9.8% (11.2%).

### Cash and cash equivalents

The Group had cash and cash equivalents of SEK 207.9 million (SEK 218.3 million) at the end of the year. It also had unused overdraft facilities of SEK 645.2 million (SEK 565.3 million).

The Group's overdraft facilities were extended by SEK 549.7 million net during the year. Overdraft facilities of SEK 4.3 million were added through

acquisitions, which means that existing facilities were increased by SEK 545.4 million.



Feedback relating to production is reported online.

## Definitions – key ratios

### 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 2007

### Cash flow before changes in working capital

The consolidated cash flow for 2007 after changes in working capital amounted to SEK 40.1 million (2006: SEK 396.5 million)

### Investment

Group acquisitions of subsidiary companies/lines of business totalled SEK 13.2 million (SEK 289.8 million). Investment in existing units totalled SEK 390.9 million (SEK 236.6 million), allocated as follows:

(SEK m)	2007	2006
Machinery and equipment	208.8	169.0
Properties	31.4	53.0
Construction in progress	124.5	2.5
Other fixed assets	26.2	12.1
<b>Total</b>	<b>390.9</b>	<b>236.6</b>

Consequently, cash flow after investment activities was SEK -364.0 million (SEK -129.9 million).

Operating cash flow (i.e. after investments, but excluding acquisitions of subsidiary companies/lines of business) was SEK -350.8 million (SEK +159.9 million).

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

(SEK m)	2007	2006
Loans with floating interest and repayments over 10 yrs	1,151.9	1,075.9
Utilised portion of overdraft-facilities w. floating interest rate	827.5	357.7
Pensions provisions	24.4	23.9
Other provisions	1.4	-
<b>Total interest-bearing liabilities</b>	<b>2,005.2</b>	<b>1,457.5</b>
Unutilised overdraft facilities	645.2	565.3
<b>Total credit available</b>	<b>2,650.4</b>	<b>2,022.8</b>

The Group's total interest-bearing liabilities at the year-end amounted to SEK 2,005.2 million (SEK 1,457.5 million). The average interest expense for the total of interest-bearing liabilities was 5.1% (4.4%).

The Group's net liabilities, which consist of interest-bearing liabilities minus cash and bank balances and short-term investments totalled SEK 1,797.3 million (SEK 1,234.4 million).

### Important events during the year

In June the Danish company Løbcke Rail A/S was acquired and in December agreement was reached on the acquisition of a 25% stake in CJSC EVAN of Russia. For further details about the year's acquisitions, you are referred to Note 29. In August 2005 the Board resolved to introduce a restructuring programme in the NIBE Element busi-

ness area. In essence the programme involved transferring certain manufacturing processes from Western Europe to Eastern Europe and China in order to boost earnings by an anticipated SEK 40 million or so a year. Implementation proceeded according to plan in 2007 and the programme was concluded during the fourth quarter.

### Important events after the end of the financial year

In January 2008 an agreement was reached on the takeover of the Austrian company KNV Umweltgerechte Energietechnik GmbH. See Note 30. Events after the end of the reporting period, for further details.

### Remuneration

The Annual General Meeting determines the remuneration of the chairman of the board and other directors.

The Annual General Meeting also determines the guidelines for the remuneration of the managing director and other senior management personnel, in accordance with which the board subsequently determines the remuneration of the managing director. The remuneration of other senior personnel is determined by the managing director in consultation with the chairman of the board. Decisions are reported to the board. For further details, you are referred to Note 6.

Apart from pension benefits, which are currently under review, the board proposes that remuneration for 2008 is determined according to the same principles as those laid down in 2007.

### Research and development

The NIBE Group carries out market-leading 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 means that we can react quickly to changes in what our customers want and transform these wishes into the best possible solution in each market context. See also Note 9.

### Future prospects

Although developments in volumes and earnings in 2007 failed to meet expectations, this has not altered our view of the future potential of the NIBE Group: our long-term objectives remain unchanged – not least our commitment to achieve sales of SEK 10 billion by 2011 without compromising profitability.

The withdrawal of government grants and the slight dip in the economy as a whole are phenomena of a

transient character. The market for our products has much to gain from current, far more dominant trends, such as escalating energy prices and the need for more efficient and environmentally adapted heating alternatives.

With regard to the internal situation, we can confirm that we are starting 2008 with fixed costs that are SEK 50 million less than in 2007, and that we will continue to raise productivity, reduce our material costs and slim down stocks even further.

NIBE still enjoys a healthy financial position and our ambitions with regard to takeovers in 2008 remain strong.

We stand well prepared for further organic expansion, but we will be circumspect about building up stocks ahead of the autumn or increasing our fixed costs until the signals from the markets are more positive.

Against this background, we remain cautiously optimistic about 2008, at the same time as we recognise that we are, of course, dependent on developments in the world around us.

### Ownership

NIBE's share capital is divided into 13,160,256 "A" shares and 80,759,744 "B" shares. Each "A" share carries ten votes at the Annual General Meeting and each "B" share carries one vote. For "A" shares, which represent approximately 62% of the votes, the company's articles of association prescribe an obligation to give existing shareholders first refusal of any shares that are offered for sale.

### Appropriation of profits

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

Profit brought forward	SEK	77.3 million
Profit for the year	SEK	178.4 million
<b>Total</b>	<b>SEK</b>	<b>255.7 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 22 May 2008.

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	
		2007	2006	2007	2006
Net sales	Note 3	5,402.5	4,958.0	2.4	2.3
Cost of goods sold		- 3,828.2	- 3,409.0	-	-
<b>Gross profit</b>		<b>1,574.3</b>	<b>1,549.0</b>	<b>2.4</b>	<b>2.3</b>
Selling expenses		- 838.2	- 786.2	-	-
Administrative expenses	Note 5	- 292.3	- 266.4	- 19.3	- 17.3
Other operating income	Note 10	84.2	59.6	0.8	-
<b>Operating profit</b>	Note 3 – 10	<b>528.0</b>	<b>556.0</b>	<b>- 16.1</b>	<b>- 15.0</b>
<b>Profit from financial investments</b>					
Profit from participations in Group companies	Note 11	-	-	226.1	131.7
Profit/loss from participations in associated companies	Note 11	-0.2	0.1	-	-
Interest income and similar profit/loss items	Note 12	12.0	6.4	25.9	8.5
Interest expenses and similar profit/loss items	Note 13	- 94.8	- 61.0	- 57.5	- 28.9
<b>Profit after financial items</b>		<b>445.0</b>	<b>501.5</b>	<b>178.4</b>	<b>96.3</b>
Tax on the profit for the year	Note 14	- 130.3	- 150.7	-	- 0.3
<b>Profit for the year</b>		<b>314.7</b>	<b>350.8</b>	<b>178.4</b>	<b>96.0</b>
Parent company's share of net earnings		314.7	350.8	-	-
Depreciation according to plan		163.7	141.0	0.1	0.1
Number of shares at year-end		93,920,000	93,920,000		
Net earnings per share in SEK		3.35	3.74		
Proposed dividend per share in SEK		1.15	1.15		

## Quarterly data

### Consolidated income statement

(in millions of SEK)	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	1,284.8	1,247.3	1,337.2	1,533.2	1,033.8	1,066.4	1,237.6	1,620.2
Operating expenses	- 1,162.0	- 1,142.5	- 1,204.7	- 1,365.3	- 932.9	- 967.8	- 1,071.9	- 1,429.4
<b>Operating profit</b>	<b>122.8</b>	<b>104.8</b>	<b>132.5</b>	<b>167.9</b>	<b>100.9</b>	<b>98.6</b>	<b>165.7</b>	<b>190.8</b>
Net financial items	- 14.1	- 18.6	- 24.4	- 25.9	- 11.6	- 13.2	- 14.3	- 15.4
<b>Profit after net financial items</b>	<b>108.7</b>	<b>86.2</b>	<b>108.1</b>	<b>142.0</b>	<b>89.3</b>	<b>85.4</b>	<b>151.4</b>	<b>175.4</b>
Tax	- 31.1	- 23.6	- 37.2	- 38.4	- 26.8	- 24.8	- 45.9	- 53.2
<b>Net profit for the year</b>	<b>77.6</b>	<b>62.6</b>	<b>70.9</b>	<b>103.6</b>	<b>62.5</b>	<b>60.6</b>	<b>105.5</b>	<b>122.2</b>
<b>Net sales – by business area</b>								
NIBE Element	463.8	443.5	418.2	453.6	377.4	364.0	350.7	441.8
NIBE Heating	661.3	717.9	717.1	763.6	478.1	573.6	661.9	841.5
NIBE Stoves	189.4	125.2	230.9	328.6	192.7	141.8	237.4	359.3
Group eliminations	- 29.7	- 39.3	- 29.0	- 12.6	- 14.4	- 13.0	- 12.4	- 22.4
<b>Group total</b>	<b>1,284.8</b>	<b>1,247.3</b>	<b>1,337.2</b>	<b>1,533.2</b>	<b>1,033.8</b>	<b>1,066.4</b>	<b>1,237.6</b>	<b>1,620.2</b>
<b>Operating profit – by business area</b>								
NIBE Element	36.3	27.8	24.5	24.4	19.1	19.1	20.4	17.6
NIBE Heating	69.8	88.4	75.8	83.6	50.4	70.4	104.7	108.3
NIBE Stoves	20.8	- 5.7	35.8	63.9	34.4	14.5	43.7	68.0
Group eliminations	- 4.1	- 5.7	- 3.6	- 4.0	- 3.0	- 5.4	- 3.1	- 3.1
<b>Group total</b>	<b>122.8</b>	<b>104.8</b>	<b>132.5</b>	<b>167.9</b>	<b>100.9</b>	<b>98.6</b>	<b>165.7</b>	<b>190.8</b>

## Balance sheets

Assets (in millions of SEK)	Group		Parent company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
<b>NON-CURRENT ASSETS</b>				
Intangible assets				
Goodwill <i>Note 15</i>	691.1	643.4	-	-
Other intangible assets <i>Note 16</i>	41.1	26.9	-	-
<b>Total</b>	<b>732.2</b>	<b>670.3</b>	<b>-</b>	<b>-</b>
Tangible assets				
Land and buildings <i>Note 17</i>	551.3	507.1	-	-
Machinery and equipment <i>Note 18</i>	646.5	556.8	0.1	0.2
Construction in progress <i>Note 19</i>	176.6	52.4	-	-
<b>Total</b>	<b>1,374.4</b>	<b>1,116.3</b>	<b>0.1</b>	<b>0.2</b>
Financial assets				
Shares in subsidiaries <i>Note 20</i>	-	-	1,113.3	1,112.6
Receivables from Group companies	-	-	506.9	306.7
Shares in associated companies <i>Note 21</i>	-	0.1	-	-
Long-term securities held	0.6	0.2	-	-
Deferred tax asset <i>Note 14</i>	29.9	22.2	7.4	-
Other long-term receivables	5.2	5.7	-	-
<b>Total</b>	<b>35.7</b>	<b>28.2</b>	<b>1,627.6</b>	<b>1,419.3</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,142.3</b>	<b>1,814.8</b>	<b>1,627.7</b>	<b>1,419.5</b>
<b>CURRENT ASSETS</b>				
Inventories				
Raw materials and consumables	656.3	527.0	-	-
Work in progress	155.9	140.2	-	-
Finished products and goods for resale	531.8	340.7	-	-
<b>Total</b>	<b>1,344.0</b>	<b>1,007.9</b>	<b>-</b>	<b>-</b>
Current receivables				
Accounts receivable – trade	704.2	721.8	-	-
Receivables from Group companies	-	-	6.2	11.5
Accounts receivable – associated companies	-	0.7	-	-
Tax asset	29.5	22.8	0.5	0.4
Other receivables	52.2	78.2	6.8	4.6
Prepaid expenses and accrued income	43.4	33.5	0.4	0.4
<b>Total</b>	<b>829.3</b>	<b>857.0</b>	<b>13.9</b>	<b>16.9</b>
Current investments	-	4.8	-	-
Cash and bank balances	207.9	218.3	2.8	1.0
<b>TOTAL CURRENT ASSETS</b>	<b>2,381.2</b>	<b>2,088.0</b>	<b>16.7</b>	<b>17.9</b>
<b>TOTAL ASSETS</b>	<b>4,523.5</b>	<b>3,902.8</b>	<b>1,644.4</b>	<b>1,437.4</b>





Equity and liabilities (in millions of SEK)	Group		Parent company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2007
<b>EQUITY</b>				
Share capital <i>Note 22</i>	58.7	58.7	Restricted equity 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>
			Non-restricted equity	
Other reserves/Fair value reserve	59.6	2.1	- 19.0	8.4
Profit brought forward incl. profit for the year	1,362.0	1,155.3	274.7	204.3
<b>Total non-restricted equity</b>			<b>255.7</b>	<b>212.7</b>
<b>Total equity</b>	<b>1,547.7</b>	<b>1,283.5</b>	<b>389.3</b>	<b>346.3</b>
<b>UNTAXED RESERVES</b>				
Accelerated depreciation	-	-	0.1	0.1
<b>Total untaxed reserves</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>
<b>NON-CURRENT LIABILITIES AND PROVISIONS</b>				
Provisions for post-employment benefits <i>Note 23</i>	27.8	28.7	-	-
Provisions for taxes <i>Note 14</i>	120.7	126.6	-	3.3
Guarantee risk reserve <i>Note 24</i>	53.5	48.8	-	-
Restructuring reserve <i>Note 24</i>	-	27.6	-	-
Other provisions, interest-bearing <i>Note 24</i>	1.4	-	-	-
Other provisions, non-interest-bearing <i>Note 24</i>	10.2	9.8	-	-
Bank overdraft facilities <i>Note 25</i>	827.5	357.7	-	-
Liabilities to credit institutions <i>Note 7</i>	1,009.0	929.4	1,111.5	756.9
Liabilities to Group companies	-	-	50.1	215.0
Other liabilities, interest-bearing	4.2	6.8	-	-
Other liabilities, non-interest-bearing	22.4	30.2	-	27.7
<b>Total non-current liabilities and provisions</b>	<b>2,076.7</b>	<b>1,565.6</b>	<b>1,161.6</b>	<b>1,002.9</b>
<b>CURRENT LIABILITIES AND PROVISIONS</b>				
Liabilities to credit institutions	138.8	139.7	79.5	75.1
Accounts payable – trade	325.7	433.1	0.8	0.5
Advance payments from customers	5.5	3.7	-	-
Liabilities to Group companies	-	-	0.2	0.5
Tax liability	25.4	56.7	-	-
Other liabilities	123.6	135.2	7.9	7.4
Accrued expenses and deferred income <i>Note 26</i>	280.1	285.3	5.0	4.6
<b>Total current liabilities and provisions</b>	<b>899.1</b>	<b>1,053.7</b>	<b>93.4</b>	<b>88.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,523.5</b>	<b>3,902.8</b>	<b>1,644.4</b>	<b>1,437.4</b>
Pledged assets <i>Note 27</i>	1,810.7	1,716.0	335.0	335.0
Contingent liabilities <i>Note 28</i>	31.5	9.4	30.5	208.5

## 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 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	-	1,283.5
Market value of commercial forward exchange agreements after tax allowance			1.3			1.3
Exchange rate differences <sup>2)</sup>			56.2			56.2
Dividend				- 108.0		- 108.0
Profit for the year				314.7		314.7
Equity 31 Dec 2007	58.7	67.4	59.6	1,362.0	-	1,547.7

## 1) Other reserves

(in millions of SEK)	Revaluation reserve	Exchange rate difference	Total other reserves
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 31 Dec 2006	1.5	0.6	2.1
Market value of commercial forward exchange agreements after tax allowance	1.3		1.3
Exchange rate differences <sup>2)</sup>		56.2	56.2
Other reserves carried forward 31 Dec 2007	2.8	56.8	59.6

## 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	84.9
The year's exchange rate difference recomputed for loans to foreign subsidiaries	- 0.2
The year's exchange rate difference recomputed for loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK -39.6 million, of which the tax effect is SEK -11.1 million	- 28.5
<b>Total exchange rate difference for the period</b>	<b>56.2</b>
<b>Specification of accumulated exchange rate difference when recomputing figures for foreign subsidiaries</b>	
Accumulated exchange rate difference at start of year	- 7.8
Exchange rate difference for the year in foreign subsidiaries	84.9
<b>Accumulated exchange rate difference at year-end</b>	<b>77.1</b>

## Parent company

(in millions of SEK)	Share capital	Statutory reserve	Fair value reserve	Profit brought forward	Total Equity
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
The year's exchange rate difference when recomputing loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK -38.0 million, of which the tax effect is SEK -10.6 million.			- 27.4		- 27.4
Profit for the year				178.4	178.4
Dividend				- 108.0	- 108.0
Equity 31 Dec 2007	58.7	74.9	- 19.0	274.7	389.3



## Cash flow statements

(in millions of SEK)	Group		Parent company	
	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Operating profit	528.0	556.0	- 16.1	- 15.0
+ depreciation charged to this profit	163.7	143.9	0.1	0.1
+ capital losses / - capital gains	0.4	- 1.4	-	-
<b>Total</b>	<b>692.1</b>	<b>698.5</b>	<b>- 16.0</b>	<b>- 14.9</b>
Interest received and similar items	12.1	6.6	25.9	9.5
Interest paid and similar items	- 95.9	- 61.0	- 57.6	- 28.9
Tax paid	- 168.8	- 154.2	- 0.1	- 0.5
<b>Cash flow before change in working capital</b>	<b>439.5</b>	<b>489.9</b>	<b>- 47.8</b>	<b>- 34.8</b>
<b>Change in working capital</b>				
Change in inventories	- 292.6	- 143.3	-	-
Change in current receivables	95.6	- 173.6	3.2	- 7.8
Change in current liabilities	- 202.4	223.5	5.3	- 72.5
<b>Cash flow from operating activities</b>	<b>40.1</b>	<b>396.5</b>	<b>- 39.3</b>	<b>- 115.1</b>
<b>INVESTMENT ACTIVITIES</b>				
Investments in machinery and equipment	- 215.0	- 174.1	-	-
Investments in buildings and land	- 31.4	- 61.7	-	-
Investment in construction in progress	- 124.5	- 2.5	-	-
Investment in goodwill	- 0.2	- 5.4	-	-
Investment in other intangible non-current assets	- 20.7	- 6.1	-	-
Sale of machinery and equipment	6.2	5.1	-	-
Sale of buildings and land	-	8.7	-	-
Change in non-current receivables and other securities	- 5.3	- 0.6	-207.5	- 75.6
<b>Cash flow from investment activities</b>	<b>- 390.9</b>	<b>- 236.6</b>	<b>-207.5</b>	<b>- 75.6</b>
<b>OPERATING CASH FLOW</b>	<b>- 350.8</b>	<b>159.9</b>	<b>- 246.8</b>	<b>- 190.7</b>
Acquired companies/lines of business <sup>1)</sup>	- 13.2	- 289.8	- 0.7	- 295.0
<b>FINANCING ACTIVITIES</b>				
Change in minority interest	-	- 5.2	-	-
Profit from participation in Group companies	-	-	226.1	146.7
Amortisation of long-term loans	- 185.2	- 167.3	- 43.8	- 60.1
Other changes in non-current liabilities and provisions	636.8	463.9	175.0	470.4
Shareholders' dividend	- 108.0	- 70.4	- 108.0	- 70.4
<b>Cash flow from financing activities</b>	<b>343.6</b>	<b>221.0</b>	<b>249.3</b>	<b>486.6</b>
<b>Cash flow for the year</b>	<b>- 20.4</b>	<b>91.1</b>	<b>1.8</b>	<b>0.9</b>
Cash equivalents at the beginning of the year	218.3	132.2	1.0	0.1
Exchange rate difference for cash equivalents	10.0	- 5.0	-	-
<b>Cash equivalents at year-end</b>	<b>207.9</b>	<b>218.3</b>	<b>2.8</b>	<b>1.0</b>

<sup>1)</sup> For further information about the acquisition of companies, please refer to Note 29.

## 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 5,400 employees and conducts business activities in 15 countries in Europe, North America and Asia. The legal structure of the Group comprises 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.

This consolidated financial statement was approved for publication by the Board on 26 March 2008. The consolidated financial statement can be amended by the company's shareholders subsequent to approval by the Board.

## 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 introduction of IFRS 7 "Financial Instruments: Disclosure" and the amendments this has necessitated to IAS 1 "Presentation of Financial Statements" has involved increased disclosures on the treatment of financial instruments, which appear in Note 7.

The parent company applies the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RR 32:06 "Accounting for legal entities". Where the parent company applies accounting policies that differ from those applied by the Group, this is indicated under the appropriate section in this note. The parent company's accounting policies are unchanged from those adopted in the preceding year.

At the time of the preparation of the consolidated financial statements as at 31 December 2007, a number of standards and interpretations had been published, but were not yet effective. A preliminary assessment of the effect of the introduction of these standards and interpretations on the NIBE Group's financial statements is given below.

### IAS 1 (Amendment) Presentation of Financial Statements\*

The amendment, which is intended to improve users' ability to analyse and compare the information in the financial statements, becomes effective on 1 January 2009, and applies for annual periods beginning on or after that date. Consequently, the Group's future presentation of financial statements will be affected by the introduction of this standard.

### IAS 23 (Amendment) Borrowing Costs\*

The principal change is that the immediate expensing of certain borrowing costs is prohibited. This applies to borrowing costs related to assets that take a substantial period of time to prepare for use or sale. Such borrowing expenditure must be capitalised. The amendment becomes effective on 1 January 2009. Borrowing expenditure of this type is not capitalised by the NIBE Group at present. The amendment is expected to have a marginal impact on the consolidated financial statements.

### IAS 27 (Amendment) Consolidated and Separate Financial Statements\*

The amendment becomes effective on 1 July 2009, and applies for annual periods beginning on or after that date. One of the consequences of the amendment is that total comprehensive income attributable to non-controlling interests is always to be recognised, even if that results in the non-controlling interest having a deficit balance, that transactions with non-controlling interests are always to be recognised in equity and that where a parent company loses controlling influence, any remaining interest is remeasured to fair value. This amendment to the standard will affect future transactions.

### IFRS 2 (Amendment) Share-based payment – vesting conditions and cancellations\*

The amendment becomes effective on 1 January 2009. The amendment affects the definition of vesting conditions, and introduces a new concept, "non-vesting conditions". This amendment is not expected to have any impact on the NIBE Group's financial statements.

### IFRS 3 (Amendment) Business combinations\*

The standard becomes effective on 1 July 2009 and applies for annual periods beginning on or after that date. The standard must be applied on a prospective basis, which means that it is to be applied to business combinations which take place after the standard becomes effective. It will involve a change in the accounting treatment of future acquisitions, partly in relation to the recognition of transaction expenses, any contingent consideration and step acquisitions. The NIBE Group will apply the standard with effect from 1 January 2010. The amendment to the standard will not affect any acquisitions with an acquisition date prior to the date of transition, but will affect the treatment of future transactions.

### IFRS 8 Operative segments

The standard becomes effective on 1 January 2009 and applies for annual periods beginning on or after that date. The standard deals with the division of the company's operation into

its component segments. Under the standard, the company will determine its reportable segments on the basis of its internal structure for financial statements. The NIBE Group's preliminary assessment is that this standard will not involve the reporting of any new segments.

### IFRIC 11 IFRS 2 Group and treasury share transactions

The interpretation became effective on 1 March 2007 and applies for annual periods beginning after that date. The interpretation clarifies the procedures relating to the classification of share-based payments in which the company buys its own equity instruments to settle its obligations, and the accounting treatment of option schemes in subsidiaries which apply IFRS. The NIBE Group will apply IFRIC 11 with effect from 1 January 2008, but this is not expected to have any effect on the consolidated financial statements.

### IFRIC 12 Service concession arrangements\*

The interpretation becomes effective on 1 January 2008 and applies for annual periods beginning after that date. The interpretation concerns arrangements under which a private company will construct a public sector asset to provide a public service for a specific period of time. The company receives payment for this service during the period of the agreement. The NIBE Group will apply IFRIC 12 with effect from 1 January 2008, but this is not expected to have any impact on the consolidated financial statements.

### IFRIC 13 Customer loyalty programmes\*

The interpretation becomes effective on 1 January 2008 and applies for annual periods beginning after that date. The interpretation clarifies how obligations to provide free or discounted goods or services to customers who qualify for these are to be measured and accounted for. The NIBE Group will apply IFRIC 13 with effect from 1 January 2008, but this is not expected to have any impact on the consolidated financial statements.

### IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction\*

The interpretation becomes effective on 1 January 2008 and applies for annual periods beginning after that date. The NIBE Group will apply IFRIC 14 with effect from 1 January 2008, but this is not expected to have any impact on the consolidated financial statements.

\*) These standards and interpretations have not yet been adopted by the EU.

## 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; the rate used for foreign subsidiaries is the appropriate tax rate in each respective 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 immediately accessible holdings in banks.

### Revenue recognition

Sales revenue is recognised with deductions for VAT, returns and discounts. 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 oriented business areas on account of the differences in risk and opportunities associated with the various product groups. The secondary segmentation is, for the same reason, geographical by market. 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 that 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 means, among other things, that derivatives in the form of future contracts are recognised at fair value in the balance sheet, both initially and after subsequent remeasurement.

To meet the requirements for hedge accounting, there must be a clear link between the derivative and the hedged items. In addition, the effectiveness of the hedging must be continuously assessed, and all the hedge conditions documented in accordance with the requirements of IAS 39. For a hedging of cash flows, changes in the fair value of the hedging instruments are recognised under equity, insofar as they are effective, until the underlying hedged item is recognised in revenue. That portion that is ineffective is expensed immediately. For further information on currency derivatives, refer to the section on "Transactions risks" in Note 7 "Financial instruments and financial risk management".

### Hedging of net investment

Hedging of net investment in foreign operations is accounted for in a way similar to that used for a cash flow hedge. The portion of gain or loss on a hedging instrument which is assessed as effective hedging is recognised in equity. The portion that is ineffective is recognised immediately in the income statement. See also Note 7 "Financial instruments and financial risk management" (the section on "Translation risks"). The parent company similarly recognises exchange fluctuations on borrowings in foreign currency as a portion of the net investment in the fair value reserve in equity in accordance with the options permitted by the Swedish Financial Accounting Standards Council's recommendation RR 32:06 "Accounting for legal entities".

### Leasing

The Group follows IAS 17 in respect of leasing. Leased assets are classified in accordance with the financial substance of the lease as finance leases or operating leases. 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 15. 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 11.2%, 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 non-current 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. Other development expenditure which does not meet these conditions is recognised as an expense as it arises. Development expenditure which has previously been expensed is not recognised as an asset in a subsequent period.

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, accounts receivable and loans receivable, financial instruments available for sale, and financial liabilities valued at accrued acquisition value. In addition, NIBE has currency derivatives for hedge accounting, see "Currency hedging" above. For financial years 2006 and 2007, NIBE has no balance sheet items classified in the categories "assets held to maturity" and "financial liabilities valued at fair value through profit and loss".

The purchase and sale of financial assets is recognised on the transaction date: i.e. the date on which the Group undertakes to purchase or sell the asset. Financial instruments are recognised initially at fair value plus transaction costs, which applies to all financial assets not recognised at fair value through profit and loss. Financial assets valued at fair value through profit and loss are recognised initially at fair value, while attributable transaction costs are recognised in profit and loss. Financial assets are derecognised from the balance sheet when the right to receive the cash flow from them has expired or has been transferred, and the Group has largely transferred all risks and benefits associated with ownership. Financial assets valued at fair value through profit and loss and financial assets available for sale are recognised after the acquisition date at fair value. Loans receivable and accounts receivable are valued initially at fair value and subsequently at accrued acquisition value using the effective interest rate method.

The fair value of quoted financial assets is equivalent to the quoted purchase price of the asset on the balance sheet date. The fair value of unquoted financial assets is determined by using valuation techniques such as recently executed arms-length transactions, the current fair value of similar instruments and discounted cash flows. The fair value of forward contracts is calculated on the basis of current futures on the balance sheet date.

On every balance sheet date, the Group assesses whether there is objective evidence that an impairment need exists for a financial asset or group of financial assets, such as the cessation of an active market or the likelihood that a debtor is unable to fulfil his obligations. Impairment testing of accounts receivable is described below.

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

This class of financial instrument includes financial assets held for trading. An asset is classified as held for trading if it is acquired for the purpose of selling in the short term. Derivative instruments are classified as held for trading unless they are designated for hedge accounting. Assets in this category are valued continuously at fair value, with changes in value recognised through profit and loss. In 2006, NIBE held assets in this category.

### Loans receivable and accounts receivable

Loans receivable and accounts receivable are non-derivative financial assets. They have fixed or determinable payments and are not quoted on an active market. They are included in current assets with the exception of items with a due date more than 12 months after the balance sheet date, which are classified as non-current assets. Loans receivable and accounts receivable are classified as accounts receivable or other receivables and other non-current receivables in the balance sheet.

Accounts receivable are recognised at the amount which is expected will be received after the deduction of uncertain receivables, assessed individually. The expected term of accounts receivable is short, for which reason the value is recognised as the nominal amount without

discounting. A provision for impairment of accounts receivable is made when there is objective evidence that the Group will not receive the full amount due under the original terms of the receivable. Significant financial difficulties on the part of the debtor, the likelihood that the debtor will go into liquidation or undergo financial reconstruction, as well as missed or delayed payments, are to be treated as indicators that an account receivable may have an impairment requirement.

### Financial assets available for sale

Non-derivative financial assets, where the asset is identified as available for sale or not classified in any of the other categories, are included in the category financial assets available for sale. Assets in this category are valued continuously at fair value with fair value changes recognised in equity to the extent that they do not involve an impairment that is assessed as significant or long-term. NIBE hold securities classified in this category. As at 31 December 2007, the recoverable amount corresponds to acquisition value.

### Financial liabilities valued at accrued acquisition value

Loans and other financial liabilities, such as accounts payable, are included in this category. Financial liabilities are valued initially at fair value, net of transaction costs. Financial liabilities are subsequently valued at accrued acquisition value, and any difference between the amount received and the amount repayable is recognised in profit and loss over the period of the loan using the effective interest rate method. Non-current liabilities have an expected term longer than one year, while current liabilities have an expected term of a maximum of one year. Accounts payable and other operating liabilities with a short expected term are, therefore, normally recognised at nominal value.

### 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 of non-financial assets

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-per-cent "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 employees carried out the services to which the contributions refer.

The Group's payments in respect of the ITP occupational pension financed via Alecta are recognised as a defined-contribution plan. See the information in Note 23.



### 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.

### Provisions

Further information in respect of provisions for the year for the guarantee risk reserve are shown in Note 24.

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 benefit obligations. Significant assumptions relating to post-employment benefit obligations are based partly on prevailing market conditions. Further information is given in Note 23.

## Note 3 Net sales and operating profit by segment

### Breakdown by business area

(in millions of SEK)	Net sales		Operating profit	
	2007	2006	2007	2006
NIBE Element	1,779.1	1,533.9	113.0	76.2
NIBE Heating	2,859.9	2,555.1	317.6	333.8
NIBE Stoves	874.1	931.2	114.8	160.6
Group adjustments	- 110.6	- 62.2	- 17.4	- 14.6
<b>Group total</b>	<b>5,402.5</b>	<b>4,958.0</b>	<b>528.0</b>	<b>556.0</b>

### Breakdown by geographical region

(Mkr)	Net sales		Assets		Investments	
	2007	2006	2007	2006	2007	2006
Nordic countries	3,189.3	3,112.4	3,519.2	3,106.7	293.4	193.5
Rest of Europe	2,052.7	1,703.8	939.1	751.3	88.4	47.1
Other markets	160.5	141.8	65.2	44.8	4.0	2.1
<b>Group total</b>	<b>5,402.5</b>	<b>4,958.0</b>	<b>4,523.5</b>	<b>3,902.8</b>	<b>385.8</b>	<b>242.7</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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Income</b>										
Total earnings	2,246.6	2,054.9	3,242.3	2,890.1	978.9	1,015.1	- 1,065.3	- 1,002.1	5,402.5	4,958.0
Internal sales	- 467.5	- 521.0	- 382.4	- 335.0	- 104.8	- 83.9	954.7	939.9	-	-
<b>External sales</b>	<b>1,779.1</b>	<b>1,533.9</b>	<b>2,859.9</b>	<b>2,555.1</b>	<b>874.1</b>	<b>931.2</b>	<b>- 110.6</b>	<b>- 62.2</b>	<b>5,402.5</b>	<b>4,958.0</b>
<b>Profits</b>										
Profit per business area	113.0	76.2	317.6	333.8	114.8	160.6	-	-	545.4	570.6
Undistributed costs									-17.4	- 14.6
<b>Operating profit</b>									<b>528.0</b>	<b>556.0</b>
Financial income									11.8	6.5
Financial expenses									- 94.8	- 61.0
Tax for the year									- 130.3	- 150.7
<b>Net profit for the year</b>									<b>314.7</b>	<b>350.8</b>
<b>Other information</b>										
Assets	1,489.7	1,347.4	2,160.9	2,023.6	942.9	764.0	- 1,227.7	- 1,392.2	3,365.8	2,742.8
Undistributed assets									1,157.7	1,160.0
<b>Total assets</b>									<b>4,523.5</b>	<b>3,902.8</b>
Liabilities	1,381.2	1,293.5	1,452.5	1,437.5	593.0	439.5	- 1,219.3	- 1,364.9	2,207.4	1,805.6
Undistributed liabilities									768.4	813.7
<b>Total liabilities</b>									<b>2,975.8</b>	<b>2,619.3</b>
Investment	71.1	54.0	148.1	118.0	166.6	70.7				
Depreciation/amortisation	54.0	49.0	85.5	71.9	24.2	20.1				

### Note 5 Payments to the auditors

During the year the Group paid SEK 5.0 million for auditing services (SEK 0.3 million of this sum related to the parent company) and SEK 2.3 million for financial services other than auditing (SEK 0.9 million for the parent company).

(in millions of SEK)	2007		2006	
	Auditing services	Other services	Auditing services	Other services
SET Revisionsbyrå AB	2.0	1.2	1.8	0.7
Other accountants	3.0	1.1	3.0	1.1
<b>Group total</b>	<b>5.0</b>	<b>2.3</b>	<b>4.8</b>	<b>1.8</b>

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

#### Salaries and other remunerations

(in millions of SEK)	2007	2006
Parent company	5.6	5.5
Subsidiaries	1,089.1	962.7
<b>Group Total</b>	<b>1,094.7</b>	<b>968.2</b>

(in millions of SEK)	2007		2006	
	Social security contrib's	of which pension expenses	Social security contrib's	of which pension expenses
Parent company	3.8	1.4	4.0	1.6
Subsidiaries	286.3	69.1	251.9	57.2
<b>Group total</b>	<b>290.1</b>	<b>70.5</b>	<b>255.9</b>	<b>58.8</b>

Of parent company pension costs, SEK 0,3 million (2006: SEK 0,4 million) relate to the MD. The parent company has no outstanding pension commitments to the Board or MD. The corresponding sum for the Group is SEK 3,5 million (SEK 3,4 million). Outstanding Group pensions to the previous Board/CEO total SEK 1,3 million (SEK 1,2 million).

Board and senior management (in thousands of SEK)	2007		2006	
	Salaries and other remuneration	Retirement benefit contributions	Salaries and other remuneration	Retirement benefit contributions
Arvid Gierow	280	–	260	–
Georg Brunstam	140	–	130	–
Hans Linnarson	140	–	130	–
Bill Tunbrant	140	–	130	–
Rune Dahlberg	–	86	–	69
Gerteric Lindquist	2,212	281	2,203	422
Other senior management: 4 (4) individuals	7,175	1,950	6,619	2,045
<b>Total Group</b>	<b>10,087</b>	<b>2,317</b>	<b>9,472</b>	<b>2,536</b>

#### Remuneration principles and other terms of employment for senior management

Pursuant to a resolution of the annual general meeting, the following principles applied during 2007. The Board proposes that, with the exception of the principles for retirement benefits, which are under review, the same principles continue to apply for 2008, namely: The company shall offer competitive remuneration on market terms in order to attract and retain personnel.

Remuneration shall be payable as fixed salary, variable salary, retirement benefit contributions or other benefits, such as a company car.

Directors' fees shall not be payable to members of the Board who are employed in the Group.

The period of notice from the company for the CEO shall be six months. The CEO shall have the right to severance pay equivalent to twelve months' salary. Other key management personnel shall receive salary during a period of notice which varies from 6–12 months.

The CEO shall have retirement benefits equivalent to an ITP occupational pension. Other key management personnel shall have retirement benefits equivalent to the ITP plan up to 30 basic amounts. For salary in excess of that, defined-benefit retirement benefits equivalent to the ITP plan level from 20–30 basic amounts shall be payable.

There shall be no special agreements for key management personnel to retire before reaching the official retirement age and still receive a certain proportion of their salaries until the official retirement age.

As an incentive, key members of staff will be entitled to a variable salary component that is payable if set targets are achieved. The variable component shall be restricted to three months' salary. The CEO shall not participate in any incentive scheme.

The Board may ignore the guidelines if there are reasons for doing so in an individual case.

#### 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.

#### Gender distribution at board/management level

	2007		2006	
	Total	Men	Total	Men
Board of directors				
Parent company	5	5	5	5
Subsidiaries	80	74	78	75
Corporate management				
Parent company	2	2	2	2
Subsidiaries	95	81	98	92

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

(in millions of SEK)	2007		2006	
	Board and MD	Other employees	Board and MD	Other employees
Parent company	2.9	3.4	2.9	3.3
Subsidiaries in Sweden	4.3	422.0	3.9	392.4
Norway <sup>1)</sup> (0.3 resp 0.0)	4.0	71.4	3.9	65.3
Finland <sup>1)</sup> (0.3 resp 0.3)	6.1	134.3	6.1	116.6
Denmark <sup>1)</sup> (0.5 resp 0.5)	10.5	192.7	9.5	186.6
France <sup>1)</sup> (0.1 resp 0.1)	1.0	1.3	0.3	1.1
Germany <sup>1)</sup> (0.2 resp 0.5)	1.2	21.5	1.3	11.6
Poland <sup>1)</sup> (0.2 resp 0.4)	3.6	89.4	3.5	71.0
Portugal	–	–	0.8	0.1
Czech Rep. <sup>1)</sup> (0.2 resp 0.2)	4.4	39.0	3.5	21.7
Slovakian <sup>1)</sup> (0.1 resp 0.0)	0.2	0.3	–	0.1
Italy	0.7	8.2	0.8	8.2
Netherlands	1.1	14.2	1.6	10.6
UK <sup>1)</sup> (0.1 resp 0.0)	1.6	25.6	1.4	12.7
Spain	0.9	14.6	1.3	14.3
China	0.4	12.0	0.4	8.8
USA	0.8	1.7	0.9	2.3
<b>Group total</b>	<b>43.7</b>	<b>1,051.6</b>	<b>42.1</b>	<b>926.7</b>

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

#### Average numbers of employees and gender distribution

	2007		2006	
	Number of employees	Number of Men	Number of employees	Number of Men
Parent company	5	3	5	3
Subsidiaries in Sweden	1,380	1,152	1,344	1,131
Norway	164	126	160	123
Finland	438	306	437	301
Denmark	483	345	470	347
France	6	3	3	1
Germany	71	52	35	25
Poland	1,550	859	1,542	864
Portugal	–	–	1	1
Czech Republic	597	349	423	233
Slovakia	3	2	1	1
Italy	36	22	40	24
Netherlands	35	28	31	25
UK	98	77	60	42
Spain	59	44	60	45
China	509	305	494	257
USA	5	5	5	5
<b>Group total</b>	<b>5,439</b>	<b>3,678</b>	<b>5,111</b>	<b>3,428</b>

### Note 7 Financial instruments and financial risk management

The NIBE Group's financial assets consist primarily of accounts receivable and bank balances. The financial liabilities consist primarily of credits from credit institutions and accounts payable. The various financial risks which may be associated with these assets and liabilities, and the NIBE Group's method of managing the risks, are described below. The parent company's risk management is in line with the Group's risk management practice, unless otherwise specified below.





### Credit risks

The term "credit risk" refers to the risk that a counterparty may not fulfil its obligations. In operations where goods or services are supplied against later payment, bad debt losses cannot be wholly avoided. To minimise these risks, annual credit assessments are carried out on major creditors. The normal credit period is 30 days. There are regional variations with both shorter and longer credit periods. Security is not normally held for receivables.

Our judgement is that the Group has an effective credit monitoring process which has meant that the Group has not so far been adversely affected by bad debt losses of any significance. Provisions have been made after individual assessment of overdue receivables.

#### Overdue Accounts Receivable (in millions of SEK)

	2007	2006
Accounts receivable which have been wholly or partly impaired		
– overdue by less than 3 months	5.3	2.9
– overdue by more than 3 months	15.5	11.0
Accounts receivable which have not been impaired		
– overdue by less than 3 months	117.8	127.6
– overdue by more than 3 months	21.8	13.0
<b>Total overdue accounts receivable</b>	<b>160.4</b>	<b>154.5</b>
Provision for bad debt losses	-10.6	-12.0
<b>Total accounts receivable overdue but not impaired</b>	<b>149.8</b>	<b>142.5</b>

#### Provision for bad debt losses (in millions of SEK)

	2007	2006
Provisions brought forward	16.5	11.5
Established bad debt losses	- 2.2	- 0.7
Reversed provisions	- 5.9	- 3.1
Provisions for the year	4.9	9.3
Translation differences	0.5	- 0.5
<b>Provisions carried forward</b>	<b>13.8</b>	<b>16.5</b>

The profit for the year has been charged with SEK 4.5 million (SEK 7.3 million) in respect of bad debt losses which arose on the Group's accounts receivable.

Since the Group is a net borrower from the bank, the credit risk in respect of the Group's bank balances is insignificant.

### Currency risks

The term "currency risks" refers to the risk that exchange-rate fluctuations may affect the Group's performance and position. NIBE is exposed to currency risks both through operating business transactions in various currencies and through the fact that the Group has operations in different currencies. These risks can be divided into transaction risks and translation risks.

#### Transaction risks

The term "transaction risk" refers to the risk of bad debt losses on operating business transactions in foreign currency through, for example, an account receivable in a foreign currency falling in value as a result of fluctuations in the exchange rate in that currency. As part of the Group's currency hedging policy, operating sales and purchases which take place in foreign currencies or are linked to changes in foreign currencies, must be hedged under a rolling 12-month plan within the range 60–100% of the estimated flow. The degree of hedging of future flows determines where in the range the figure is to lie. During 2007, the Group's flows in foreign currencies were as shown below. The term "flow" refers to flows in currencies other than local currency. The term "weakening" refers to a fall in the value of the Swedish krona.

Currency	Group		Parent company	
	Net flow in (+) / out (-)	Weakening by 1%	Net flow in (+) / out (-)	Weakening by 1%
CHF	7.2	0.1	-	-
CNY	- 39.1	- 0.4	-	-
CZK	1.3	-	-	-
DKK	85.7	0.9	- 0.1	-
EUR	394.1	3.9	- 2.5	-
GBP	62.5	0.6	-	-
HKD	- 45.5	- 0.5	-	-
JPY	- 9.8	- 0.1	-	-
NOK	131.0	1.3	-	-
PLN	11.4	0.1	-	-
SKK	10.4	0.1	-	-
USD	- 35.4	- 0.4	-	-
<b>Total</b>	<b>573.8</b>		<b>- 2.6</b>	

At the end of 2007, the Group had outstanding currency forward contracts in accordance with the table below. The total net value of the contracts translated to SEK at the closing day rate amounts to SEK 155.7 million.

The difference between the amount of all contracts translated to SEK at the contract date rate and the amount of all contracts translated to SEK at the closing day rate at the end of 2007 constitutes an unrealised exchange gain of SEK 4.0 million.

The item "Other receivables" in the consolidated balance sheet includes derivatives with positive fair values of SEK 2.4 million (SEK 5.9 million). The item "Other liabilities" includes derivatives with negative fair values of SEK 0.4 million (SEK 0.1 million).

### Outstanding contracts on the closing date, net sales (+) / purchases (-)

Currency	Flow Q1	Flow Q2	Flow Q3	Flow Q4	Average forward rate	Closing day rate	Unrealised gain 31 Dec -07	Unrealised gain 31 Dec -06
DKK	3.0	4.5	4.0	4.0	1.26	1.27	- 0.3	0.5
EUR	3.5	4.0	2.8	1.9	9.64	9.47	2.1	2.4
GBP	0.2	-	-	-	12.98	12.91	0.2	- 0.1
NOK	4.0	6.0	2.0	2.0	1.18	1.19	- 0.2	0.2
USD	- 0.1	-	-	-	6.28	6.47	0.2	2.8
<b>Total</b>							<b>2.0</b>	<b>5.8</b>
Of which recognised in profit or loss on the closing date							- 2.0	3.7
Of which recognised in the hedge reserve on the closing date							4.0	2.1

### Translation risks

The term "translation risks" refers to the risk of exchange losses on the translation of the income statements and balance sheets of foreign subsidiaries into the Swedish krona, the Group's presentation currency. To minimise translation risks, assets are financed where possible in the same currency: this means that exchange-rate fluctuations on the loans are recognised direct in equity after the deduction of tax. At the end of 2007, the Group held net assets in foreign currencies in accordance with the figures given below with financing taken into account. Net assets also include assets other than those classed as financial instruments.

Currency	2007	2006
CZK	95.9	48.7
DKK	126.8	52.7
EUR	253.9	244.7
GBP	- 29.3	20.9
HKD	29.6	8.9
NOK	98.1	116.0
PLN	189.4	125.1
SKK	1.6	1.1
USD	18.0	19.9
<b>Total</b>	<b>784.0</b>	<b>638.0</b>

If the Swedish krona falls in value by 1% against the named currencies, this means that the Group's equity is strengthened by SEK 7.8 million (SEK 6.4 million). If the Swedish krona rises in value by 1% against the named currencies, the reverse pertains. Without currency hedging through financing in the same currency, the corresponding amount would have been SEK 14.0 million (SEK 13.1 million).

The parent company's risk consists of the risk of exchange-rate fluctuations on loans in foreign currency taken out for the acquisition of foreign subsidiaries. Exchange-rate fluctuations on these loans are recognised direct in equity after the deduction of tax. At the end of the year, the parent company had loans in foreign currency as listed below.

Currency	2007	2006
CZK	190.7	195.6
DKK	170.7	186.4
EUR	97.4	103.9
NOK	122.8	127.4
<b>Total</b>	<b>581.6</b>	<b>613.3</b>

If the Swedish krona rises in value by 1% against the named currencies, this means that the parent company's equity is strengthened by SEK 5.8 million (SEK 6.1 million). If the Swedish krona falls in value by 1% against the named currencies, the reverse pertains.

### Gains and losses on financial instruments

	Group		Parent company	
	2007	2006	2007	2006
Exchange gains and exchange losses on currency derivatives used for hedge accounting				
- recognised in profit and loss	- 1.3	1.7	-	-
- recognised direct in equity	1.8	4.9	-	-
Exchange gains and exchange losses in other financial assets and liabilities	5.5	- 6.7	-1.4	0.3
Bad debt losses on accounts receivable	- 4.5	- 7.3	-	-
<b>Total</b>	<b>1.5</b>	<b>- 7.4</b>	<b>- 1.4</b>	<b>0.3</b>

The items recognised above as gains and losses are exchange gains, exchange losses and losses on credit granted. Interest has not been included. The Group's reporting system does not permit the allocation of exchange gains and exchange losses to the other classes of financial assets and liabilities.

## Notes

### Fair value of financial instruments

Fair value may deviate from carrying amount, partly as a consequence of changes in market interest rates. Since all borrowing on the balance sheet date is at variable interest rates, fair

value is assessed as the same as the carrying amount for the Group's financial liabilities. Fair value is assessed as the same as the carrying amount for non interest-bearing assets and liabilities such as accounts receivable and accounts payable.

	Loans receivable and accounts receivable	Assets held for trading	Assets available for sale	Currency derivative used for hedge accounting	Non- financial assets	Total carrying amount	Fair value
<b>Assets 31 Dec 2007</b>							
Intangible assets	-	-	-	-	732.2	732.2	
Tangible assets	-	-	-	-	1,374.4	1,374.4	
Investments held as non-current assets	-	-	0.6	-	-	0.6	0.6
Deferred tax assets	-	-	-	-	29.9	29.9	
Other non-current receivables	5.2	-	-	-	-	5.2	5.2
Inventories	-	-	-	-	1,344.0	1,344.0	
Accounts receivable	704.2	-	-	-	-	704.2	704.2
Tax assets	-	-	-	-	29.5	29.5	
Other receivables	49.8	-	-	2.4	-	52.2	52.2
Prepaid expenses and accrued income	-	-	-	-	43.4	43.4	
Cash and bank balances	207.9	-	-	-	-	207.9	207.9
<b>Total assets</b>	<b>967.1</b>	<b>-</b>	<b>0.6</b>	<b>2.4</b>	<b>3,553.4</b>	<b>4,523.5</b>	

	Loans receivable and accounts receivable	Assets held for trading	Assets available for sale	Currency derivative used for hedge accounting	Non- financial assets	Total carrying amount	Fair value
<b>Assets 31 Dec 2006</b>							
Intangible assets	-	-	-	-	670.3	670.3	
Tangible assets	-	-	-	-	1,116.3	1,116.3	
Shares in associated companies	-	-	-	-	0.1	0.1	
Investments held as non-current assets	-	-	0.2	-	-	0.2	0.2
Deferred tax assets	-	-	-	-	22.2	22.2	
Other non-current receivables	5.7	-	-	-	-	5.7	5.7
Inventories	-	-	-	-	1,007.9	1,007.9	
Accounts receivable	721.8	-	-	-	-	721.8	721.8
Accounts receivable with associated companies	0.7	-	-	-	-	0.7	0.7
Tax assets	-	-	-	-	22.8	22.8	
Other receivables	72.3	-	-	5.9	-	78.2	78.2
Prepaid expenses and accrued income	-	-	-	-	33.5	33.5	
Short-term investments	-	4.8	-	-	-	4.8	4.8
Cash and bank balances	218.3	-	-	-	-	218.3	218.3
<b>Total assets</b>	<b>1,018.8</b>	<b>4.8</b>	<b>0.2</b>	<b>5.9</b>	<b>2,873.1</b>	<b>3,902.8</b>	

	Financial liabilities valued at accrued acquisition value	Derivatives valued at fair value	Non- financial items	Total carrying amount	Fair value
<b>Equity and liabilities 31 Dec 2007</b>					
Equity	-	-	1,547.7	1,547.7	
Provisions	-	-	213.6	213.6	
Non-current liabilities*	1,863.1	-	-	1,863.1	1,863.1
Current liabilities to credit institutions	138.8	-	-	138.8	138.8
Accounts payable	325.7	-	-	325.7	325.7
Advance payments from customers	5.5	-	-	5.5	5.5
Tax liabilities	-	-	25.4	25.4	
Other liabilities	123.2	0.4	-	123.6	123.6
Accrued expenses and deferred income	280.1	-	-	280.1	280.1
<b>Total equity and liabilities</b>	<b>2,736.4</b>	<b>0.4</b>	<b>1,786.7</b>	<b>4,523.5</b>	

\* of which SEK 613.9 million refers to loans in foreign currencies to hedge net investment in foreign operations.

	Financial liabilities valued at accrued acquisition value	Derivatives valued at fair value	Non- financial items	Total carrying amount	Fair value
<b>Equity and liabilities 31 Dec 2006</b>					
Equity	-	-	1,283.5	1,283.5	
Provisions	-	-	241.5	241.5	
Non-current liabilities*	1,324.1	-	-	1,324.1	1,324.1
Current liabilities to credit institutions	139.7	-	-	139.7	139.7
Accounts payable	433.1	-	-	433.1	433.1
Advance payments from customers	3.7	-	-	3.7	3.7
Tax liabilities	-	-	56.7	56.7	
Other liabilities	135.1	0.1	-	135.2	135.2
Accrued expenses and deferred income	285.3	-	-	285.3	285.3
<b>Total equity and liabilities</b>	<b>2,321.0</b>	<b>0.1</b>	<b>1,581.7</b>	<b>3,902.8</b>	

\* of which SEK 668.1 million refers to loans in foreign currencies to hedge net investment in foreign operations.



## Financing risks

The term "financing risk" refers to the risk that difficulties may arise in financing the Group's operations, thus leading to an increase in costs in the short and long-term.

The Group's consolidated cash flow is good, and this is expected to continue in the future. This is of material significance in enabling necessary investments to be made and other obligations to be fulfilled. The Group also has an aggressive policy in relation to the acquisition of other companies' business operations. The policy is for annual growth of 20%. In the long term, at least half of this growth should be organic.

In individual years, the total capital requirement may exceed internal cash flow. It is not anticipated that there will be any difficulty in financing this capital requirement, without this giving rise to abnormal expense; this can be achieved partly through the traditional banking system and partly through the stock exchange. The amounts given in the table are the contractual undiscounted cash flows.

### Due date structure of non-current financial liabilities

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
1 – 3 years	332.1	287.1	152.0	174.4
3 – 5 years	253.4	232.2	152.0	143.3
5 – 7 years	210.6	192.1	135.7	141.6
7 – 9 years	143.2	167.3	73.7	97.8
10 years or more	96.3	87.7	0.8	26.1
<b>Total</b>	<b>1,035.6</b>	<b>966.4</b>	<b>514.2</b>	<b>583.2</b>

The effect of a change in interest rates is described below under the heading "Interest rate risks".

## Interest rate risks

Interest rate risk is the risk that changes in market interest rates will have a negative impact on cash flow or the fair value of financial assets and liabilities. Since all borrowing in the NIBE Group is at variable interest, the Group is exposed only to cash flow risk in respect of financial borrowing.

The Group's interest-bearing liabilities at the year-end amounted to SEK 2005.2 million. The average interest rate was 5.1%. A change in the interest rate of 1% on constant liabilities would have a negative impact on the Group of SEK 20.1 million.

The NIBE Group's policy is that the fixed interest period for loans shall, as far as possible, balance the commitment period of the incoming cash flows.

The parent company's interest-bearing liabilities at the year-end amounted to SEK 734.2 million. A change in the interest rate of 1% on constant liabilities would affect parent company results by SEK 7.3 million.

## Hedge accounting

During 2007 hedge accounting was applied in accordance with IAS 39 in relation to:

- Cash flow hedging through currency derivatives for future receipts and disbursements in foreign currencies (see Note 2).
- Hedge accounting through financing net investments in foreign operations in foreign currency; this means that exchange-rate fluctuations on such loan liabilities are recognised direct in equity provided that there is a net asset in the consolidated balance sheet to hedge

For information on the amount recognised in equity, see disclosures on equity on page 50.

## Capital risks

The term "capital risk" refers to the risk that the Group's ability to continue its business operations may be inhibited due to a shortage of capital. The Group assesses the day-to-day risk on the basis of the equity/assets ratio, calculated as recognised equity as a percentage of total assets. The target is that the equity/assets ratio shall not fall below 30%. The Group has the ability to counteract any shortage of capital through new issues or reductions in dividends. Capital is defined in the NIBE Group as total equity as recognised in the balance sheet, see page 49.

## Note 8 Leasing

During the year, Group expenses relating to finance leasing agreements totalling SEK 0.4 million (SEK 0.7 million) were capitalised. Leasing charges amounting to SEK 7.2 million (SEK 9.5 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:

	Finance leases	Operating leases
(in millions of SEK)	Current value	Nominal value
Due for payment within 1 yr	0.6	7.3
Due for payment within 2–5 yrs	1.0	12.5
Due for payment in 6 yrs or more	–	–
<b>Total</b>	<b>1.6</b>	<b>19.8</b>

## Note 9 Research and development costs

A total of SEK 100.9 million (SEK 96.9 million) is included under the heading "Cost of goods sold" to cover the cost of research and development.

## Note 10 Other operating income

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Profit on sale of non-current assets	1.9	2.6	–	–
Exchange gains	58.9	36.7	–	–
Other	23.4	20.3	0.8	–
<b>Total</b>	<b>84.2</b>	<b>59.6</b>	<b>0.8</b>	<b>–</b>

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

### Result of participations in Group companies

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Group contributions	–	–	47.5	36.0
Dividend	–	–	178.6	111.0
Capital gain	–	–	–	1.0
Impairment of participations in subsidiaries	–	–	–	–16.3
<b>Total</b>	<b>–</b>	<b>–</b>	<b>226.1</b>	<b>131.7</b>

### Result of participations in associated companies

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Share in profits	–0.2	0.1	–	–
<b>Total</b>	<b>–0.2</b>	<b>0.1</b>	<b>–</b>	<b>–</b>

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

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Interest income. Group companies	–	–	20.9	6.8
Interest income. other	6.9	3.6	1.5	0.2
Other financial income	5.1	2.8	3.5	1.5
<b>Total</b>	<b>12.0</b>	<b>6.4</b>	<b>25.9</b>	<b>8.5</b>

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

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Interest expense, Group companies	–	–	2.2	2.0
Interest expense, other	87.7	56.7	50.5	25.7
Other financial expenses	7.1	4.3	4.8	1.2
<b>Total</b>	<b>94.8</b>	<b>61.0</b>	<b>57.5</b>	<b>28.9</b>

## Note 14 Tax

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Actual tax for the year	132.0	147.9	–	0.3
Actual tax attrib. to preceding yrs	3.3	–1.2	–	–
Deferred tax	–5.0	4.0	–	–
<b>Total</b>	<b>130.3</b>	<b>150.7</b>	<b>–</b>	<b>0.3</b>

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

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Exchange rate diff's (acquisition loans)	–11.1	5.9	–10.6	5.6
Financial instruments	–0.5	–1.3	–	–
<b>Total</b>	<b>–11.6</b>	<b>4.6</b>	<b>–10.6</b>	<b>5.6</b>

## Notes

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

(in millions of SEK)	Group		Parent company	
	2007	2006	2007	2006
Pre-tax profit	445.0	501.5	178.4	96.3
Tax at current rate	124.6	140.4	49.9	27.0
Non-deductible expenses	10.0	15.9	0.1	4.7
Non-taxable earnings	- 7.1	- 0.5	-	- 0.3
Dividends from subsidiaries	-	-	- 50.0	- 31.1
Adjusted tax for preceding years	3.3	- 1.2	-	-
Deficit deductions not carried fwd	5.7	1.6	-	-
Effect of foreign tax rates	- 6.2	- 5.5	-	-
<b>Recognised tax expenses</b>	<b>130.3</b>	<b>150.7</b>	<b>-</b>	<b>0.3</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% (2006: 28%).

#### Temporary differences

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

Deferred tax liabilities (in millions of SEK)	Group		Parent company	
	2007	2006	2007	2006
Group surplus value in non-current assets	20.9	19.1	-	-
Untaxed reserves	81.9	84.1	-	-
Temporary differences in non-current assets	10.2	13.0	-	-
Other factors	7.7	10.4	-	3.3
<b>Total</b>	<b>120.7</b>	<b>126.6</b>	<b>-</b>	<b>3.3</b>

Deferred tax assets (in millions of SEK)	Group		Parent company	
	2007	2006	2007	2006
Provisions for pension commitments	-	0.5	-	-
Non-current assets	4.1	2.6	-	-
Loss carry-forwards	7.7	7.7	-	-
Restructuring reserve	-	3.6	-	-
Hedge of net investment	7.5	-	7.4	-
Other factors	10.6	7.8	-	-
<b>Total</b>	<b>29.9</b>	<b>22.2</b>	<b>7.4</b>	<b>-</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 forward/deficit deductions which do not correspond to deferred income taxes recoverable for the Group amounted to SEK 91.4 million (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)	Group	
	2007	2006
Due date 1-5 yrs	16.5	37.3
Due date 6-10 yrs	-	-
Due date 10 years -	36.0	14.5
Due date undetermined	38.9	21.8
<b>Total</b>	<b>91.4</b>	<b>73.6</b>

### Not 15 Goodwill

(in millions of SEK)	Group	
	2007	2006
<b>Acquisition value</b>		
Acquisition value brought fwd	726.9	535.8
Acquisition value in companies acquired	-	3.2
Investment for the year	10.6	211.7
Sales and retirements	- 2.3	-
Translation differences	40.0	- 23.8
<b>Accumulated acquisition value carried forward</b>	<b>775.2</b>	<b>726.9</b>
<b>Depreciation</b>		
Depreciation brought forward	83.5	83.3
Depreciation in companies acquired	-	2.4
Sales and retirements	- 2.3	-
Translation differences	2.9	- 2.2
<b>Accumulated depreciation carried forward</b>	<b>84.1</b>	<b>83.5</b>
<b>Carrying value carried forward</b>	<b>691.1</b>	<b>643.4</b>
<b>Carrying value by business area</b>		
NIBE Element	130.4	116.5
NIBE Heating	357.7	337.6
NIBE Stoves	203.0	189.3
<b>Total</b>	<b>691.1</b>	<b>643.4</b>

### Note 16 Other intangible assets

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

(in millions of SEK)	Group	
	2007	2006
<b>Acquisition value</b>		
Acquisition value brought fwd	43.7	13.3
Acq. value in companies acq'd	-	5.1
Investment for the year	20.7	25.5
Sales and retirements	- 0.3	- 0.4
Reclassifications	- 1.6	0.9
Translation differences	1.7	- 0.7
<b>Accumulated acquisition value carried forward</b>	<b>64.2</b>	<b>43.7</b>
<b>Amortisation</b>		
Amortisation brought forward	14.5	7.3
Amortisation in companies acq'd	-	3.6
Sales and retirements	- 0.3	- 0.3
Reclassifications	- 0.2	-
Amortisation for the year	5.8	4.1
Translation differences	0.9	- 0.2
<b>Accumulated amortisation carried forward</b>	<b>20.7</b>	<b>14.5</b>
<b>Impairment</b>		
Impairment brought forward	2.3	-
Impairment for the year	-	2.4
Translation differences	0.1	- 0.1
<b>Accumulated impairment carried forward</b>	<b>2.4</b>	<b>2.3</b>
<b>Carrying value carried forward</b>	<b>41.1</b>	<b>26.9</b>

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

(in millions of SEK)	Group	
	2007	2006
Cost of goods sold	3.7	2.6
Selling expenses	0.7	0.1
Administrative expenses	1.4	1.4
<b>Total</b>	<b>5.8</b>	<b>4.1</b>





## Note 17 Land and buildings

(in millions of SEK)	Group	
	2007	2006
<b>Acquisition value</b>		
Acquisition value brought fwd	750.2	707.3
Acq. value in companies acq'd	-	23.2
Investment for the year	31.4	61.5
Sales and retirements	-	- 8.7
Reclassifications	11.9	- 16.8
Translation differences	32.7	- 16.3
<b>Accumulated acquisition value carried forward</b>	<b>826.2</b>	<b>750.2</b>
<b>Depreciation</b>		
Depreciation brought forward	243.1	224.3
Depreciation in companies acq'd	-	2.9
Sales and retirement	-	- 1.1
Depreciation for the year	23.9	22.1
Translation differences	7.9	- 5.1
<b>Accumulated depreciation carried forward</b>	<b>274.9</b>	<b>243.1</b>
<b>Carrying value carried forward</b>	<b>551.3</b>	<b>507.1</b>
of which, land	38.5	37.2
Carrying value carried forward of land and buildings in Sweden	210.2	205.2
Assessed tax value (Sweden)	96.8	71.6
of which, land	15.8	12.9

New construction, renovations and rebuilds in Sweden during 2007 have not yet been assessed for tax purposes. Revaluation surpluses have been reclassified so that they form part of acquisition value brought forward.

## Note 18 Machinery and equipment

(in millions of SEK)	Group		Parent company	
	2007	2006	2007	2006
<b>Acquisition value</b>				
Acquisition value brought fwd	1,384.2	1,216.4	0.4	0.4
Acq. value in companies acq'd	1.7	35.8	-	-
Investment for the year	215.7	174.2	-	-
Sales and retirements	- 44.8	- 21.3	-	-
Reclassifications	- 7.9	8.1	-	-
Translation differences	51.5	- 29.0	-	-
<b>Accumulated acquisition value carried forward</b>	<b>1,600.4</b>	<b>1,384.2</b>	<b>0.4</b>	<b>0.4</b>
<b>Depreciation</b>				
Depreciation brought forward	825.7	726.2	0.2	0.2
Depreciation in companies acq'd	1.0	20.0	-	-
Sales and retirements	- 37.8	- 16.8	-	-
Reclassifications	- 0.8	- 0.5	-	-
Depreciation for the year	133.9	115.0	0.1	-
Translation differences	30.7	- 18.2	-	-
<b>Accumulated depreciation carried forward</b>	<b>952.7</b>	<b>825.7</b>	<b>0.3</b>	<b>0.2</b>
<b>Impairment</b>				
Impairment brought forward	1.9	1.6	-	-
Sales and retirements	- 0.5	-	-	-
Impairment for the year	-	0.5	-	-
Translation differences	-	- 0.2	-	-
<b>Accumulated impairment carried forward</b>	<b>1.4</b>	<b>1.9</b>	<b>-</b>	<b>-</b>
<b>Reversal of impairment amounts</b>				
Reversal of impairment amounts brought forward	0.2	-	-	-
Reversal of impairment amounts for the year	-	0.2	-	-
<b>Accumulated reversal of impaired amounts carried forward</b>	<b>0.2</b>	<b>0.2</b>	<b>-</b>	<b>-</b>
<b>Carrying amount carried forward</b>	<b>646.5</b>	<b>556.8</b>	<b>0.1</b>	<b>0.2</b>

## Note 19 Construction in progress

(in millions of SEK)	Group	
	2007	2006
<b>Acquisition value</b>		
Acquisition value brought fwd	52.4	43.6
Acq. value in companies acq'd	-	2.5
Expenses during the year	167.1	41.1
Re-allocations during the year	- 45.9	- 34.2
Translation differences	3.0	- 0.6
<b>Accumulated acquisition value carried forward</b>	<b>176.6</b>	<b>52.4</b>

## Note 20 Shares in subsidiaries

	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	155.4
Nielsen A/S. Svend A.	100%	13	17.7
Turun Lämpötekniikka AB. Oy	100%	100	18.9
Vabro Holding ApS	100%	452	63.4
<b>Total parent company</b>			<b>1,113.3</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 France SARL	100.0%	12.429
Calesco Norells North America Inc	100.0%	100
Calesco Utveckling AB	100.0%	1.000
Danotherm Electric A/S	100.0%	1.000
DZD Slovensko Spol s.r.o.	100.0%	
Eltop Praha s.r.o.	100.0%	
Heatrod Elements Ltd	100.0%	68,000
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 Fields A/S	100.0%	1,000,000
Lübcke Rail A/S	100.0%	1,000
METRO THERM AB	100.0%	1,000
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 Element Company Ltd	100.0%	
NIBE Energietechnik B.V.	100.0%	180
NIBE Energy Systems Ltd	100.0%	100
NIBE Foyers France S.A.S.	100.0%	370
NIBE-Haato Oy	100.0%	15
NIBE Systemtechnik GmbH	100.0%	
Norells Sweden AB	100.0%	3.250
Norske Backer AS	100.0%	12.000
Northstar Poland Sp. z.o.o.	100.0%	3.134
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%	802
World Trading ApS	100.0%	125.000

## 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 France Sarl	91379344781	Lyon, France
Calesco Norells North America Inc	36-4044600	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
Heatrod Elements Ltd	766 637	London, UK
Høiax AS	936 030 327	Fredrikstad, Norway
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 Fields A/S	28 66 39 27	Gram, Denmark
Loval Oy	0640930-9	Lovisa, Finland
Lübcke Rail A/S	25 80 99 71	Brøndby, Denmark
METRO THERM AB	556554-1603	Kalmar, Sweden
METRO THERM A/S	20 56 71 12	Helsingør, Denmark
Meyer Vastus AB, Oy	0215219-8	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 Element Company Ltd	440301503227017	Shenzhen, China
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-Haato Oy	09314276	Helsingfors, Finland
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 Sweden AB	556184-3581	Västerås, Sweden
Norske Backer AS	919 799 064	Kongsvinger, Norway
Northstar Poland Sp. z.o.o.	570844191	Trzcianka, Poland
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	Åbo, 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 21 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

	Share of equity	Carrying value	Group share of profit after tax 2007	Group share of equity 2007
(in millions of SEK)				
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%	0.0	– 0.2	0.0
<b>Total</b>		<b>0.0</b>	<b>– 0.2</b>	<b>0.0</b>

## Note 22 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 2007 proposed but not yet approved is SEK 1.15 per share. This 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 2007 there were no convertible bonds or options that can dilute the share capital.

## Note 23 Provisions for post-employment benefits

	Group	
(in millions of SEK)	2007	2006
FPG/PRI-pensions	24.4	23.9
Other pensions	3.4	4.8
<b>Amount at year-end</b>	<b>27.8</b>	<b>28.7</b>

## 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 2007 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 9.0 million (2006: SEK 10.0 million). Alecta's surplus can be distributed to the policy holders and/or the insured. At the 2007 year-end Alecta's surplus in the form of the collective funding ratio was 152% (2006: 143%). 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

	Group	
(in millions of SEK)	2007	2006
Pension commitments in unfunded plans, present value	38.9	35.
Unrealised actuarial gains (+), losses (-), pension commitments	– 11.1	– 7.0
Provision for pensions, unfunded plans	27.8	28.7
<b>Net liability according to balance sheet</b>	<b>27.8</b>	<b>28.7</b>

**Total pension costs**

	Group	
(in millions of SEK)	2007	2006
Pensions earned during the period	0.7	0.9
Interest on the commitment	1.4	1.4
Actuarial gains/losses during the period	0.2	0.2
<b>Pension costs, defined-benefit plans</b>	<b>2.3</b>	<b>2.5</b>
Pension costs, defined-contribution plans	68.2	56.3
<b>Total pension cost</b>	<b>70.5</b>	<b>58.8</b>

**Reconciliation of pension provisions**

	Group	
(in millions of SEK)	2007	2006
Pension liabilities, balance brought forward	28.7	27.3
Pension costs	2.3	2.5
Benefits paid	- 1.2	- 1.1
Reversals in provisions	- 2.0	-
<b>According to balance sheet</b>	<b>27.8</b>	<b>28.7</b>

Pension payments during 2008 are expected to total SEK 1.1 million.

**Reconciliation of pension commitments**

	Group	
(in millions of SEK)	2007	2006
Pension commitments in unfunded plans, present value at start of year	35.7	34.3
Pension costs	2.3	2.5
Benefits paid	- 1.2	- 1.1
Reversals in provisions	- 2.0	-
Actuarial gains/losses during the year	4.1	-
<b>Pension commitments in unfunded plans, present value at year-end</b>	<b>38.9</b>	<b>35.7</b>

**Actuarial assumptions**

	Group	
(%)	2007	2006
Discount rate on 1 January	4.50%	4.50%
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 0.1 million (2006: SEK 0.2 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 24 Other provisions**

Group	Guarantee risk reserve	Restructuring reserve	Other	Total
(in millions of SEK)				
Amount at start of year	48.8	27.6	9.8	86.2
Provisions during the year	37.3	-	4.0	41.3
Amount utilised during year	- 33.1	- 28.1	- 3.0	- 64.2
Reversals in provisions	- 1.0	-	-	- 1.0
Translation differences	1.5	0.5	0.8	2.8
<b>Amount at year-end</b>	<b>53.5</b>	<b>-</b>	<b>11.6</b>	<b>65.1</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 essence involved transferring some production from Western Europe to Eastern Europe and China in order to boost earnings by an anticipated SEK 40 million or so a year. Implementation proceeded according to plan and the programme was concluded in 2007.

**Note 25 Bank overdraft facilities**

The sum of bank overdraft facilities granted in the Group as a whole amounted to SEK 1,472.7 million (SEK 923.0 million). During the year these have increased by SEK 549.7 million. There is an agreement for long-term refinancing.

**Note 26 Accrued expenses and deferred income**

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Accrued salaries	123.5	115.6	1.6	1.5
Accrued payroll overheads	56.1	52.7	1.4	1.7
Other items	100.5	117.0	2.0	1.4
<b>Amount at year-end</b>	<b>280.1</b>	<b>285.3</b>	<b>5.0</b>	<b>4.6</b>

**Note 27 Pledged assets**

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Floating charges	166.9	177.3	-	-
Real estate mortgages	332.0	302.7	-	-
Receivables	2.0	21.6	-	-
Shares in subsidiaries <sup>1)</sup>	1,309.8	1,214.4	335.0	335.0
<b>Total pledged assets</b>	<b>1,810.7</b>	<b>1,716.0</b>	<b>335.0</b>	<b>335.0</b>

<sup>1)</sup> Liabilities for which shares have been pledged as collateral

	1,219.7	860.9	1,209.0	848.2
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**Note 28 Contingent liabilities**

	Group		Parent company	
(in millions of SEK)	2007	2006	2007	2006
Pension commitments not entered under liabilities or provisions	2.6	0.6	-	-
Contingent liabilities on behalf of other Group companies	-	-	30.5	208.5
Other contingent liabilities	28.9	8.8	-	-
<b>Total contingent liabilities</b>	<b>31.5</b>	<b>9.4</b>	<b>30.5</b>	<b>208.5</b>

**Note 29 Acquisitions of companies****Subsidiaries**

In June the Danish company Løbcke Rail A/S was acquired with annual sales of approximately SEK 20 million and a pre-tax profit of around SEK 3 million. The company, which makes railway switch heating systems, now forms part of the NIBE Element business area.

**The purchase prices are made up as follows:**

	Group	
(in millions of SEK)	2007	2006
Initial purchase price	12.8	289.7
Additional purchase price	-	19.1
Direct acquisition cost	0.4	8.8
<b>Total purchase price</b>	<b>13.2</b>	<b>317.6</b>
Direct acquisition costs	4.0	121.2
Goodwill	9.2	196.4
<b>Purchase price</b>	<b>13.2</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>13.2</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:**

	Fair value	Carrying amounts acquired
(in millions of SEK)		
Tangible assets	1.4	1.4
Current receivables	0.5	0.5
Inventories	4.5	4.5
Liabilities	- 2.4	- 2.4
<b>Net assets acquired</b>	<b>4.0</b>	<b>4.0</b>

**Associated companies**

In December agreement was reached on the acquisition of a 25% stake in the Russian company CJSC EVAN, which has annual sales of around SEK 70 million and an operating margin before tax of just over 20%. The company, a market leader in Russia's electric boiler and large water-heater segments, will form part of the NIBE Heating business area. Ultimately the intention is to consolidate EVAN as a wholly owned subsidiary, but the acquisition is dependent on approval from the Russian competition authorities.


**Note 30 Events after the end of the reporting date**

In January 2008 an agreement was reached on the takeover of the Austrian company KNV Umweltgerechte Energietechnik GmbH with annual sales equivalent to around SEK 50 million and earnings of approximately SEK 5 million before tax. The company will form part of the NIBE Heating business area after consolidation with effect from January 2008.

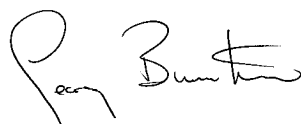
## The Board's assurance

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group's financial position and results of operations. The financial statements of the parent company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the parent company's financial position and results of operations. The Board of Directors' Administration Report for the Group and the parent company provides a fair review of the development of the Group's and the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and the companies included in the Group.

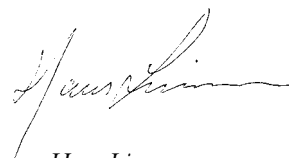
Markaryd, Sweden – 26 March 2008



Arvid Gierow  
Chairman of the Board



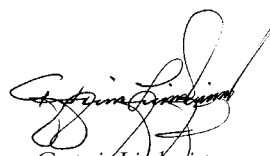
Georg Brunstam



Hans Linnarson



Bill Tunbrant



Gerteric Lindqvist  
MD and Chief Executive Officer

The balance sheets and income statements will be presented for approval at the Annual General Meeting on 14 May 2008.

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



Willard Möller, Senior Auditor

For further information about auditing, please refer to: page 56 Note 5 Payments to the auditors; page 65 Corporate governance report.

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 2007. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 40–63. 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 2008  
SET Revisionsbyrå AB



Willard Möller  
Authorised Public Accountant



# Corporate governance report

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 Nordic 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 OMX Nordic 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 (AGM) is NIBE's highest decision-making body. The AGM 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 AGM, held on 15 May 2007 in Markaryd, 368 shareholders took part. Those present represented 42% of the number of shares and 66% of the total number of votes in the company. The AGM 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 AGM. The members of the board are presented on page 70. Directors and the Chairman of the Board are elected annually by the AGM to serve for the period until the next AGM. Members of staff in the company participate in board meetings as required to submit reports or contribute expert knowledge in individual matters.

The work of the board is governed by formal rules of procedure adopted

annually to regulate the division of work, 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 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 oversees 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 of a high quality 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 2007 the Board of Directors held 10 meetings, three of which were telephone conferences. All meetings were minuted.

Attendance at board meetings was high: all members of the board attended all the round-table meetings. Hans Linnarson and Bill Tunbrant were each absent from one board meeting conducted as a telephone conference.

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, etc. When appropriate, a review of proposals for external reports to be published after the meeting.

Every ordinary board meeting focuses on one principal topic of discussion, as outlined below:

- ▲ 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 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 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 discusses the Group's budget for the coming year.

In addition, the Board of Directors receives a written report every month on the company's key financial figures 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 AGM to serve for a period of four years. The current period began in 2004 and ends on completion of the AGM in 2008.

SET Revisionsbyrå AB, with Willard Möller as the senior auditor, was re-elected for a period of four years at the AGM 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 internal controls in respect of financial reporting are 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 containing comprehensive analysis and comments are drawn up quarterly for the Group and its business areas. Results are also monitored on a monthly basis.

There are finance functions 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 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 Code of Corporate Governance.



eration tasks in a manner consistent with the Swedish Code of Corporate Governance.

### Remuneration

The 2007 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, 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 2007 amounted to SEK 700,000 in accordance with a resolution upheld by the AGM. Of this amount, the Chairman of the Board received SEK 280,000 in accordance with the AGM's resolution. Fees are not payable to those members of the Board of Directors who are employed in the Group.

During 2007, salary and other remuneration paid to the managing director/CEO amounted to SEK 2,212,000. A free car is also provided. Salaries paid to other senior management executives amounted to SEK 7,175,000. These senior executives also enjoy free use of a company car.



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

### 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 that corresponds to ITP (supplementary pensions for salaried employees). For 2007, 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 (defined benefit) 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 in written form to all shareholders who so wish. All takeovers are announced via press releases. Full financial information relating to NIBE Industrier is available via our website [www.nibe.com](http://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 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.

	Summary of points in the code	Compl.	Explanation/Comments
<b>1. SHAREHOLDERS' MEETING (AGM)</b>			
1.1 NOTICE OF MEETING, ETC.			
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.
1.2 DISTANCE PARTICIPATION			
1.2.1 Participate or follow the meeting at a distance	Distance participation warranted by ownership structure and financially feasible.	Yes	
1.3 ATTENDANCE BY BOARD OF MANAGEMENT AND AUDITORS			
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.
1.4 CONDUCTING THE SHAREHOLDERS' MEETING			
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 interpretation 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>			
2.1 NOMINATION COMMITTEE			
2.1.1 Nomination Committee	To be appointed by the AGM or criteria for appointment to be specified.	No	The clear ownership structure makes a Nomination Committee unnecessary. See above
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	
2.1.3 Announcement of members of the Nomination Committee	Must be announced at least six months before the meeting.	No	See above.
2.2 APPOINTMENT OF BOARD OF DIRECTORS			
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.	In part	
2.2.3 Presentation	Detailed presentation in the notification of the meeting and on the website.	In part	New Board members are presented in the notice of the meeting. Other members are presented in the annual report and on the website. 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.	In part	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	
2.2.7 Incentive schemes	Directors are not to participate in share or share-price incentive schemes aimed at company management.	Yes	
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.	No	There is no Nomination Committee, see 2.1.1
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 AGM and posted on the company website.	Yes	There is no Nomination Committee, see 2.3.1
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.	Yes	There is no Nomination Committee, see 2.3.1
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 AGM.	Yes	There is no Nomination Committee, see 2.3.1. A presentation and motivation is made by the Board at the AGM.
2.3.5 Attendance	The proposed auditors are to be present at the meeting.	Yes	
<b>3. BOARD OF DIRECTORS</b>			
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 AGM.	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 AGM are to be independent of the company.	Yes	



	Summary of points in the code	Compl.	Explanation/Comments
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 AGM	The Chairman of the Board is to be elected at the AGM.	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	
3.6 FINANCIAL REPORTING			
3.6.1 Reports	Clearly show which parts are formal financial statements, the regulatory regime on which they are based and which parts have been audited/reviewed by the company's auditors.	Yes	
3.6.3 Review	Overall review of the six- or nine-month report by the auditors.	Yes	
3.7 INTERNAL CONTROL			
3.7.1 Internal control	Good control and sound system.	Yes	
3.7.2 Report	The Board of Directors is to issue a report on internal controls which is to be reviewed by the auditors.	Yes	Not reviewed by the auditors
3.7.3 Internal auditing	If the company does not have a special internal audit function, the need for such a function is to be evaluated annually by the Board.	Yes	
3.8 ACCOUNTING AND AUDITING ISSUES			
3.8.1 Quality of reports	Documentation on how quality is ensured in financial reporting and how the company communicates with its auditors.	Yes	
3.8.2 Audit Committee	To be established by the Board.	Yes	The auditors report to the entire Board. The entire Board constitutes the Audit Committee.
3.8.3 Work of the Audit Committee	To ensure the quality of the financial statements, to meet auditors, establish guidelines for other services procured from the auditors and assist the Nomination Committee.	In part	The work is performed by the Board of Directors.
3.8.4 Meetings with Auditors executive being present.	At least once a year, the Board is to meet the auditors without any company	Yes	
4. COMPANY MANAGEMENT			
4.1 THE MANAGING DIRECTOR'S DUTIES			
4.1.1 Information	Objective, full and relevant information to the Board.	Yes	
4.1.2 Professional commitments outside the company	The managing director's professional commitments outside the company are to be approved by the Board.	Yes	
4.2 REMUNERATION OF SENIOR MANAGEMENT			
4.2.1 Remuneration Committee	A Remuneration Committee is to be established.	Yes	The entire Board constitutes the Remuneration Committee. The managing director's salary is determined by the entire Board and reported to the AGM. Remuneration of other senior company executives is determined by the managing director in consultation with the Board.
4.2.3 Share-price related remuneration	To be decided by the AGM.	Yes	
5. INFORMATION ON CORPORATE GOVERNANCE			
5.1 CORPORATE GOVERNANCE REPORT			
5.1.1 Report attached to annual report	Special report on corporate governance.	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	Application of the code.	Yes	Reasons for any departures from the code are stated in this report.
5.1.3 Quality of financial reports	The manner in which the Board ensures the quality of the financial reports and communicates with the company's auditors.	Yes	
5.1.4 Other information in the Corporate Governance Report	If not included in the annual report, the information required by the code must be provided 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.
5.2 REPORT ON INTERNAL CONTROLS			
5.2.1 Report	The Board's report on internal controls and the auditors' review of this report are to be appended to the company's annual report.	Yes	Included in the Corporate Governance Report, but not reviewed by the Auditors.
5.3 INFORMATION ON THE COMPANY'S WEBSITE			
5.3.1 Website	There is to be a special section on the website for corporate governance matters. This is to include information on all matters required by the code.	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. Employed by NIBE 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. CEO and Managing Director of Hexagon Polymers AB. Director of Hexagon Polymers AB and AB Wilh. Becker. 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. Director of Beijer Electronics AB. Shareholding in NIBE Industrier: 0. Independent director.



**BILL TUNBRANT** (born 1950)  
Board member since 1997. Graduate in engineering. Vice President, Nordic Modular Holding. Chairman of the Board of Temporent AB and director of XSpray Microparticles AB. 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. Employed by NIBE since 1966. Director 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. Employed by NIBE 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. Employed by NIBE since 1998. Shareholding in NIBE Industrier: 107,200 B shares.



**NIKLAS GUNNARSSON** (born 1965)  
Engineer. Business Area Manager for NIBE Stoves. Employed by NIBE since 1987. Shareholding in NIBE Industrier: 107,200 B shares.

## AUDITOR



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

## NIBE Industrier AB

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### Loval Oy

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### Lübcke Rail A/S

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### Norske Backer A/S

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### Shel NIBE Manufacturing Co Ltd.

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### Sinus-Jevi Electric Heating B.V.

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## NIBE Stoves

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## Bringing warmth to the world

NIBE Industrier is an international 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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