

Corporate governance report



Corporate governance in NIBE Industrier AB (NIBE) is performed by the Annual General Meeting, the Board of Directors and the Managing Director/CEO in accordance with the Swedish Companies Act (Swedish Code of Statutes 2005:551), the company's Articles of Association, the Swedish Annual Accounts Act, the listing agreement with the NASDAQ OMX Stock Exchange in Stockholm and the Swedish Code of Corporate Governance (the Code).

It is good practice for Swedish companies whose shares are traded on regulated markets to comply with the Code. NIBE complies with the Code, and this Corporate Governance Report has been drawn up in accordance with the Code. In addition, and likewise in accordance with the Code, NIBE also provides information via the company's website.

Ownership

NIBE has its registered offices in Markaryd, Sweden, and the company's shares have been listed on the NASDAQ OMX Stockholm Exchange since 1997, with a secondary listing on the SIX Swiss Exchange since August 2011. On 31 December 2011 NIBE had 17,949 registered shareholders, excluding previous owners of the Schulthess Group AB who have become shareholders in NIBE. As the Swiss authorities do not report any details relating to individual shareholders in Switzerland to NIBE, it is not possible to determine the total number of shareholders. The ten largest shareholders comprise the constellation of current and former directors of the company and senior executives with a total of 24% of the capital

and 49% of voting rights, followed by Melker Schörling who holds 11% of the capital and 20% of the voting rights, and eight institutional investors with a total of 23% of capital and 11% of voting rights, one of whom represents the previous owners of the Schulthess Group AG. Together these ten constellations of investors hold a total of 58% of the capital in the company and 80% of the votes.

Annual General Meeting

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

The most recent AGM, held on 11 May 2011 in Markaryd, was attended by 346 shareholders. Those present represented 55% of the number of shares and 78% of the total number of votes in the company. The AGM was attended by the Board of Directors, the Managing Director/CEO and the company's auditors. The minutes of the AGM and the company's articles of association are available on the company's homepage.

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

The 2011 AGM gave the Board of Directors a mandate to issue new class B shares to be used as part payment for the shares in the Schulthess Group AG in accordance with the conditions for the public tender offer that NIBE presented on 11 April 2011.



Board procedures

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

The current Board of Directors comprises Arvid Gierow (Chair), Georg Brunstam, Eva-Lotta Kraft, Hans Linnarson, Anders Pålsson and Gerteric Lindquist (CEO of the NIBE Group). With the exception of the CEO, none of the directors of the company is employed by the company or has any operational responsibilities in the company.

It is the opinion of the Board of Directors that all directors with the exception of the CEO are independent in relation to the company. Please see page 89 for a brief presentation of the directors of the company.

The work of the Board is governed by formal rules of procedure adopted annually to regulate the allocation 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 has also adopted instructions concerning the division of work between the Board and the Managing Director/CEO.

The Board of Directors oversees 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 continual supervision of operations during the year. In addition, the Board sets the budget and is responsible for the annual accounts.

The Chairman leads the work of the Board and ensures that it is carried out in accordance with the Swedish Companies Act and other relevant legislation. The Chairman follows the progress of operations through consultations with the Managing Director/CEO, and is responsible for ensuring that other members of the Board receive the neces-

sary 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 2011 the Board of Directors held 23 meetings, of which seven were traditional round-table meetings, thirteen were telephone conferences and three were *per capsulam* meetings, where information was shared by circulating the papers among the board members. All meetings were minuted.

Attendance at board meetings was good with full attendance for virtually all the round-table meetings. Apologies for absence were received on only a few occasions. Hans Linnarson was absent from two round-table meetings; Eva-Lotta Kraft and Anders Pålsson were each absent from one telephone meeting.

The agenda includes a number of standing items, which are considered at every meeting:

- Status report. Report of significant events affecting operations that have not been listed in the written report that has been circulated.
- Financial report. Review of the financial information circulated.
- Investments. Decisions regarding investments exceeding SEK 3.0 million, based on the data circulated.
- Legal processes. Review of new or ongoing legal processes when appropriate.
- Acquisitions. Report on ongoing discussions and decisions concerning the acquisition of companies, as and when appropriate.
- Press releases, etc. When appropriate, a review of proposals for external reports to be published after the meeting.



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 auditor presents his comments to the entire Board of Directors on this occasion.
- **Inaugural meeting.** Following the AGM, the Board of Directors holds its inaugural meeting, at which the Board discusses the rules of procedure and determines who has authority to sign for the company.
- **Strategy.** In June, 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 financial key 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 have previously been elected at the AGM to serve for a period of four years. The current period began in 2008 and expires after the AGM in 2012. Thereafter the auditors will be elected every year.

Mazars SET Revisionsbyrå AB was re-elected for a period of four years at the AGM in 2008. In conjunction with this decision, Bengt Ekenberg was elected as the senior auditor.

The senior auditor has continual access to the approved minutes of company board meetings and the monthly reports that 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, Mazars SET Revisionsbyrå as-

sists in particular with due diligence reviews in conjunction with corporate acquisitions and with accounting consultations. Information on the remuneration of auditors is given in Note 5 to the annual accounts.

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 directors of the Group's business areas report to him.

The CEO leads operations in accordance with the instructions adopted by the Board in respect of the division of work between the Board and the Managing Director/CEO. The work of the Managing Director/CEO and of senior management is evaluated annually.

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

Governance of business areas

NIBE consists of three business areas. Each business area has its own operational management with profit responsibility. Each business area has a Business Area Board chaired by the Group's CEO. These Business Area Boards also include external members with expertise within the respective areas. Each Business Area Board, in addition to responsibility for day-to-day operations, is also responsible to the NIBE Board of Directors for the strategic development of its respective business area. Each Business Area Board meets once a quarter.

Decision-making process

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

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

Remuneration to the Managing Director is a matter decided by the Board, but the preparatory work for this decision is undertaken by the

Chairman of the Board after discussions with the Managing Director. 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. NIBE does not comply with the Code in respect of nominations because of the clear ownership structure with two principal shareholder constellations, which together control 70% 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 Code.

Remuneration

The 2011 AGM resolved that the fees to the Board of Directors and the fees to the auditors should be paid in accordance with approved accounts. At the same time, policies for the remuneration of the Managing Director/CEO and other key management personnel were detailed and approved. Further information about the principles that apply can be found in Note 6 to the annual accounts.

Fees for the Board of Directors for 2011 amounted to SEK 1,050,000 in accordance with a resolution upheld by the AGM. Of this amount, the Chairman of the Board received SEK 350,000 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.

Salary and other remuneration paid to the Managing Director/CEO in 2011 amounted to SEK 3,244,000. A free car is also provided. Salaries paid to four other senior management executives totalled SEK 9,391,000. These senior executives also enjoy free use of company cars. A financial contribution to removal costs is available to newly recruited senior executives.

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

The Managing Director/CEO has an individual pension insurance arrangement that corresponds to ITP (supplementary pensions for salaried employees). For 2011, the premium corresponded to 19% of salary up to 30 so-called "income base amounts" (a statistical amount used in Sweden for calculating benefits, etc.). For salary to the Managing Director/CEO paid in excess of this, a premium payment of 30% was made that corresponds to the defined-contribution ITP plan, section 1. Other senior executives in the Group have retirement benefits that correspond to the ITP plan for that portion of their salary up to 30 income base amounts. For salary in excess of this, a premium of 30% is made in accordance with the defined-contribution ITP plan, section 1. An exception is made in the case of the director of one of the business areas, who, in his capacity as Managing Director, has an individual pension arrangement with premiums that correspond to those of other senior executives.

Incentive programme

An incentive programme 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. Certain key individuals in the foreign companies acquired during the year have incentive programmes that, in certain respects, deviate from the principles for remuneration that are otherwise applied in the NIBE Group. Further information about the principles that apply for senior executives can be found in Note 6 to the annual accounts.

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 printed form to all shareholders who so wish. All takeovers and other information that may have an effect on the company's share price are announced via press releases. Full financial information relating to the NIBE Group is available via the website www.nibe.com. Press releases and reports are posted there at the same time as they are made public.

During the course of the year there have been a number of meetings with financial analysts, the media and *Aktiespararna*, the Swedish Shareholders' Association. A Capital Markets Day, arranged in the autumn at NIBE in Markaryd, was attended by both Swedish and foreign investors.

Internal controls of financial reporting in 2011

According to the Swedish Companies Act and the Code, the Board of Directors is responsible for internal controls. This report on internal controls and risk management with regard to financial reporting complies with the requirements in Chapter 6, section 6 of the Annual Accounts Act.

Internal controls were an important component of corporate governance even before the new code was introduced.

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

NIBE complies not only with external laws and regulations in respect of financial reporting, but also with internal instructions and policies set out in the Group's Finance Handbook. These are applied by all companies in the Group, along with systems aimed at ensuring effective internal controls in financial reporting.

Consolidated financial reports containing comprehensive analyses and comments are drawn up each quarter for the Group and its business areas. Results are also monitored every month.

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

In addition to the statutory audits of the annual report and statutory audits of the parent and all subsidiaries, the auditors carry out an annual review of how the companies are organised, of existing routines and of compliance with the instructions issued, based on guidelines drawn up by corporate management and approved by the Board of Directors.

The Board also has the option of requesting a special audit of a selected business or operations during the year if this is deemed necessary.

This review increases insight and awareness, provides explicit instructions and proposes a clear organisation in respect of internal controls. It is the view of the Board that, because of the implementation of this review, there is no need for any separate internal control.



The directors of the company, left to right: Georg Brunstam, Gerteric Lindquist, Eva-Lotta Kraft, Anders Pålsson, Arvid Gierow and Hans Linnarson.

The Board's assurance

The Board of Directors and the Managing Director/CEO 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 have been prepared in accordance with generally accepted

accounting principles in Sweden and give a fair view of the parent's financial position and results of operations. The Board of Directors' Administration Report for the Group and the parent provides a fair review of the development of the Group's and the parent's operations, financial position and results of operations and describes material risks and uncertainties facing the parent and the companies included in the Group.

Markaryd, Sweden – 28 March 2012

Arvid Gierow
Chairman of the Board

Georg Brunstam
Director

Eva-Lotta Kraft
Director

Hans Linnarson
Director

Anders Pålsson
Director

Gerteric Lindquist
MD/Chief Executive Officer

The balance sheets and income statements will be presented for approval at the Annual General Meeting on 10 May 2012.

Auditor's Report

To the annual meeting of the shareholders of NIBE Industrier AB (publ)
Corporate ID No. 556374-8309

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of NIBE Industrier AB (publ) for financial year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 51-87.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and of its financial performance and cash flows

in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance report has been prepared and presented. The statutory administration report and corporate governance report are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent and the Group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of NIBE Industrier AB for financial year 2011.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

We recommend to the annual meeting of shareholders that the profits be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Markaryd, Sweden – 28 March 2012

Mazars SET Revisionsbyrå AB



Bengt Ekenberg

Authorised Public Accountant