



NIBE

bringing warmth to the world

Annual Report
2004

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Bringing warmth to the world

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

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

Annual General Meeting

The Annual General Meeting of shareholders will be held at the NIBE Marketing Centre (Marknadscenter) in Markaryd in Sweden on Wednesday 11 May 2005 at 17.00 (5 pm).

Dividend

The Board of Directors will propose to the Annual General Meeting a dividend of SEK 3.00 per share for the financial year 2004, corresponding to a total payout of SEK 70.4 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 19 May 2005.

Financial information

The complete annual report and call to the AGM are sent to all shareholders. The annual report is also published on our website www.nibe.se.

Shareholders' diary

11 May 2005	Annual General Meeting
11 May 2005	First quarter report: January – March 2005
17 August 2005	Second quarter report: January – June 2005
15 November 2005	Third quarter report: January – September 2005

2004

another year of
good growth in profits

- Net sales rose to SEK 3,161.0 million (figure for 2003: SEK 2,451.1 million)
- Growth totalled 29.0% (26.1%) of which 14.5% (14.8%) was organic
- Profit after net financial items rose to SEK 352.4 million (SEK 217.8 million)
- Earnings after tax rose to SEK 255.3 million (SEK 144.4 million)
- Operating cash flow totalled SEK 120.3 million (SEK 15.6 million)
- Earnings per share rose to SEK 10.87 (SEK 6.15)
- The Board of Directors proposes a dividend of SEK 3.00/share (SEK 1.85)
- Minority stake in Jøtul divested through the sale of shares in 2004. The capital gain of SEK 37.5 million has been entered in the result for the year.
- Three corporate acquisitions were made during 2004 of companies with aggregate annual sales corresponding to approximately SEK 250 million.

NETEK, a Danish manufacturer of district-heating products

Shel, an English tubular element manufacturer with production facilities in China

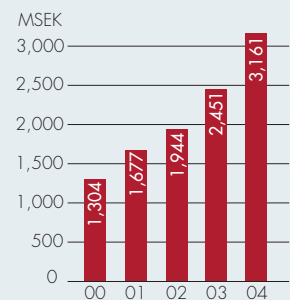
Kaukora, a Finnish manufacturer of electric water heaters and domestic boilers.

The year in figures

		2004	2003	Change
Net sales	MSEK	3,161.0	2,451.1	+ 29 %
Growth	%	+ 29.0	+ 26.1	+ 11 %
Profit after net financial items	MSEK	352.4	217.8	+ 62 %
Net investments in fixed assets	MSEK	418.9	433.0	- 3 %
Gross margin	%	14.6	13.2	+ 11 %
Operating margin	%	10.8	9.5	+ 14 %
Net profit margin	%	11.1	8.9	+ 25 %
Capital employed	MSEK	1,681.0	1,307.5	+ 29 %
Equity	MSEK	865.2	646.9	+ 34 %
Return on capital employed	%	25.8	21.8	+ 18 %
Return on equity	%	33.6	26.1	+ 29 %
Return on total assets	%	17.8	15.2	+ 17 %
Asset turnover	times	1.46	1.54	- 5 %
Equity/assets ratio	%	35.0	34.6	+ 1 %
Proportion of risk-bearing capital	%	39.8	39.6	+ 1 %
Operating cash flow	MSEK	120.3	15.6	+ 771 %
Interest cover	times	11.6	9.6	+ 21 %
Interest-bearing liabilities/Equity	%	93.9	101.8	- 8 %
Average number of employees		3,755	2,881	+ 30 %

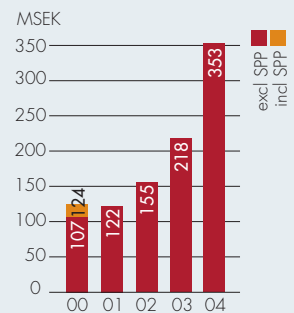
Please refer to page 41 for definitions.

Net sales



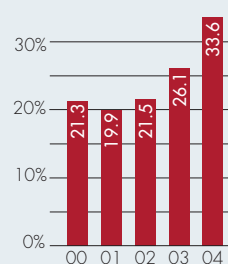
Net sales rose by 29.0% in 2004

Profit after financial items



Profit after financial items rose by 61.8% in 2004

Return on equity



Return on equity (excl. SPP) averages 24.5% p.a. over the past five years.

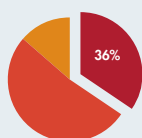
OPERATIONS AT A GLANCE

Proportion of Group

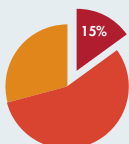


NIBE Element

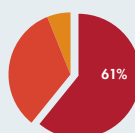
Net sales



Operating profit



Average number of employees



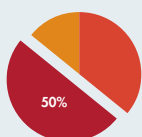
Operating margin

4.6%

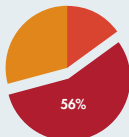


NIBE Heating

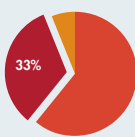
Net sales



Operating profit

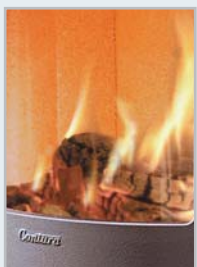


Average number of employees



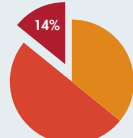
Operating margin

12.6%

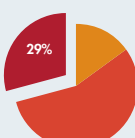


NIBE Stoves

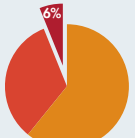
Net sales



Operating profit



Average number of employees



Operating margin

22.6%

Group total

Net sales

**SEK
3,161.0 million**

Operating profit

**SEK
340.6 million**

Average number of employees

3,755

Operating margin

10.8%

Key facts and figures

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

Net sales 2004	SEK 1,146.6 million
Growth	+ 8.3%
Sales outside Sweden	84%
Operating profit	SEK 53.0 million
Operating margin	4.6%
Average number of employees	2,275

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

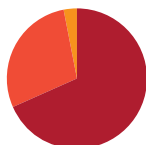
Net sales 2004	SEK 1,593.1 million
Growth	+ 44.7%
Sales outside Sweden	40%
Operating profit	SEK 200.8 million
Operating margin	12.6%
Average number of employees	1,232

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

Net sales 2004	SEK 452.0 million
Growth	+ 45.1%
Sales outside Sweden	30%
Operating profit	SEK 102.1 million
Operating margin	22.6%
Average number of employees	243

Group sales by geographic region

■ Nordic countries	68%
■ Rest of Europe	29%
■ Other markets	3%



Brands



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



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



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



Continued growth in volumes and earnings bodes well for the future

In 2004 the NIBE Group's net sales grew by 29% to SEK 3,161.0 million: 14.5% of this was organic growth.

Demand for the products of both NIBE Heating and NIBE Stoves was again very brisk, while NIBE Element continued to battle with a difficult market.

Aggressive marketing and extensive product development were dominant themes in all three business areas, capitalising on what remains a strong market volume-wise for Heating and Stoves, and helping to counteract the somewhat less favourable climate for NIBE Element.

Profit after net financial items totalled SEK 352.4 million, an increase of almost 62%. Approximately 20% of this was non-recurring income from the disposal of the holding in Jøtul, while the remainder was attributable primarily to good sales growth and successful productivity work.

Both Heating and Stoves continued to report good operating margins, and it is encouraging too that Element was able to reverse the previous downward trend.

As far as investments are concerned, Element continued to expand its production units for volume products in both Eastern Europe and China, at the same time as its units in Western Europe specialised to an increasing degree in supplying manufacturers of professional equipment and industrial customers.

Gerteric Lindquist, Managing Director & CEO

NIBE Heating is also in the midst of an extensive investment programme, the aim of which is to provide a firm foundation for further expansion and improvements in productivity.

The investment rate at Stoves was somewhat lower in terms of production, but an extensive programme is under way to renovate the division's existing office and development facilities.

The Group as a whole invested close to SEK 200 million in existing units in 2004, and we anticipate maintaining roughly the same level of investment in 2005.

As in several previous years, we were able to complement good organic growth with the positive effects of a number of strategic acquisitions: UK tubular element manufacturer Shel was integrated into the operations of NIBE Element, while the takeovers of NETEK of Denmark and Kaukora of Finland helped to reinforce NIBE Heating's position on the market even further. As far as future acquisitions are concerned, the outlook remains bright.

Passionate about creating value

It is most gratifying to note once again that working to a good old-fashioned recipe for success is paying off. NIBE's achievements are the ultimate result of the fact that our employees really do put their heart and soul into their work. As with any other company, NIBE's future depends entirely on sustaining this passion for creating value together.

Changed playing field

It is not without reason that manufacturing industries throughout Western Europe are currently riddled with uncertainty about the future: against the background of the great eastward migration what chances of survival does European industry have? However, fear and anxiety remain, as ever, the greatest mental barriers to progress and advancement.

Let us start by acknowledging the fact that halting the process of industrialisation and modernisation in Eastern Europe and China is not a realistic option. On the contrary, this is an entirely necessary phenomenon that we should welcome. Indeed, we ourselves are actively involved in this process of change – but very much on our own terms! We have invested in a strategy of developing our companies in Western Europe at the same time as we are building up local units in Eastern Europe and China.

For this strategy to succeed, we need continued good volume growth, aggressive product development, and the same willingness to roll up our sleeves and knuckle down to hard work at our Western European units as elsewhere. In this sense we are already well served by our firmly founded corporate culture with its focus on profitability, hard work, a passion for productivity and honesty. We could not wish for a better starting point.

A businessman can see potential in every situation, but by the same token, we must always have the courage to speak up when

we feel that things are not as they should be in the world around us. Unfortunately that is often the case today.

It is essential to restore respect in Sweden for a number of basic values: that as many people as possible should be in work, that all work is of value to society, and that enterprise is not some kind of dubious activity that needs to be closely supervised and regulated by restrictions, but the driving force behind the development of society as a whole.

Undiminished optimism

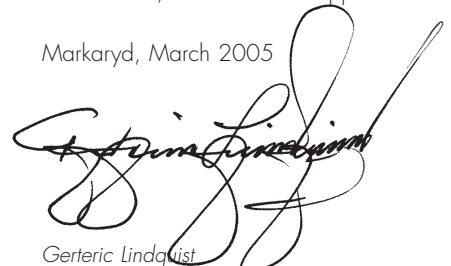
As a group of companies NIBE remains extraordinarily strong in terms of both its financial key figures and its corporate culture, and we feel a real weight of responsibility for preserving these strengths.

At the same time, this means, however, that we are confident about our potential to continue growing in 2005.

Our long-term target of generating sales of SEK 5 billion with continued good profitability in 2007 stands.

We hope that these aims, building on undiminished optimism, will provide a clear objective for existing and future employees, shareholders, customers and suppliers alike.

Markaryd, March 2005



Gerteric Lindquist
Managing Director and Chief Executive Officer



NIBE Industrier AB's "B" shares were floated on the Stockholm Stock Exchange's OTC list (now the O list) on 16 June 1997 following the issue of 1,170,000 new "B" shares. The subscription price was SEK 70 per share.

Share capital

NIBE Industrier AB has a share capital of SEK 58.7 million, divided into 3,478,068 "A"-shares and 20,001,932 "B" shares, each with a par value of SEK 2.50. 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. One hundred shares make up a round lot. At the 2004 year-end the company had no outstanding convertible loans or options which could risk diluting the share capital.

Share performance and turnover

During 2004 the NIBE share appreciated in value by 44% from SEK 127.50 to SEK 184.00. The Carnegie Small Companies Index (Small Cap) rose by 20% during the same period. At the end of 2004 the market value of NIBE, based on the latest price paid, amounted to SEK 4,320 million. On 28 February 2005 the share price had risen even further to SEK 213.00 to give a market value of SEK 5,001 million.

A total of 7,183,340 NIBE shares were traded during 2004, equivalent to a share turnover of 31%.

Dividend policy

The aim is, over the long term, to pay a dividend equivalent to 25–30% of Group profit after full tax. The Board is proposing a dividend of SEK 3.00 per share for the 2004 financial year, which equates to 27.6% of Group profit after full tax

Ownership

There was a steep rise in the number of shareholders during the year. NIBE had 11,621 shareholders on 30 December 2004, compared with 7,923 one year previously. The ten largest shareholders held 65.1% of the votes and 37.8% 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, the Group's senior management strives continuously to develop and improve financial information relating to the company by taking an active role in meetings with analysts, investors and the media.

During the year NIBE shares have been tracked and analysed by the following banks and brokers, among others:

Carnegie	Björn Enarson, Tel +46 (0)8-676 88 00
Enskilda Securities	Stefan Mattsson, Tel +46 (0)8-522 295 00
Handelsbanken Capital Market	Markus Almerud, Tel +46 (0)8-701 10 00
Kaupthing Bank	Joakim Höglund, Tel +46 (0)8-791 48 00
Skandiabanken	Jim Rotsman, Tel +46 (0)8-463 60 00
Swedbank Markets	Mats Larsson, Tel +46 (0)8-585 900 00

Changes in share capital

Year		Increase in share capital (SEK)	Par value (SEK)	Total number of shares	Total share capital (SEK)
1990	New issue ¹⁾	6,950,000	100.00	70,000	7,000,000
1991	Bonus issue	40,000,000	100.00	470,000	47,000,000
1994	Split 10:1 ²⁾	–	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 ³⁾	–	2.50	23,480,000	58,700,000

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

²⁾ Change in the par value of each share from SEK 100 to SEK 10.

³⁾ Change in the par value of each share from SEK 10 to SEK 2.50.

Share data ¹⁾

		2004	2003	2002	2001	2000 ²⁾
Number of shares		23,480,000	23,480,000	23,480,000	23,480,000	23,480,000
Year-end share price	SEK	184.00	127.50	63.75	48.00	34.25
EPS (after full tax)	SEK	10.87	6.15	4.50	3.56	3.67 (3.14)
Equity per share	SEK	36.85	27.55	23.56	20.58	17.20
Proposed dividend	SEK	3.00	1.85	1.38	1.06	0.94
Price/equity		4.99	4.63	2.71	2.33	1.99
Dividend yield	%	1.63	1.45	2.16	2.21	2.74
Total yield	%	46.67	102.90	35.68	43.25	16.32
Operating cash flow/share	SEK	5.12	0.67	1.40	0.63	-0.37 (-0.56)
Payout ratio	%	27.6	30.1	30.5	29.8	25.6 (29.9)
PE ratio (after full tax)		16.9	20.7	14.2	13.5	9.3 (10.9)
Market value	SEK million	4,320	2,994	1,497	1,127	804
EBIT multiple	times	14.8	15.3	10.1	10.5	7.7 (8.9)
EV/sales	times	1.60	1.46	0.92	0.84	0.77 (0.78)
Share turnover	%	30.6	22.3	15.1	17.4	24.0

¹⁾ All key ratios/share have been recalculated with regard to the 4.1 split made in June 2003.

²⁾ Key ratios in parentheses are computed excluding items affecting comparability (i.e. premium refunds from SPP).

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

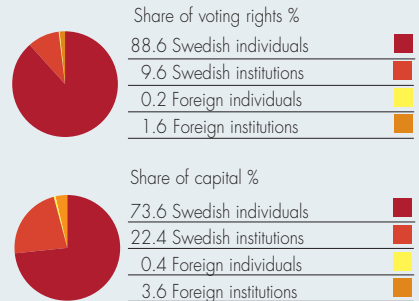
Enterprise value (the total of market value, net debt [interest-bearing liabilities less financial current assets] + minority interests) divided by net sales.

Share turnover

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

Shareholder categories

(Source: VPC AB share register 30 Dec 2004)



Major shareholders

(Source: VPC AB share register 30 Dec 2004)

Name	Number of shares	Share of vote %
Current and former board members and senior executives ¹⁾	7,517,614	55.4
Melker Schörling	3,003,840	20.9
Life assurance co. AB SKANDIA	874,200	1.6
Roburs Exportfond	644,500	1.2
Lannebo Småbolag	536,800	1.0
AMF Pensionsaktiefond (Sweden)	395,200	0.7
Carnegie Fond AB, small companies	310,000	0.6
AMF Pensionsfond (Global)	286,800	0.5
Didner & Gerge Aktiefond	231,000	0.4
Goldman Sachs International	173,628	0.3
Other holdings (11,591 shareholders)	9,506,418	17.4
Total	23,480,000	100.0

¹⁾ Please refer to page 68 for details of the current Board of Directors.

NIBE share performance



Shareholder structure

(Source: VPC AB share register 30 Dec 2004)

Shareholding	Number of shareholders	Share of ownership (%)	Number of shares	Proportion of shares (%)
1 – 500	8,442	72.7	1,431,471	6.1
501 – 1,000	1,782	15.3	1,481,477	6.3
1,001 – 5,000	1,153	9.9	2,584,693	11.0
5,001 – 10,000	108	0.9	822,540	3.5
10,001 – 15,000	36	0.3	449,303	1.9
15,001 – 20,000	22	0.2	394,586	1.7
20,001 –	78	0.7	16,315,930	69.5
Total	11,621	100.0	23,480,000	100.0

NIBE – a world-class heating company

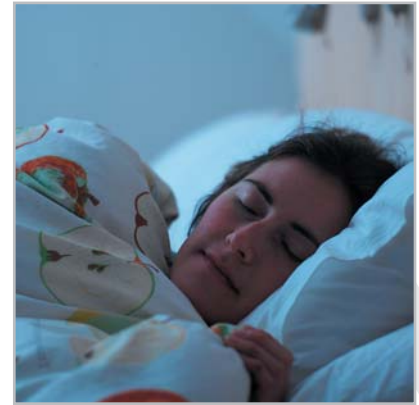
Our vision of NIBE as a world-class heating company builds on the idea that people – irrespective of nationality, age, gender, location, situation or time – should always perceive NIBE as a first class company in terms of its image, its products and employees.

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

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

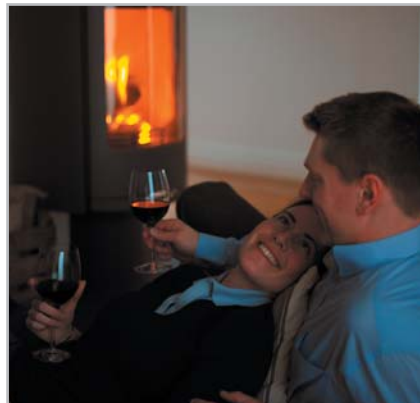
NIBE products create warmth, comfort and well-being around the clock.

They make a positive impact on people's lives and send out the signal that NIBE is always there – for you.



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

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



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



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

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





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



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



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

NIBE brings warmth to the world – 24 hours a day



▶ On cold winter days NIBE makes it easier to set off for work. The tubular elements for the engine pre-heater and the foil elements for the 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.



▶ 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 under-floor heating controlled by energy-efficient heat pumps from NIBE Heating, children can scamper around barefoot indoors all year round.



The secrets of our success

■ 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 56 and 53 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 corporate profits have so often been called 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 so safeguard its long-term survival.

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

■ High productivity

High productivity is crucial to maintaining a competitive position.

Our productivity ethic can be simply summarised in two points.

- Firstly, everything can and must constantly be improved. We must never allow ourselves to rest on our laurels. No matter how successful current solutions may seem, we must always strive for further improvements.
- Secondly, if you can't measure it, you can't improve it.

In stark contrast to the current trend of outsourcing as much of one's business as possible to other suppliers, NIBE continues to focus firmly on in-house production. We are convinced that high value added internally

provides the foundation for high productivity growth and, by extension, good profitability.

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

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

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

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

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

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

■ Aggressive product development

NIBE continuously invests substantial resources in product development.

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

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 new employees are joining.

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

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

Another major advantage of focusing on product development is that a basis for good production efficiency is established as early as 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 parameter 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 persistent, day-to-day work that focuses 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 be on hand for 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, and when they do they must quickly be identified and dealt with. Quite simply, a NIBE customer must always be a satisfied customer.

■ Market-oriented expansion

Expansion is a must for all business development.

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

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

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

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

■ Committed employees

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

We ask a lot of all of our employees but, together with open and unambiguous communication, this brings a clarity which is greatly appreciated.

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

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

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

■ Firm focus on three core businesses

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

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

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

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

■ A long-term approach

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

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

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

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

Internationalisation with the Nordic countries as our base

Vision

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

Mission statement

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

Objectives

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

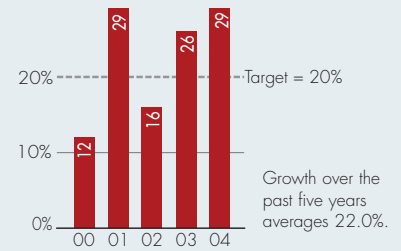
will play a key role in product development, from the choice of materials, through production and use to recycling.

Sincerity and an ethical attitude

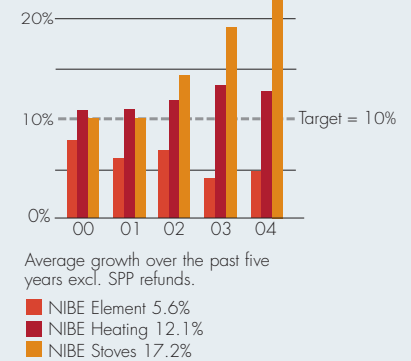
will characterise the company and all its employees both in terms of internal relations, and in dealings with shareholders, customers, suppliers, authorities and society in general.

Objective fulfilment

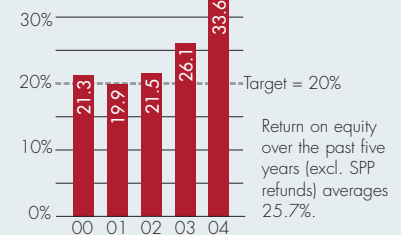
Growth



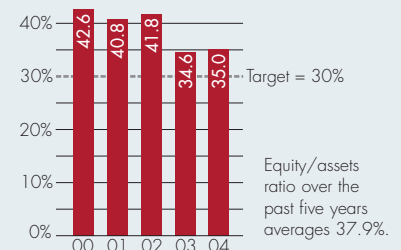
Operating margin (excl. SPP refunds)



Return on equity (excl. SPP refunds)



Equity/assets ratio



Profitable growth

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

The background to this strategy was the self-evident 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 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% indefinitely. We have therefore decided that organic growth must be complemented with average year-on-year growth through acquisitions of 10%. This level ensures that the additional workload is manageable, and the degree of risk reasonable.

The Group has been involved in 35 acquisitions over the last decade, representing average year-on-year growth through acquisitions of 11%.

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 bring in new technology, new geographical markets and/or additional market share in existing markets.

The basic criteria are that the company must have strong brands, it must have competent management with a real entrepreneurial spirit, and we must see further growth potential within the constraints of NIBE's strategies. If these criteria are met, we can then be flexible about what phase the company is in purely in terms of profitability.

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

Timeline for acquisitions and establishments

1994	1995	1996	1997	1998	1999
Backer OBR (32%) Backer Oy (new establishment) Contura	Vølund Loyal OY	Pyrox TMV-Pannan	NIBE Poland (new establishment) Backer OBR (68%) EPD	Bröderna Håkansson Värme AB Lodam Energi JEVI A/S Calesco Foil AB	Haato Varaajat

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 of 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.



NIBE currently has operations in 13 countries and is represented in nearly as many again through importers and dealers.

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

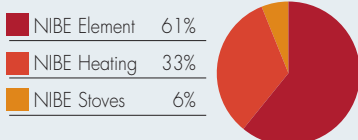
Danotherm Electric A/S (80%)
Backer Facsa
Energietechnik B.V. (new establishment)
METRO THERM A/S
Finohm
Sinus-Bobe
Termos

2004

NETEK
Shel
Calesco Foil Inc. (new establishment)
Kaukora
Divestment of Jøtul ASA (22%)

An increasingly international workforce

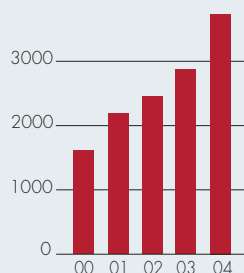
Employees – by business area



Key figures

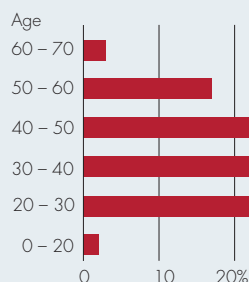
	2004	2003	2002
Average number of employees	3,755	2,881	2,444
administrative staff	% 23	24	24
production staff	% 77	76	76
men	% 71	69	69
women	% 29	31	31
Average age	years 38	39	39
Average length of employment	years 7.8	8.0	8.5
Workforce turnover	% 8.7	4.5	7.3
Number of graduates	440	304	216
Employees in Sweden	% 34	38	42
Employees abroad	% 66	62	58
Sickness absence (short-term) %	2.7	3.1	4.2
Sickness absence (long-term) %	4.0	3.5	3.6

Mean number of employees



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

Age distribution among employees



Large numbers of new employees, increased internationalisation and the continued emphasis on integrating NIBE's key values into the day-to-day work of the Group provided the main focus for the Group's work with Human Resources in 2004.

Our growth is heavily dependent on our success in attracting, retaining and developing skilled employees.

The NIBE philosophy of high standards of performance and diligence, and a working climate that combines freedom with accountability, a straightforward approach and a common-sense attitude, is becoming increasingly well known outside the company and represents a way of working that many job applicants are able to relate to naturally.

New employees warmly welcomed

NIBE welcomed more than 1,000 new employees in 2004 as the result of acquisitions, organic growth and natural replacements. Strong growth and a rapidly expanding workforce are having many positive effects. For example, an efficient and skilled nucleus of long-serving employees is being combined with newly recruited, well educated and highly motivated younger talents. Staff loyalty is strong, as witnessed by the low staff turnover. This means that the company's knowledge of products, production and markets that has been built up over many years can be preserved and transferred in a natural way.

The number of job applicants has grown markedly in recent years and it is clear that our values are attractive to many people. These values play a key role from the very first interview, and are also the focus of attention in our various induction programmes.

Increasingly international workforce

Expansion outside Sweden means that NIBE is evolving into an international employer with more than 4,000 employees in 13 countries following the latest new additions (China and the UK) in 2004. Sweden is still the country where the Group has the most employees, and numbers grew here too in 2004. Nevertheless the proportion of employees in Sweden has decreased in recent years, totalling 31% at

the end of 2004 compared to 60% just four years earlier. Poland is the second-largest country in terms of staff numbers, with 26% of the total Group workforce.

Variety of professions makes for broad expertise

Our restrictive approach to outsourcing means that a great deal of knowledge has been accumulated in the Group. Many different professions are represented here, resulting in a valuable spectrum of expertise. This also enables us to collaborate with universities and colleges in a variety of fields.

In addition, we work extensively with local schools, giving pupils of all ages an early insight into a modern manufacturing company and the many different career opportunities available.

Recent years have seen reinforcements across the board – for example, more than 300 graduates have been recruited. The number of female employees is growing all the time, and women now account for almost a third of the workforce.

Low sick leave

One topical issue, especially in Sweden, is the steep rise in sick leave, which is resulting in high levels of absenteeism in industry. Sick leave at NIBE has remained constant at around 7% over the last five years, of which around half is short-term and half long-term. We believe this owes much to our common-sense approach to sick leave. For us, it is as natural to make the workplace as ergonomic as possible and to organise work systematically as it is to expect employees to take their share of responsibility for their health by keeping themselves in good physical shape. Job rotation, job trials and similar measures are generally a result of natural needs and wishes rather than bureaucratic solutions.

Training for the future

Being well equipped for the future with the right skills and attitudes is the underlying aim of all training provided at NIBE. Training is not an end in itself but a direct response to well defined, relevant needs. The benchmark is straightforward, work-related training which rapidly and cost-effectively achieves the desired aims.

Priority areas include IT, project management, languages and logistics. Training in specialist professional skills is a continuous process. Another important focus forms part of our induction programmes, where newly recruited employees learn about the NIBE corporate culture and undergo product training at various levels depending on their future duties.

Using internal resources for teaching when feasible ensures an active and methodical approach to spreading important NIBE-specific knowledge through the organisation at the same time as it gives many employees a chance to develop their own professional skills by instructing others. However, NIBE also works with external teaching resources as a natural way of broadening our horizons and extending our expertise.



Henrik puts theory into practice

Name: Henrik Axelsson
Age: 25
Position: Project engineer at NIBE Production in Markaryd
Recruited: January 2003
Education: M.Sc, Chalmers University of Technology

"It was a perfect first job for me after college," says Henrik. "As a production technician I was sent straight in at the deep end among the welders and fitters producing the stoves."

"It taught me that there's a great deal of expertise among the production personnel which it's only natural to draw on when we introduce rationalisation measures."

Henrik started at NIBE in 2003 immediately after graduating in mechanical engineering at Chalmers University of Technology. He had specialised in production development.

"Although I was fresh out of university, there were no problems being accepted as part of the team. It was a great start for me! I immediately felt that here there really was freedom with accountability. NIBE has a long history in manufacturing and has many skilled engineers who have been with the company for a long time. The working climate is excellent and there's an inspiring blend of routine and new ideas."

The project team at NIBE Production works primarily at the various production units run by NIBE Heating and NIBE Stoves, so Henrik and his colleagues have the opportunity to work on many interesting projects in a great number of different locations.

"I've worked mainly on the automation of welding in Markaryd, but I've also visited Trelleborg, Poland and Denmark for various production technology projects," he says.

"NIBE has a straightforward corporate structure and a flat organisation – two things that I really appreciate because they give quick access to the decision-makers. And, of course, NIBE's rapid growth and strong profitability make it easier to gain support for proposals for new investments."

Given NIBE's growth plans and the company's strong faith in in-house production, there should be no shortage of future investment proposals for Henrik and his colleagues.

Focusing on the customer and continuous improvement

The NIBE Group's basic view of product and service quality is that this must be so high that it constitutes a good reason to buy a product. If we are to meet customer demands, it is crucial that our quality policy provides the common platform for all our work and that every employee views quality as his or her own personal responsibility. Our quality policy is also the basis for our quality targets, our ambition of continuous improvement and our resolve to offer our customers full satisfaction.

To live up to these high ambitions we run regular staff training programmes in areas such as product knowledge and quality techniques.

Production environments and manufacturing equipment are continually being developed and improved.

Continuous improvement is a key concept at NIBE, and is, in part, the responsibility of our quality and project groups, whose invaluable contribution represents the aggregate of many years' experience. Not only are quantifiable quality targets set and performance regularly monitored, but we also seek to continually develop our operations by setting ourselves new, more ambitious objectives. In addition we work closely with customers and suppliers to compare our performance to that of our competitors in a determined effort to ensure that we always lead the way in our three specialist areas.

Product quality is already high, but work is constantly under way to bring about improvements, focusing particularly on areas such as delivery times, delivery reliability, product development and customer service in order to 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.

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

Quality assurance

It is very important that products and services supplied by the Group comply with customer demands. For this reason, quality assurance work is undertaken within the parameters of integrated quality management systems that accord with ISO 9001 specifications and incorporate both internal and external checks and audits. The certifying bodies commissioned by the NIBE Group include SEMKO-DEKRA Certification AV, BVQI Bureau Veritas Quality International and SGS-ICS Gesellschaft für Zertifizierung m.b.H. Follow-up audits are carried out once or twice a year.

The quality management system is used to steer operations and processes in the direction of the aims we have established. The different production units each have their own dedicated machine park of calibration and testing equipment to verify product status from the arrival of the necessary raw materials and components to the fully finished product.

Both quality work and constant improvements increasingly focus on the customer in order to meet market demands and expectations, although the emphasis does vary somewhat as a consequence of the different business areas' own unique conditions.

As a subcontractor to industry, NIBE Element's most important competitive advantage is the consistently high quality of its products, 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. Products are therefore tested after each stage of the manufacturing process and extensive checks and inspections are carried out prior to despatch.

For NIBE Stoves quality means not only functionality and performance, but also the fact that all the components used are of a high standard and that the end product has an impeccable finish. Quality audits of randomly selected products are carried out on a continuous basis.

Johan Persson at Backer BHV keeps a steady focus on continuous improvements.

Continued growth with reduced environmental impact

A number of units in the NIBE Group are already ISO 14001 certified and the rest work in accordance with the principles laid down in this internationally recognised environmental management system.

Under the maxim "continued growth and reduced environmental impact" our environmental work focuses on five key areas:

- reducing emissions
- reducing waste
- increasing energy efficiency
- reducing the use of environmentally harmful chemicals
- using natural resources more efficiently.

The provision of training and open information encourages staff to contribute to continual improvement, so reducing our impact on the world around us and helping to create the right conditions for long-term sustainable development.

Environmental key figures in relation to 100 kilos of manufactured product have been introduced throughout the NIBE Group to enable us to monitor the results of our environmental work and identify any trends.

In addition to the environmental impact of our production processes, NIBE's product development work also adopts a life cycle analysis approach, examining the environmental suitability of our products from the perspective of sustainability. Examples include:

- increased energy efficiency in heat pumps: this reduces oil dependency and carbon dioxide emissions.
- modified insulation techniques in a number of heating products: this enables more than 95% of the materials used to be reclaimed.
- improved combustion efficiency in wood-stove products: this reduces emissions.
- and, as a sub-contractor, NIBE Element is frequently involved in close collaboration with its customers to prolong the service life and reduce the energy consumption of end products.

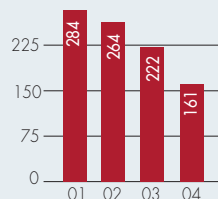
A number of projects are under way with a view to finding and verifying technical solutions that provide more environmentally friendly alternatives to current manufacturing methods. At the same time as this work has been accorded top priority, we are also careful always to subject any proposed changes to a programme of rigorous tests to ensure that important characteristics such as the service life and reliability of products are not jeopardised.

NIBE's environmental work has also been recognised outside the company. NIBE scored top marks last year in the Folksam insurance company's so called "Climate Index", which includes all companies listed on the Stockholm Stock Exchange.



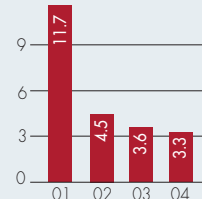
Key environmental figures

Total energy consumption (kWh/100 kg product)



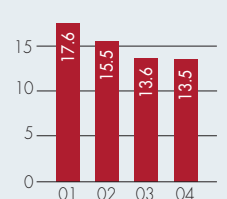
Installation of heat pumps, heat exchangers and frequency controlled compressors reduces energy consumption.

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



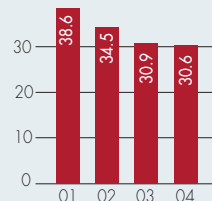
Changes to passivation process when manufacturing stainless steel vessels reduces the use of chemicals.

Total amount of waste (kg/100 kg product)



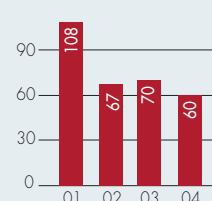
Optimised tooling of metalworking machines minimises waste and swarf.

Total amount of CO₂ emissions (kg CO₂/100 kg product)



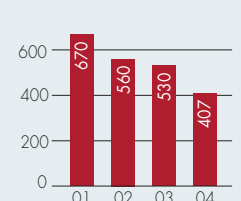
Installation of more heat pumps reduces oil dependency.

Total solvent emissions (g/100 kg product)



Reuse of solvents in washing processes reduces total emissions.

Total water consumption (litres/100 kg product)



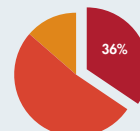
Heat exchange system for cooling water used in manufacturing process reduces water consumption.

NIBE ELEMENT

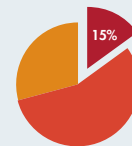


Christer Fredriksson,
Business Area Manager

Contribution to Group



Net sales



Operating profit

NIBE Element

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

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

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

Strategy

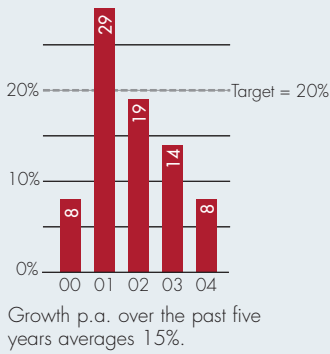
NIBE Element's goal is to rank among Europe's leading manufacturers. To do this, it will make suitable acquisitions to increase the number of domestic markets on which it operates. In these domestic markets it will maintain a local presence and sell a complete range: elsewhere the main focus will be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

Objective

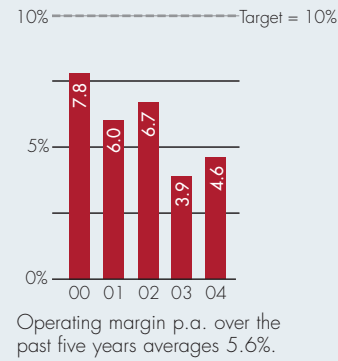
The business area's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

High quality tubular element for heating hot water.

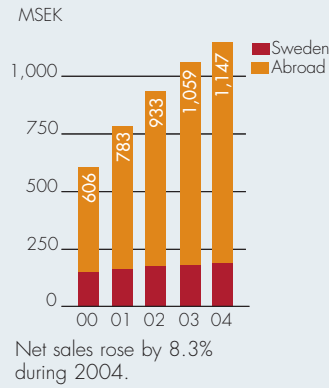
Objective fulfilment Growth



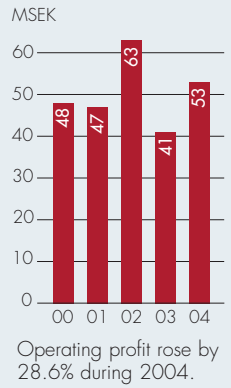
Objective fulfilment Operating margin



Net sales



Operating profit



Review of 2004

Developments in our domestic markets varied from segment to segment. There was some growth for customers supplying the professional equipment industry, but most customers focusing on consumer products faced a sharp increase in competition from low-price producers in Asia.

The restructuring of the white goods and small appliances segments is accelerating, with production units in Western Europe being phased out in favour of those in Eastern Europe and China.

A number of steps have been taken at NIBE Element to counter the effects of this trend. The expansion of the Polish operation, which is due to be completed during the second half of 2005, will double production capacity for tubular elements and also increase capacity for foil elements and load resistors. This will make the Polish unit our largest production plant.

The acquisition of the UK-based element manufacturer Shel also gave us access to low-cost production in China as an alternative to our units in Poland and the Czech Republic. During the autumn the operation was expanded to allow the production of a broader range. To begin with, additional production has been transferred from Shel in

the UK. In time the unit in China will acquire increasing importance as a base for marketing and deliveries across Asia, and, alongside the expansion of tubular element production, a new unit for the production of foil elements has also been established in China.

Work on making units in Western Europe more specialised in their production continued during the year, as did the transfer of labour-intensive and price-sensitive products to the units in Eastern Europe. The production of load resistors was concentrated at a single unit in Denmark, and additional production was transferred to Poland. Parallel with these restructuring measures, rationalisation work continued at all units.

Raw material prices rose steeply during the year. To some extent these increases could be passed on to customers, but work on optimising products in terms of design and materials has also been stepped up to reduce the effects of price increases.

New marketing platforms are being established to promote further organic growth. The product range is also being extended, and the proportion of system products (i.e. components) is growing in several customer segments.

Outlook for 2005

We expect the market to remain stable in 2005.

Continued rapid restructuring of the small appliances and white goods segments is anticipated. Movements in exchange rates will impact significantly on how much production our customers in these segments transfer to Eastern Europe and how much to China. We therefore see it as an advantage to have production units established in both places.

Supplies of foil elements from our new production unit in China will gradually be stepped up during the year.

Once the expansion of the Polish operation is completed during the second half of 2005, further production will be transferred from the Western European units, leading to a reduction in workforce numbers at several of these plants.

Local sales organisations in Europe will be strengthened and co-ordinated during the year, and, as part of this process, local sales offices in countries where we do not have our own subsidiaries will be expanded.

We believe that the restructuring and rationalisation measures carried out in 2004, combined with the measures planned for 2005, will strengthen the business area's market position.



All foil elements are subjected to a pre-delivery optical inspection as performed here by Joanna Stanczewska (Backer OBR).



Work on extending production facilities at Backer OBR in Poland will double the unit's capacity before the end of 2005.

Market

Over the long term 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 has been sluggish on several of our domestic markets, even though there are some shining examples to the contrary.

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

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

Certain segments of the market saw the pace of structural change quicken even more last year. Some very large customers closed down their production units in Western Europe – often at very short notice – and these decisions have obviously had major implications for sub-contractors like ourselves.

The process of structural change differs from industry to industry, but within the highly competitive market for small appliances the trend is clearly towards establishing production facilities in China or purchasing “off-the-shelf” products designed, developed and produced by Chinese manufacturers. This has put increased pressure on prices and volumes in Europe. In the washing machine and electric oven segments, however, the trend is towards specialisation in European production plants at the same time as capacity is being increased in Eastern Europe. We believe we are well placed to meet these trends thanks to our units in Poland, the Czech Republic and China.

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

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

Industry trends

The industry has been buffeted for years by fierce competition on price and shrinking profit margins. Consequently a number of competitors have had to withdraw from certain product segments over the past year, and we believe that this will help prices to stabilise in the medium term.

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

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

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

Products

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

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

- Tubular elements
- Aluminium elements
- Foil elements
- Thick film elements
- PTC elements
- High-power elements
- 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. NIBE Element is the world leader in foil elements for wing mirrors, water beds etc., and these elements are also used for special applications in medical technology and electronics.

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

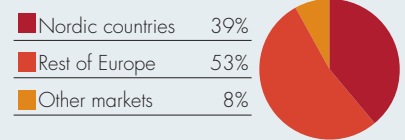
As the product range becomes broader, the marketing and service concept is also being developed to pave the way towards establishing NIBE Element as the leading supplier of electric heating components for industrial customers in each of the business area's respective domestic markets.

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

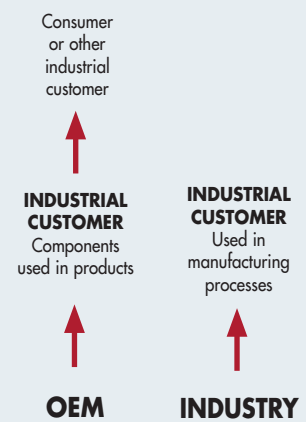
Another example is the vacuum soldering technique employed for elements for medical technology applications. This technique is now also being used for the production of plate heat exchangers intended primarily for a variety of water heating applications.

NIBE ELEMENT

Sales by geographical market



Distribution



Opportunities and threats

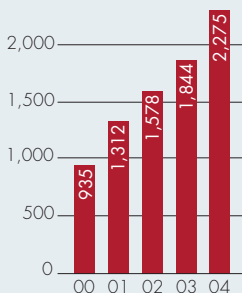
- + Industry restructuring and expansion through acquisitions
- + Purchasing and production synergies
- + Market position on domestic markets allows marketing of a broader range of products
- + Strong brands
- + Rational, flexible production
- + Access to rational, low-cost production
- + Market position as one of the leading manufacturers in Europe
- + Intensive product development

- New technologies
- Greater competition
- Cost trends in the Nordic countries
- Low-price competition
- Product liability and series faults



Danotherm in Denmark has developed a new type of load resistor of the type proudly displayed here by Dzevat Sulejmani.

Average number of employees



Development process

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

- Product development focuses on new types of elements or embedded functions, such as control and regulation. R&D work also aims to improve the qualities of heating elements with regard to temperature limits and insulation. One example of this is the development during the year of a new type of load resistor to complement our range in this product area.
- Product adaptation is usually conducted in close collaboration with customers to arrive at a solution that suits their specific needs, or, if required, to assume responsibility for the entire system, as with the development during the year of a range of water-bed heaters for the US market.
- Process development is carried out with the aim of optimising production as regards the choice of material, quality and the technical performance of a product. In 2004 we have carried out further materials optimisation projects in order to be able to use even thinner materials in our tubular elements.
- Production engineering development seeks to develop methods and machinery that will rationalise the manufacturing process, as demonstrated in 2004 by investments in robots to facilitate the work of testing and quality assuring foil elements for rear mirrors.

In 2005 our commitment to product development will be even greater, partly through further strengthening the organisation and partly through the modernisation of our product development equipment.

Production

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

A new business system was rolled out at the largest unit in Sweden and the business area's Norwegian unit in 2004. The system incorporates a standard that it is intended will provide the basis for even closer cooperation, coordination and integration among the various units.

In Denmark a unit manufacturing load resistors has closed down and its operations have been transferred to Poland. All the costs involved have been entered against ordinary operational profits. Elsewhere the manufacture of a number of other product groups has also been moved from other Western European units to those in low-cost countries.

The Swedish foil element plant has moved to new premises acquired in 2003 in order to be able to handle the goods flow generated by increased volumes and to facilitate the establishment of a separate unit for special elements.

The takeover of the English tubular element manufacturer Shel has not only given us access to dollar-based, low-cost production in China, but also new opportunities for procuring materials and components.

Examples of applications

■ Small household appliances

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



■ Domestic white goods

Dishwashers	Refrigerators	Drying cabinets
Washing machines	Ovens	Mangles
Tumble dryers		



■ Professional equipment

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



■ Comfort – air

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



■ Comfort – water

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



■ Vehicles and transport

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



■ Process industry/projects

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



■ Maintenance/spares

Plastic extrusion equipment	Vacuum tables
	White goods spares



■ Special

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

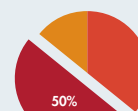


NIBE HEATING

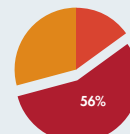


Kjell Ekermo,
Business Area Manager

Contribution to Group



Net sales



Operating profit

NIBE Heating

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

Strategy

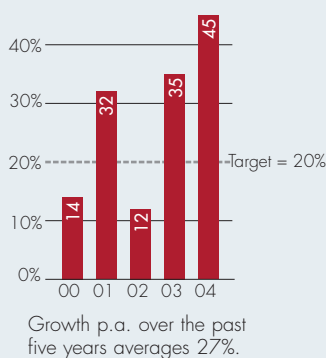
NIBE Heating's strategy is to consolidate its position as market leader in northern Europe and to develop its position in the other European markets. The number of "domestic" markets will gradually be increased by acquisitions, the establishment of subsidiaries or the use of other established sales channels.

Objective

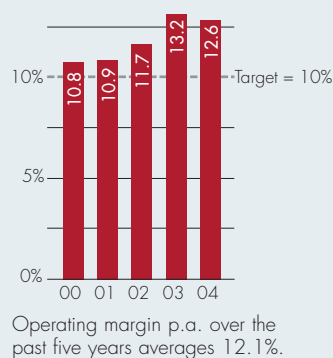
NIBE Heating's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

FIGHTER 1320 – the heat pump that both heats and cools large premises.

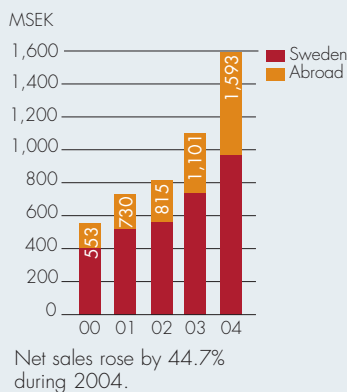
Objective fulfilment Growth



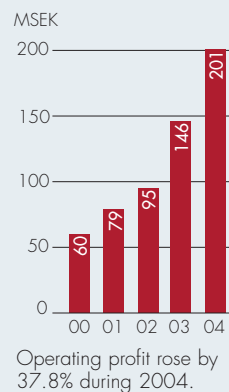
Objective fulfilment Operating margin



Net sales



Operating profit



Review of 2004

The Swedish market for heat pumps grew further from an already high level in 2003. The overall market expanded for all types of heat pump, and our market position was also strengthened further in several segments. High electricity and oil prices, combined with increased construction of single-family homes and a larger RMI market, were the main driving forces behind the strong market growth.

NIBE Heating further strengthened its market position in the Nordic markets in the water heater product area through its latest acquisitions in Denmark and Finland, and now has a leading position in a stable market.

Recent years' downturn in the market for domestic boilers continued in 2004. The market for oil-fired boilers has fallen to a minimum, and the boiler market is now made up primarily of products using other forms of energy.

There was strong growth in all of the main export markets. Consumer interest in energy-saving products is growing all the time, which is fuelling growth in heat pumps in particular.

Following substantial investments in rationalisation and modernisation, the year has seen an increase in production capacity in our units both in Sweden and abroad. A new assembly shop has been built in Poland and the new production plant for stainless steel water heaters is now up and running in Markaryd, Sweden.

Work with rationalising the operations of the Danish METRO THERM Group and integrating them into the NIBE Group has produced good growth in sales and profits, particularly in the district-heating segment.

In October NIBE acquired the Finnish Kaukora Group, which currently has annual sales corresponding to approximately SEK 200 million. The strategy behind the take-over is to consolidate NIBE Heating's Nordic platform in order to provide the best possible springboard to the rest of Europe.

Outlook for 2005

Residential construction in the Swedish domestic market is expected to hold at roughly the same level as in 2004 or rise slightly. The scope for growing sales of exhaust-air heat pumps is therefore dependent on our own competitiveness and on growth in the replacement market, which is forecast to increase slightly.

The Swedish market for ground-source heat pumps is currently very strong, and the overall market is expected to remain at the same high level throughout 2005. There are still many elderly oil-fired heating systems in Swedish properties which will gradually need to be replaced by, among other solutions, energy-saving heat pumps.

All the signs suggest that interest in heat pumps that recover energy from exhaust air will increase, as this is an interesting

alternative for properties where drilling into rock or installing a ground collector is not possible, and where a lower installation cost is essential.

No change is expected in the Swedish market for water heaters in 2005, while the market for domestic boilers may decline somewhat further. The recent addition of district-heating products complements an already broad range, and the scope for growth in this area is believed to be good. Taken all round, this means that we can now offer a heating solution for virtually every customer need.

The key to generating sustainable organic growth lies in giving priority to NIBE Heating's international expansion. The European market remains our most immediate concern, and the potential here is huge in our product areas. Accordingly, work is already under way on stepping up product development, making the necessary technical adaptations to our products and strengthening the sales organisations in order to facilitate this expansion.

The market outlook is believed to be bright in most of our established markets, and we have set our highest growth targets in Germany, Poland, Norway and the UK. Other markets will also be worked to support our international expansion and reduce our dependence on the Swedish domestic market.

By way of summary, therefore, we can confirm that we remain confident about our chances of continued growth both in Sweden and abroad.



Claudio Zec – another satisfied customer who has saved a great deal of money thanks to a NIBE heat pump.



NIBE Heating opened its new Marketing & Training Centre in Markaryd, Sweden, in May 2004.

Market

Sweden

The Swedish market, 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 lion's share of sales.

The RMI sector has expanded as consumer interest in investing in and renovating homes has increased. Heating alternatives are coming under increasingly great scrutiny, not only in the quest to reduce the cost of living cost but also in order to improve the indoor climate. On the RMI side the overall market for both ground-source heat pumps and air-to-air and exhaust air heat pumps has continued to go from strength to strength, while the market for domestic boilers has declined even further.

By contrast there has been some slight improvement during the year in the market for electric water heaters, which, by and large, is also RMI oriented.

Despite low interest rates over recent years, the rise in the number of new home starts has been marginal. In 2004 around 10,700 new private homes were built in Sweden, which is a relatively low figure both historically and in the broader international perspective. The vast majority of new single-family homes incorporate heating equipment based on energy recovery from spent air within the premises, so called "exhaust air heat pumps".

The second major alternative for newly built homes is district heating. However, this is more or less confined to urban centres which means that, in the first instance, it tends to be favoured by the owners of large, new properties. The total district heating market expanded slightly in 2004.

Foreign markets

The sales potential for our products in Europe is enormous. We may be a leading name in northern Europe, but we remain merely a minor player throughout the remainder of the continent. As we expand our product range with new alternatives for both water heating and domestic comfort, this will enable

us to work and sell more successfully in an increasing number of selected markets.

The latest acquisitions of METRO THERM and Kaukora have made Denmark and Finland respectively into our largest foreign markets, while the fact that the Norwegian heater manufacturer Høiax forms part of the METRO THERM Group also means that we are a much stronger force than previously in Norway as well. In our Nordic domestic markets outside Sweden we sell a complete range of products adapted to local requirements under local brand names. Here sales of water heaters are stable and the interest in heat pumps is increasing continually.

Reinforcing our own sales organisations in Germany and the Netherlands makes it possible to work more intensively with the market in these countries. Despite the fact the German economy remains weak and the number of new private homes being built continues to fall, interest in energy-efficient heating products such as heat pumps is rising. Even so, such alternatives still account for only a small share of a market in which gas and oil continue to maintain their dominance.

Our Polish subsidiary, NIBE-BIAWAR, is a market leader for electric water heaters in Poland. Several foreign companies have established a foothold in the country and competition is extremely fierce as these jockey for positions and market share. Interest in heat pumps is increasing here too and over the past few years we have delivered a number of heat pumps for major projects. NIBE-BIAWAR also serves as the basis for the cost-effective manufacture of heating products in segments that are subjected to especially keen price competition in a number of other European markets.

At present, France, where most homes are currently heated by electricity or gas, is the European nation that accounts for the greatest rate of growth for heat pumps. However, interest has been awakened too in countries such as Ireland, the UK, Austria, the Baltic states and the Czech Republic, where we are also represented, so the prospects for future growth look promising.

When it comes to district heating products the main thrust of our marketing efforts is concentrated on Denmark, Sweden, Germany, the UK and the Netherlands.

Industry trends

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

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

In a number of markets government authorities are imposing measures designed to reduce the total amount of energy needed for heating domestic properties. Regrettably, measures in the form of short-term subsidies for different heating alternatives often create an imbalance, where the consumer's choice is governed by the nature of the grants and subsidies rather than by any objective consideration of the inherent features and properties of the product itself.

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

Increased competition and the pressure on prices that this brings have seen many companies set up factories in low-cost countries. With its rational and recently modernised plants both in the Nordic countries and in Poland, NIBE Heating stands well equipped to assert itself in tomorrow's hotly contested European market.

Products

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

Sales can be divided into the following six product areas:

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

The hallmarks of our products are:

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

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

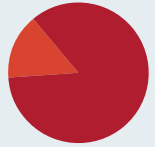
During the year we have launched a new generation of ground-source/geothermal heat pumps on the international market, with a new control system which enables the equipment to be activated by a simple text message or via the internet.

The range of heat pumps for multiple dwellings has been extended with new products and new control options, while new air-to-air pumps that complement the existing range with two-step compressors have also been introduced over the past twelve months.

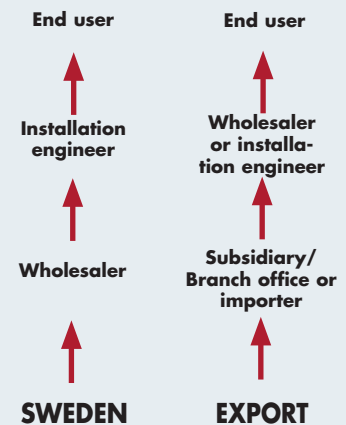
A brand new type of wall-mounted water heater in an innovative new design was launched at the major trade fair in Stockholm in March, together with new models of domestic boilers and upgraded district heating products from METRO THERM.

Sales by geographical market

■ Nordic countries	85%
■ Rest of Europe	15%



Distribution



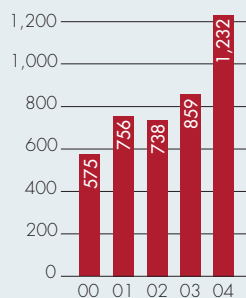
Opportunities and threats

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



Electronics engineer Fredrik Gunnarsson is one of many new co-workers at NIBE Innovation.

Average number of employees



Development process

To satisfy market demands for better energy efficiency and environmentally sound, cost-effective solutions for heating needs and a comfortable indoor climate, NIBE Heating is making ever greater investments 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)
- convertability (heating in winter/cooling in summer)
- recyclability/environmental adaptation
- continuous improvements in design
- better all-round economy.

A process of continuous improvement and the rationalisation of product development are essential if we are to achieve the goals we have set for ourselves. We also need to continually reinforce our team with highly educated engineers who possess the key skills required to integrate tomorrow's innovative solutions into products that are easy to use and appealing to look at.

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 basic concept that is as standardised as possible, yet offers the potential to make market adaptations. Our dedicated development centre for heat pumps in Markaryd is considered to be of the very highest international class.

The technology for domestic boilers, water heaters and district heating control centres is well established and so resources focus on developing high quality, cost-efficient, environmentally adapted products. Design, too, has become an increasingly significant feature for end-users.

Environmental considerations are crucial, especially for domestic boilers where optimising combustion and minimising emissions are important criteria in the development process.

During the year NIBE Heating has continued to reinforce its development resources via a two-pronged strategy that involved a major recruitment campaign to attract highly qualified new talent and the extension of test facilities and laboratories in Markaryd. In 2005 these initiatives will be followed up with more new recruitments and further expansions to existing premises.

Production

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

Major investments have been carried out over the past three years at the plant in Markaryd, Sweden, which is NIBE Heating's largest. In 2004, for example, these resulted in the completion of a totally new, fully automated production line for stainless steel water heaters, which has now been put into service.

Ongoing investment in the Polish factory, such as the completion in 2004 of a new assembly shop, is aimed at rationalising the manufacture of products for the Polish market and segments in other prioritised markets that are subject to fierce competition on price.

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



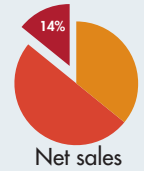
A NIBE heat pump blends discreetly into the background in the utility room.

NIBE STOVES

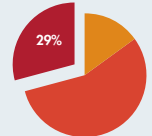


Niklas Gunnarsson,
Business Area Manager

Contribution to Group



Net sales



Operating profit

NIBE Stoves

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

Strategy

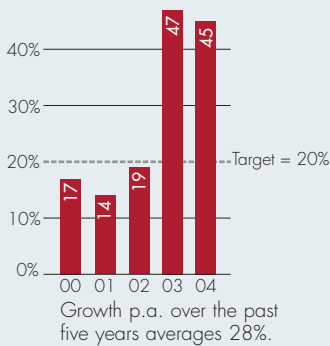
NIBE Stoves' strategy is to supply a wide and complete range of wood-burning products in order to confirm and consolidate its position as the market leader in Sweden. Foreign sales currently constitute approximately one third of total sales and the ambition is that this will rise to at least 50% of the business area's total earnings over the next few years.

Objective

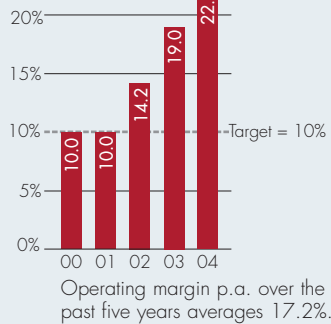
The business area's objective is growth of at least 20% per annum, half of it organic, and an operating profit of at least 10% of sales over a complete business cycle.

Contura 570 with its elegant black glass surround has become a popular trendsetter.

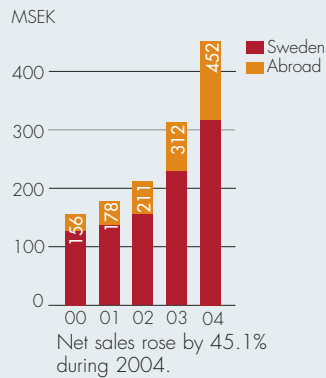
Objective fulfilment Growth



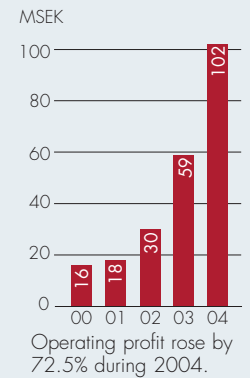
Objective fulfilment Operating margin



Net sales



Operating profit



Review of 2004

In Sweden demand for wood-burning products has been very strong and the market as a whole is expected to remain at the same high level as last year. The reasons for this are a combination of the generally good state of the economy, high energy prices and a keen interest among homeowners for renovating their properties.

Our own share of the market has risen significantly over the past twelve months. This owes much to the appeal of our product range and to aggressive marketing measures, particularly during the autumn, which is our peak season for sales.

In Norway there has been a slight downturn in the market compared with last year's record levels. Our own sales, however, have risen sharply as we have captured new shares on this market as well.

In Germany interest in wood-burning products is slowly but surely beginning to recover from what has long been a relatively low level. For our part, this, together with the fact that we have a product range well suited to the German market, has resulted in a highly positive development in sales.

We intensified our marketing measures in Denmark in 2004, and here too the results have been reflected in a sharp rise in sales. Sales in other targeted markets in Europe have also developed positively during the year.

Thanks to high levels of production during the first six months of 2004 which enabled us to stockpile products as planned in preparation for our second-half sales peak, the delivery situation has remained satisfactory throughout the year. Production capacity has also risen gradually over the period as a result of further investments in equipment.

Very strong growth in volumes – 100% organic – in combination with high levels of capacity utilisation in our production plants has made a significant contribution to this year's strong operating result.

After many twists and turns, the story of our minority stake in Jøtul is now definitively over, as the shares were sold during the year.

Outlook for 2005

We expect the strong demand for wood-burning stoves in Sweden to continue in 2005. A number of new models due to be launched during the first half of the year will make our already strong product range even broader. Together with well-known brands and the intensive marketing efforts of recent years, this will provide a platform for further consolidating our position as the market leader.

The potential for sales growth in other markets is believed to be good. Not only has our product range gradually been adapted to international requirements and expectations, but our dealer network is also steadily expanding into new markets.

These various factors, combined with the fact that investments in production equipment and personnel have given us a significantly greater production capacity than we had just twelve months ago, lead us to believe that the outlook for continued sales growth is bright.



NIBE Stoves' products are tested prior to environmental certification by Henrik Persson at the Swedish National Testing & Research Institute.



Bo Dehlin tests a wood-burning stove before it leaves the factory.

Market

Sweden

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

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

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

Foreign markets

Demand varies from country to country in terms of product design, materials and technology. The Swedish market is dominated by lightweight stoves in steel plate with a Swedish or, increasingly, international design. Finnish consumers tend to favour the heavy, heat-retaining stoves finished in stone or tiles, while the Norwegians prefer cast-iron models or cast-iron inserts with a masonry surround. Germans and Danes share basically similar tastes for lightweight, steel-plate stoves with contemporary styling. Such distinctive variations in taste are generally the result of the fact that a specific style has been established in a market by domestic manufacturers.

Demand in our export markets is governed by the same factors as those in Sweden. In the Nordic countries, where electricity serves as the source for a relatively large proportion of heating needs, demand tends to be driven by the price of electricity, whereas in many other European countries it is dependent on the price of gas or oil. While the frailty of the European economy over recent years has had a negative impact on demand, our own sales have developed highly positively on all the markets where we are active.

Fortunately, several markets are now showing a much greater willingness than before to accept new products in a new design from foreign manufacturers.

Industry trends

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

In our neighbouring Scandinavian markets, however, the situation is somewhat different: Norway has only a few domestic stove-builders and the market is dominated by just one big name, Finland has several fairly large companies, mostly specialising in heavy, warm-body stoves, while Denmark has many small or medium-size manufacturers, almost all of them producing stoves in steel plate and many with a long tradition of supplying the German market. There are also a number of manufacturers of all sizes in Central Europe, for whom wood-burning stoves are just one of many different types of product in their range. It seems likely, therefore, that there will be some kind of structural change on several European markets in the near future.

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

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

Products

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

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

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

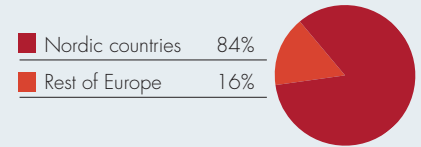
We develop and sell our own products under the Handöl, Contura, Cronspisen and Roslagsspisen brands, and we also have sole rights in Sweden for the sale of products from the Danish manufacturer, Morsø, which enjoys a dominant position in its own domestic market. As these brands are so strong, particularly on our domestic market, all have been duly protected as trademarks.

For customers who do not already have a chimney in their homes, NIBE offers a complete modular chimney system which has been specially designed for use with stoves sold by NIBE.

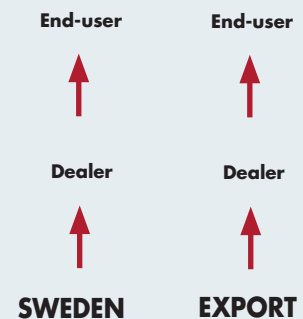
This easily assembled system in stainless steel can be installed without the need for an existing chimney flue and is also the alternative which offers the best value for money on the Swedish market.

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

Sales by geographical market



Distribution



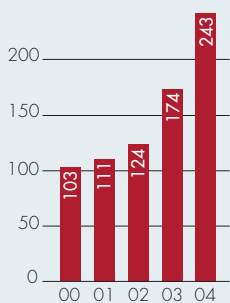
Opportunities and threats

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



Lars Lünig of the Eldabutiken store in Malmö is just one of many successful distributors of NIBE Stoves in Sweden.

Average number of employees



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 SP (the Swedish National Testing and Research Institute). These guarantee that the stove's heat output can be regulated and that the stove produces low emissions and delivers high efficiency.

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

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

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

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

The majority of our own products are made at the company's modern production plant in Markaryd, inaugurated just a few years ago. The facilities here are continually being updated and adapted to enable us to manufacture our new models with the greatest possible efficiency and this, together with investments in new production equipment, has led to a considerable expansion in production capacity and improvements in productivity.

Cronspisen tiled stoves are manufactured at a separate factory in Emmaboda in the south of Sweden as the production process is entirely different to that for our other wood-burning stoves.



A wood-burning stove from NIBE adds extra character to a home.



Leif Gustavsson, Financial Director

The Board of Directors and Managing Director of NIBE Industrier AB (publ), corporate identity number 556374-8309, with its registered office in the Municipality of Markaryd, Sweden, hereby present their annual report for the company and the NIBE Group for the 2004 financial year. (Figures in brackets relate to 2003.)

Principal activities

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 4,000 employees and conducts business operations in around a dozen countries in Europe, Asia and North America.

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.

Five-year Review

Consolidated Income Statement

Income Statement over five years

Over the past five years sales and profits have risen steadily. The target has been annual growth of 20%, preferably split 50-50 between organic and acquired growth. During the five-year period 2000–2004, sales have risen from SEK 1,168.2 million to SEK 3,161.0 million. This is partly the result of organic growth and partly the consequence of an aggressive acquisitions strategy that has seen the Group take over around 25 companies and lines of business.

Over the period, growth has averaged 22.0%, of which 12.4% is attributable to organic growth and 9.6% to acquired sales.

The profit target has been for each of the Group's business areas to achieve, on average, an operating margin of at least 10% over a business cycle, and for the Group's return on equity to average 20%.

Averaged out over the five-year period, operating margins for the Group's business areas are 5.6% for NIBE Element, 12.1% for NIBE Heating and 17.2% for NIBE Stoves.

Over the same period, the Group's return on equity has averaged 25.7% excluding refunds from the SPP pensions fund, and 26.1% including these refunds.

Income Statements

(in millions of SEK)	2004	2003	2002	2001	2000
Net sales	3,161.0	2,451.1	1,944.2	1,677.1	1,304.2
Cost of goods sold	- 2,172.1	- 1,736.3	- 1,389.3	- 1,242.7	- 959.5
Gross profit	988.9	714.8	554.9	434.4	344.7
Selling expenses	- 494.1	- 360.5	- 281.0	- 221.5	- 175.9
Administrative expenses	- 177.5	- 144.8	- 108.3	- 92.3	- 67.5
Items affecting comparability ¹⁾	-	-	-	-	+ 17.4
Other income	+ 23.3	+ 24.3	+ 12.1	+ 13.6	+ 12.3
Operating profit	340.6	233.8	177.7	134.2	131.0
Net financial items	+ 11.8	- 16.0	- 22.7	- 11.9	- 7.0
Profit after net financial items	352.4	217.8	155.0	122.3	124.0
Tax	- 96.0	- 72.9	- 49.7	- 38.9	- 37.9
Minority participation in profit/loss after tax	- 1.1	- 0.5	+ 0.4	+ 0.2	-
Net profit for the year	255.3	144.4	105.7	83.6	86.1
<i>Includes the following amounts for depreciation according to plan</i>	<i>121.3</i>	<i>89.5</i>	<i>70.9</i>	<i>58.7</i>	<i>46.3</i>

¹⁾ Refers to premium surplus from SPP pension insurance.

Income Statement 2004

Sales

The Group's net sales rose by 29% to SEK 3,161.0 million (2003: 2,451.1 million), with volumes rising in all three business areas. The 8.3% rise for NIBE Element consisted of 4.5% organic growth and 3.8% acquired. For NIBE Heating the increase was 44.7% – 16.2% organic and 28.5% acquired – while the 45.1% improvement in the figures for NIBE Stoves was attributable solely to organic growth.

The Group's net sales outside Sweden rose by 30.6% or SEK 402.0 million to SEK 1,715.0 million (SEK 1,313.0 million). As such, net sales abroad accounted for 54.3% (53.6%) of total net sales. Group net sales in the Swedish market climbed by 27.1% to SEK 1,446.0 million (SEK 1,138.1 million).

Organic growth accounted for SEK 355.4 million of the total SEK 709.9 million increase in Group net sales. The remaining SEK 354.5 million came from acquisitions, with SEK 40.8 million of this figure attributable to NIBE Element and SEK 313.7 million to NIBE Heating.

Operating profit

Group operating profit for 2004 rose to SEK 340.6 million, an increase of 45.7% on last year's figure of SEK 233.8 million. The operating margin was 10.8% (9.5%).

The greatest increase in operating profit was the SEK 55.1 million reported by NIBE Heating, an improvement of 37.8% on the previous year. The greatest proportional increase was the 72.5% reported by NIBE Stoves, which corresponded to an extra SEK 42.9 million in earnings. Profits for NIBE Element rose by 28.6% or SEK 11.8 million.

Goodwill

Operating profit was charged with goodwill amortisation of SEK 24.8 million (SEK 19.1 million).

Divided up business area by business area, this equates to SEK 15.3 million for NIBE Element, SEK 8.6 million for NIBE Heating and SEK 0.9 million for NIBE Stoves.

Goodwill for operations acquired during the year is included from the date of the acquisition.

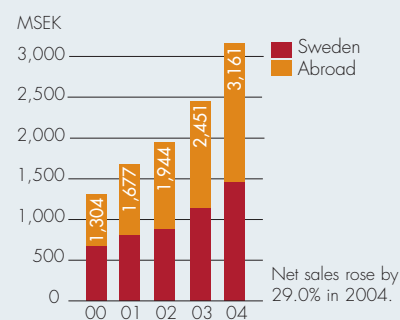
Profit after financial items

Profit after financial items rose by 61.8% to a figure of SEK 352.4 million (SEK 217.8 million), equivalent to a net profit margin of 11.1% (8.9%). Net interest income for the Group was SEK 11.8 million as opposed to a net interest expense of SEK 16.0 million in 2003. This improvement is due to the sale of the Group's 21.7% stake in Jøtul ASA on 1 September 2004. The purchase sum consisted of an initial consideration and an additional consideration. This additional consideration, to be paid by 30 June 2005 at the latest, is contingent on how large a portion of the agreed guaranteed amount it will be necessary to use. Only the initial consideration is entered under financial income. As the sale involved a capital gain of at least SEK 37.5 million, this figure will be added to financial income over the reporting period.

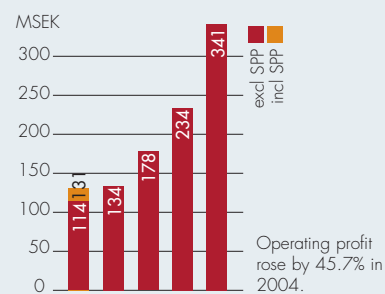
Tax

The tax charged for 2004 amounted to SEK 96.0 million (SEK 72.9 million), equivalent to an effective tax rate of 27.2% (33.5%). The nominal tax rate in Sweden is 28%. The main reason for the lower effective tax rate is the non-taxable capital gain on the sale of the shares in Jøtul.

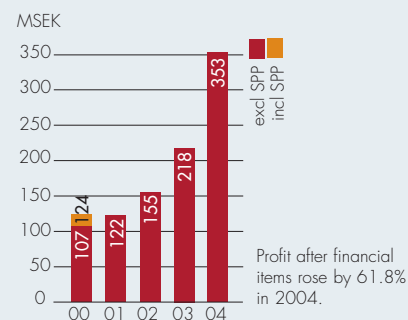
Net sales 2000 – 2004



Operating profit 2000 – 2004

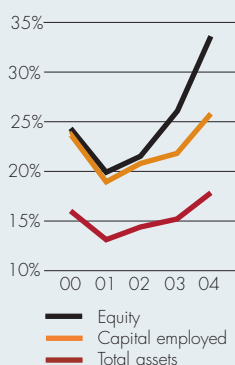


Profit after financial items 2000 – 2004

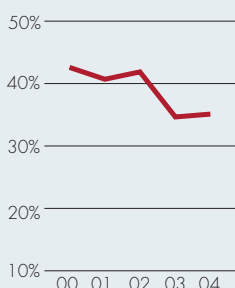


Consolidated Balance Sheet and Key Ratios

Returns 2000 – 2004



Equity/assets ratio 2000 – 2004



Balance Sheet over five years

Over the five-year period 2000 – 2004 the balance sheet total has risen from SEK 734.3 million to SEK 2,471.6 million.

Inventories and current receivables, which consist mainly of accounts receivable relating to trade, make up approximately 50% of the balance sheet total. Both these items are, in principle, directly related to sales, and, thereby, to growth. Intangible assets consist chiefly of goodwill arising in connection with the acquisition of companies or operations. Standard depreciation for goodwill is over 10 years, but strategic acquisitions may be written off over 20 years. One such strategic acquisition is the takeover of Kaukora OY carried out in 2004. All acquired goodwill apart from that in conjunction with the takeover of the METRA and Kaukora Groups is being depreciated over 10 years.

Provisions relate mainly to pension liabilities, guarantee risk reserves and deferred taxation. Long-term and current interest-bearing liabilities are exclusively loans from banks and other financial institutions. In the lat-

est five-year period these have risen from SEK 139.5 million to SEK 790.8 million. The increase arose partly through the expansion of existing units in the NIBE Group, and partly through interest-bearing liabilities already incurred by companies or operations acquired. Almost 80% of current non-interest-bearing liabilities, which have increased from SEK 185.8 million to SEK 586.9 million over the past five years, consists of accrued expenses and traditional trade creditors, both of which are directly related to the expansion of the business.

The Group's target is for equity ratio not to fall below 30%. Over the five-year period, equity/assets ratio has averaged 37.9%.

Balance Sheet 2004

Equity ratio and return

The Group's equity ratio at the year-end was 35.0% (2003: 34.6%). The Group's equity including minority shareholdings in other companies totalled SEK 868.5 million (SEK 649.1 million).

Balance Sheets

(in millions of SEK)	2004	2003	2002	2001	2000
Intangible assets	280.2	191.6	99.7	84.8	77.5
Tangible assets	875.7	659.3	426.9	394.5	303.6
Financial assets	10.6	47.2	43.4	26.2	10.2
Total fixed assets	1,166.5	898.1	570.0	505.5	391.3
Inventories	690.2	445.6	377.7	331.6	289.8
Current receivables	525.4	443.3	306.1	289.2	232.2
Investments	0.9	2.3	0.9	3.1	0.7
Cash and bank	88.6	81.5	67.1	53.4	34.3
Total current assets	1,305.1	972.7	751.8	677.3	557.0
Total assets	2,471.6	1,870.8	1,321.8	1,182.8	948.3
Equity	865.2	646.9	553.2	483.2	403.9
Minority participation	3.3	2.2	1.2	3.0	4.4
Provisions	191.3	160.8	124.2	102.4	92.0
Long-term liabilities, non-interest-bearing	34.1	6.5	7.4	0.2	0.2
Long-term liabilities, interest-bearing	708.6	576.1	294.8	274.1	190.5
Current liabilities, non-interest-bearing	586.9	422.6	299.6	282.7	237.3
Current liabilities, interest-bearing	82.2	55.7	41.4	37.2	20.0
Total equity and liabilities	2,471.6	1,870.8	1,321.8	1,182.8	948.3

The Group's target is for a long-term return on equity of 20%. During 2004, return on equity was 33.6% (26.1%). The return on capital employed was 25.8% (21.8%). For the business areas, the profitability target is that the operating margin over a complete business cycle should average at least 10%

for each profit centre. The operating margin in 2004 for NIBE Element was 4.6% (3.9%), for NIBE Heating 12.6% (13.2%), and for NIBE Stoves 22.6% (19.0%). The operating margin for the Group as a whole was 10.8% (9.5%).

Cash equivalents

The Group's cash equivalents at the end of 2004 amounted to SEK 88.6 million (SEK 81.5 million), to which should be added unutilised bank overdraft facilities totalling SEK 296.8 million (SEK 259.1 million). During the year, the Group's overdraft facilities were reduced by SEK 2.3 million.

Key ratios		2004	2003	2002	2001	2000 ¹⁾	2000 ²⁾
Net sales	MSEK	3,161.0	2,451.1	1,944.2	1,677.1	1,304.2	1,304.2
Growth	%	+ 29.0	+ 26.1	+ 15.9	+ 28.6	+ 11.6	+ 11.6
Profit after net financial items	MSEK	352.4	217.8	155.0	122.3	106.6	124.0
Net investments in fixed assets	MSEK	305.1	350.6	136.3	151.0	124.6	132.9
Gross margin	%	14.6	13.2	12.8	11.5	12.3	13.6
Operating margin	%	10.8	9.5	9.1	8.0	8.7	10.0
Net profit margin	%	11.1	8.9	8.0	7.3	8.2	9.5
Capital employed	MSEK	1,681.0	1,307.5	918.0	823.7	629.4	641.9
Equity	MSEK	865.2	646.9	553.2	483.2	391.4	403.9
Return on capital employed	%	25.8	21.8	20.8	19.0	20.9	23.7
Return on equity	%	33.6	26.1	21.5	19.9	21.3	24.3
Return on total assets	%	17.8	15.2	14.4	13.1	14.1	16.0
Asset turnover	times	1.46	1.54	1.55	1.57	1.57	1.55
Equity/assets ratio	%	35.0	34.6	41.8	40.8	42.0	42.6
Proportion of risk-bearing capital	%	39.8	39.6	47.4	46.4	48.3	48.7
Operating cash flow	MSEK	120.3	15.6	32.9	14.7	- 13.3	- 8.7
Interest cover	times	11.6	9.6	7.0	8.1	11.1	12.8
Interest-bearing liabilities/Equity	%	93.9	101.8	65.7	69.9	59.7	57.8
Average number of employees		3,755	2,881	2,444	2,183	1,617	1,617

¹⁾ Excluding SPP premium refunds ²⁾ Including SPP premium refunds

Definitions

Growth

Percentage change in net sales compared with previous year.

Gross margin

Operating profit before depreciation as a percentage of net sales.

Operating margin

Operating profit as a percentage of net sales.

Net profit margin

Pre-tax profit 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 taxes, 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.



Consolidated Cash Flow Statements

Cash Flow over five years

Cash Flow before changes in working capital

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

Working capital

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

Investment in existing operations

Between 2000 and 2002 investment in existing operations was at a level of around SEK 100 million, rising to SEK 170–180 million over the past two years. Most of these investments have been in the Group's plants in Markaryd, Sweden, where most of the production facilities for NIBE Heating and NIBE Stoves are located. Investments have also been made in the Polish element factories.

Acquisition of businesses

Over the years, NIBE Industrier has pursued an aggressive acquisitions strategy. In the five years up to the end of 2004, 25 take-overs of companies and lines of business have been made, of which fourteen relate to the NIBE Element business area, nine to NIBE Heating and two to NIBE Stoves. It is the company's intention to continue its acquisitions strategy in the future.

Financing

In connection with the company's flotation on the Stockholm Stock Exchange in 1997, a new issue was made, which realised SEK 79.1 million. The funds from the new issue, together with internally generated cash flow and traditional bank financing, were used for acquisitions and investment in existing operations over the five-year period.

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 27.6% and 30.5% of the net profit for the year after full tax, excluding the effect of any premium refunds from the SPP pensions insurance scheme.

Cash Flow Statements

(in millions of SEK)	2004	2003	2002	2001	2000
Cash flow before change in working capital	381.8	240.7	176.0	134.5	139.3
Change in working capital	- 82.0	- 54.7	- 34.5	- 11.6	- 48.6
Cash flow from operating activities	299.8	186.0	141.5	122.9	90.7
Investments in current operations	- 179.5	- 170.4	- 108.6	- 108.2	- 99.4
Operating cash flow	120.3	15.6	32.9	14.7	- 8.7
Acquisition of companies	- 125.6	- 180.3	- 27.7	- 42.8	- 33.5
Cash flow after investments	- 5.3	- 164.7	5.2	- 28.1	- 42.2
Financing	54.8	212.9	34.6	67.4	59.5
Dividend to shareholders	- 43.4	- 32.3	- 25.0	- 22.0	- 17.6
Cash flow for the year	6.1	15.9	14.8	17.3	- 0.3
Liquid funds at the beginning of the year	81.5	67.1	53.4	34.3	34.1
Exchange rate difference in liquid funds	1.0	- 1.5	- 1.1	1.8	0.5
Liquid funds at year-end	88.6	81.5	67.1	53.4	34.3

Cash Flow 2004

Cash Flow from day-to-day activities

The consolidated cash flow for 2004 after changes in working capital amounted to SEK 299.8 million (SEK 186.0 million).

Investment

Group acquisitions of subsidiary companies/lines of business totalled SEK 125.6 million (SEK 180.3 million). Investment in existing units totalled SEK 179.5 million (SEK 170.4 million), allocated as follows:

(in millions of SEK)	2004	2003
Machinery and equipment	127.3	92.8
Properties	57.1	41.0
Construction in progress	11.6	19.8
Sale of associated company	-39.5	-
Other fixed assets	23.0	16.8
	179.5	170.4

Consequently, cash flow after investment activities was SEK -5.3 million (SEK -164.7 million).

Operating cash flow (i.e. after investments, but excluding acquisitions of subsidiary companies/lines of business) totalled SEK 120.3 million (SEK 15.6 million).

Credits from finance institutions and pensions funds etc.

(in millions of SEK)	2004	2003
Loans with floating interest and repayments over 10 yrs	706.2	507.2
Utilised portion of overdraft facilities with floating interest rate	84.6	124.6
Pensions provisions	21.7	26.5
Total interest-bearing liabilities	812.5	658.3
Unutilised overdraft facilities	296.8	259.1
Total credit available	1,109.3	917.4

The Group's total interest-bearing liabilities at the year-end amounted to SEK 812.5 million (SEK 658.3 million). The average interest expense for the total of interest-bearing liabilities was 4.4% (4.6%).

The Group's net liabilities, which consist of interest-bearing liabilities minus cash and bank and short-term investments totalled SEK 723.0 million (SEK 574.5 million).

Acquisitions

During 2004 three acquisitions were made, all outside Sweden;

NETEK, Denmark with annual sales of around SEK 13 million, consolidated with effect from January 2004. The agreement was signed shortly before the end of 2003.

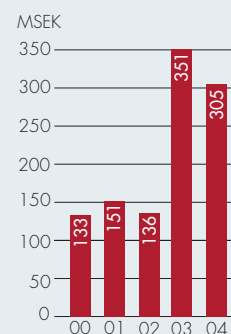
Sheated Heating Elements Ltd, Gt. Britain, with annual sales of around SEK 50 million, consolidated with effect from July 2004.

The Kaukora Group, Finland, with annual sales of around SEK 200 million, consolidated with effect from October 2004.

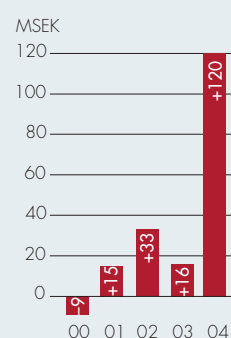
Cash flow effect of acquisitions

(in millions of SEK)	2004	2003
Intangible assets	-94.4	-99.1
Tangible assets	-102.4	-161.0
Financial assets	-3.0	-2.6
Current receivables	-79.0	-78.3
Inventories	-62.4	-85.5
Cash and bank	-8.3	-7.2
Provisions	3.9	25.7
Liabilities	211.7	220.5
Purchase price	-133.9	-187.5
Cash equivalents in companies acquired	8.3	7.2
Effect on the Group's cash and cash equivalents	-125.6	-180.3

Investments in fixed assets 2000 - 2004



Operating cash flow 2000 - 2004





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.

Bad debt losses

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

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

Dependence on suppliers

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

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

Material prices

A fairly significant proportion of the NIBE Group's products consist of materials priced in US dollars and quoted on the London Metal Exchange. In order to counteract over-dependence on individual currencies and markets, it is Group policy to globalise the purchasing process wherever possible and to hedge the price of key raw materials by continually reviewing the need for raw material derivatives.

Other operating expenses

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

Currency risks

Day-to-day transactions

A total of 68.1% (2003: 66.6%) of Group invoicing from Sweden is in Swedish kronor (SEK). In accordance with the company's financial policy, for invoicing and purchasing denominated in any other currency, the Group hedges the estimated future net flow over the year for a period of 6–12 months. The total net flow of foreign currency translated into Swedish kronor (SEK) in 2004 was approximately SEK 323 million. The largest net inflows during the year arose in euros (SEK 204 million) and in Norwegian kroner (SEK 104 million), while the largest outflow was in Danish kroner (SEK 27 million).

Translation of currencies

The most significant impact of exchange rate fluctuations on the consolidated results stems from the translation of the results of foreign subsidiaries. Appreciable effects are attributable in particular to EUR, DKK and PLN.

When foreign net assets are translated into SEK, translation differences arise, and these are recognised as a separate component of the Group's equity. Both direct and indirect investments abroad should, therefore, as far as possible, be financed in the same currency, in accordance with the Group's finance policy.

The value of foreign net assets in the consolidated balance sheet as at 31 December 2004 was approximately SEK 491 million, of which SEK 175 million represented net assets in EUR, SEK 131 million in DKK, SEK 72 million in NOK, SEK 63 million in PLN, SEK 32 million in CZK, SEK 13 million in GBP and SEK 5 million in USD translated into SEK.

If the SEK falls by 1% against the named currencies, the Group's equity would increase by SEK 4.9 million. If the SEK rises by 1% against the named currencies, the reverse would apply.

Interest rate risks

Group interest-bearing liabilities amounted to SEK 812.5 million at the year-end. The average interest rate was 4.4%. A change in interest rates of $\pm 1\%$, with liabilities otherwise remaining constant, would affect the Group's results by \pm SEK 8.1 million.

In accordance with the Group's finance policy, the average fixed interest terms for loans shall, as far as possible, be balanced against the fixed term of the incoming cash flows.

Sensitivity analysis

The Group is exposed to a number of risk factors that affect earnings trends. Several of the risks are outside the Group's control. The table on the right shows the effect of a variety of changes on the Group's result, based on the income statement for 2004.

Future capital requirements

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

In any particular year, the total capital requirement may exceed internal cash flow. It is expected that any shortfall will be met partly through the traditional banking system and partly through the stock market.

The Group's finance policy contains targets to minimise the risk of increases in the cost of the long and short-term financing of the Group's operations. The long-term targets are that the Group's equity ratio should not

fall below 30%, and that the average loan term should not be less than two years. In addition, the due dates for loans should, as far as possible, be spread evenly over time. The short-term goals are that the Group's disposable cash and cash equivalents, including short-term investments, should only under exceptional circumstances fall below 5% of the Group's sales.

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's patent. None of the Group's operating companies is involved in any material legal disputes.

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 one and five times the so called "basic amount" prescribed in Sweden for calculations of this kind.

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

Sensitivity analysis

	Base for calc. SEK m	Change %	Impact SEK m
Net sales (margin constant)	3,161.0	+/- 1.0	12.7
Operating margin (volume constant)		+/- 0.1	3.2
Material costs	1,301.5	+/- 1.0	13.0
Payroll expenses	908.3	+/- 1.0	9.1
Interest-bearing liabilities (interest constant)	812.5	+/- 10.0	3.6
Interest rate % (interest-bearing liability constant)	4.4%	+/- 1.0	8.1

Based on Income Statement 2004

Sensitivity to currency movements in foreign net assets

	SEK change %	Impact SEK m
Swedish krona rises against all currencies in which NIBE Industrier has net assets	+ 1.0	- 4.9
Swedish krona falls against all currencies in which NIBE Industrier has net assets	- 1.0	+ 4.9

Based on net assets 31 December 2004.



Important events during the year

During the year NIBE acquired the business operations of three companies, NETEK, the Kaukora Group and the Shel Group, the first company in the NIBE Group to have business operations in Asia.

Outlook

NIBE has continued to strengthen its position in priority markets. The prospects for continued growth in market share are believed to be good in all three business areas. Work on improving internal efficiency is constantly under way in order to increase competitiveness. The prospects for a number of further acquisitions are believed to be good, and confidence in NIBE's performance in 2005 is again strong.

The work of the Board

The Board of NIBE Industrier consists of five directors elected by the Annual General Meeting. Employees of the company may, if necessary, be called in to appear before the Board to clarify specific issues or act as an expert resource. The Board deals with all matters of import, and no committees have been set up.

During 2004 the Board convened on 11 occasions, six of which were conducted as telephone conferences. Board meetings were held in connection with the publication of interim reports and the year-end unaudited figures, with the company's budget and with major investments and takeovers. Minutes were taken at all meetings.

Once a month the Board is updated on the company's financial performance and position. The Managing Director is in continual contact with the Chairman.

Group non-restricted equity

The Group had non-restricted equity of SEK 622.3 million at the year-end. There are no proposals for transfers to restricted reserves.

Appropriation of profits

The Board of Directors and Managing Director propose that the profits of SEK 177.0 million at the disposal of the Annual General Meeting be appropriated as follows:

Shareholders' dividend	SEK 70.4 million
Carried forward	SEK 106.6 million
Total	SEK 177.0 million

Income Statements

ANNUAL ACCOUNTS 2004

(in millions of SEK)		Group		Parent company	
		2004	2003	2004	2003
Net sales	Note 1	3,161.0	2,451.1	2.1	2.1
Cost of goods sold		- 2,172.1	- 1,736.3	-	-
Gross profit		988.9	714.8	2.1	2.1
Selling expenses		- 494.1	- 360.5	-	-
Administrative expenses	Note 3	- 177.5	- 144.8	- 14.4	- 11.1
Other operating income	Note 8	23.3	24.3	0.2	-
Operating profit	Notes 1 – 8	340.6	233.8	- 12.1	- 9.0
Profit from financial investments					
Profit from participations in Group companies	Note 9	-	-	89.9	53.2
Profit from participations in associated companies	Note 9	43.2	3.7	43.2	3.7
Interest income and similar profit/loss items	Note 10	1.8	5.6	3.6	7.1
Interest expenses and similar profit/loss items	Note 11	- 33.2	- 25.3	- 11.1	- 8.7
Profit after financial items		352.4	217.8	113.5	46.3
Appropriations	Note 12	-	-	0.0	0.0
Tax on the profit for the year	Note 13	- 96.0	- 72.9	- 0.0	- 0.3
Minority participation in profit after tax		- 1.1	- 0.5	-	-
Profit for the year		255.3	144.4	113.5	46.0
<i>Includes these amounts for depreciation according to plan</i>		121.3	89.5	0.1	0.0
<i>Number of shares at year-end</i>		23,480,000	23,480,000		
<i>Earnings per share in SEK</i>		10.87	6.15		
<i>Proposed dividend per share in SEK</i>		3.00	1.85		

Quarterly Data

Consolidated Income Statement (in millions of SEK)	2004				2003			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Net sales	693.9	704.6	785.0	977.5	508.5	555.8	574.1	812.7
Operating expenses	- 640.0	- 648.7	- 679.0	- 852.7	- 475.6	- 520.4	- 508.2	- 713.1
Operating profit	53.9	55.9	106.0	124.8	32.9	35.4	65.9	99.6
Net financial items	- 6.1	- 1.8	+ 16.4	+ 3.3	- 2.8	- 0.3	- 5.7	- 7.2
Profit after net financial items	47.8	54.1	122.4	128.1	30.1	35.1	60.2	92.4
Tax	- 13.1	- 17.5	- 27.2	- 38.2	- 10.3	- 12.1	- 19.2	- 31.3
Minority share of profit/loss after tax	- 0.1	- 0.4	- 0.3	- 0.3	+ 0.1	- 0.1	- 0.1	- 0.4
Net profit for the year	34.6	36.2	94.9	89.6	19.9	22.9	40.9	60.7

Net sales – by business area

NIBE Element	275.9	284.4	268.2	318.1	258.9	260.3	247.1	292.3
NIBE Heating	321.9	350.9	422.7	497.6	185.7	242.0	262.6	410.3
NIBE Stoves	104.2	79.4	97.7	170.7	68.1	58.8	69.1	115.6
Group eliminations	- 8.1	- 10.1	- 3.6	- 8.9	- 4.2	- 5.3	- 4.7	- 5.5
Group	693.9	704.6	785.0	977.5	508.5	555.8	574.1	812.7

Operating profit – by business area

NIBE Element	14.6	10.2	14.1	14.1	14.0	4.5	11.0	11.7
NIBE Heating	26.6	36.2	70.8	67.2	15.0	28.6	43.8	58.3
NIBE Stoves	15.9	14.0	24.4	47.8	6.6	6.1	13.4	33.1
Group eliminations	- 3.2	- 4.5	- 3.3	- 4.3	- 2.7	- 3.8	- 2.3	- 3.5
Group	53.9	55.9	106.0	124.8	32.9	35.4	65.9	99.6

Balance Sheets

(in millions of SEK)	Group		Parent company		
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003	
Assets					
Fixed assets					
Intangible assets					
Goodwill	Note 14	275.3	187.1	-	-
Other intangible assets	Note 15	4.9	4.5	-	-
Total		280.2	191.6	-	-
Tangible assets					
Land and buildings	Note 16	394.2	291.7	-	-
Machinery and equipment	Note 17	425.0	325.2	0.3	0.2
Construction in progress	Note 18	56.5	42.4	-	-
Total		875.7	659.3	0.3	0.2
Financial assets					
Shares in subsidiaries	Note 19	-	-	595.8	457.4
Receivables from Group companies		-	-	117.3	58.9
Shares in associated companies	Note 20	-	39.6	-	39.6
Long-term securities held		0.2	0.1	-	-
Deferred tax asset	Note 13	4.7	3.6	-	-
Other long-term receivables		5.7	3.9	-	-
Total		10.6	47.2	713.1	555.9
Total assets		1,166.5	898.1	713.4	556.1
Current assets					
Inventories					
Raw materials and consumables		342.9	238.7	-	-
Work in progress		110.4	83.7	-	-
Finished products and goods for resale		236.9	123.2	-	-
Total		690.2	445.6	-	-
Current receivables					
Accounts receivable – trade		468.9	392.7	-	-
Receivables from Group companies		-	-	0.7	0.3
Income taxes recoverable		2.9	8.1	0.1	0.5
Other receivables		34.2	30.9	13.6	0.2
Prepaid expenses and accrued income		19.4	11.6	0.3	0.1
Total		525.4	443.3	14.7	1.1
Current investments	Note 21	0.9	2.3	-	-
Cash and bank		88.6	81.5	0.6	0.3
Total current assets		1,305.1	972.7	15.3	1.4
Total assets		2,471.6	1,870.8	728.7	557.5

(in millions of SEK)	Group		Parent company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Equity and liabilities				
Equity				
Restricted equity				
Share capital	Note 22	58.7	58.7	58.7
Restricted reserves		184.2	137.0	74.9
Total		242.9	195.7	133.6
Non-restricted equity				
Non-restricted reserves		367.0	306.8	63.5
Profit for the year		255.3	144.4	113.5
Total		622.3	451.2	177.0
Total equity		865.2	646.9	310.6
Minority participation in equity		3.3	2.2	-
Untaxed reserves				
Tax allocation reserves		-	-	1.6
Accelerated depreciation		-	-	0.1
Total untaxed reserves		-	-	1.7
Provisions				
Provisions for pensions	Note 23	26.4	29.5	-
Provisions for taxes	Note 13	115.8	91.1	-
Guarantee risk reserve	Note 24	43.3	34.7	-
Other provisions, non-interest-bearing	Note 24	5.8	5.5	-
Total provisions		191.3	160.8	-
Long-term liabilities	Note 25			
Bank overdraft facilities	Note 26	84.6	124.6	-
Liabilities to Group companies		-	-	93.7
Liabilities to credit institutions		624.0	451.4	257.2
Other liabilities, interest-bearing		-	0.1	-
Other liabilities, non-interest-bearing		34.1	6.5	22.1
Total long-term liabilities		742.7	582.6	373.0
Current liabilities				
Liabilities to credit institutions		82.2	55.7	32.6
Accounts payable – trade		232.0	150.3	0.1
Advance payments from customers		2.6	1.3	-
Liabilities to Group companies		-	-	0.0
Liabilities to associated companies		-	0.3	-
Tax liability		22.9	23.4	-
Other liabilities		100.5	65.6	7.3
Accrued expenses and deferred income	Note 27	228.9	181.7	3.4
Total current liabilities		669.1	478.3	43.4
Total equity and liabilities		2,471.6	1,870.8	728.7
Pledged assets	Note 28	1,262.1	1,003.8	253.2
Contingent liabilities	Note 29	6.5	8.8	26.4

Change in Equity

(in millions of SEK)	Share capital	Restricted reserves	Non-restricted equity	Total capital
Group				
Equity 31 Dec 2002	58.7	108.0	386.5	553.2
Exchange rate differences		- 0.7	- 17.7	- 18.4
Adjustment between restricted and non-restricted equity		29.7	- 29.7	-
Profit for the year			144.4	144.4
Dividend			- 32.3	- 32.3
Equity 31 Dec 2003	58.7	137.0	451.2	646.9
Adaptation to Swedish Financial Accounting Standards Council's recommendation RR29 ¹⁾			3.3	3.3
Adjusted equity brought forward 1 Jan 2004	58.7	137.0	454.5	650.2
Exchange rate differences ²⁾		- 1.8	4.9	3.1
Adjustment between restricted and non-restricted equity		49.0	- 49.0	-
Profit for the year			255.3	255.3
Dividend			- 43.4	- 43.4
Equity 31 Dec 2004	58.7	184.2	622.3	865.2
Parent company				
Equity 31 Dec 2002	58.7	74.9	93.2	226.8
Profit for the year			46.0	46.0
Dividend			- 32.3	- 32.3
Equity 31 Dec 2003	58.7	74.9	106.9	240.5
Profit for the year			113.5	113.5
Dividend			- 43.4	- 43.4
Equity 31 Dec 2004	58.7	74.9	177.0	310.6

¹⁾ The new recommendation RR29 (Employee benefits) based on IAS 19 applies with effect from 1 January 2004. One non-recurring effect of this change is that equity rose by SEK 3.3. million.

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	2.9
The year's exchange rate difference when recomputed for loans to foreign subsidiaries	- 1.4
The year's exchange rate difference when recomputing loans in foreign currencies in connection with the acquisition of foreign subsidiaries: SEK 2.2 million, of which the tax effect is SEK 0.6 million	+ 1.6
Total exchange rate difference for the period	3.1

Specification of accumulated exchange rate difference when recomputing figures for foreign subsidiaries

Accumulated exchange rate difference at start of year	- 3.7
Exchange rate difference for the year in foreign subsidiaries	2.9
Accumulated exchange rate difference at year-end	- 0.8

Cash Flow Statements

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Operating activities				
Operating profit	340.6	233.8	- 12.1	- 9.0
+ depreciation charge to this profit	121.3	89.5	0.1	0.0
- minority participation in profits	- 1.1	- 0.4	-	-
Total	460.8	322.9	- 12.0	- 9.0
Interest received and similar items	45.0	10.5	46.8	10.8
Interest paid and similar items	- 32.6	- 25.7	- 11.2	- 8.7
Tax paid	- 91.4	- 67.0	+ 0.4	- 0.9
Cash flow before change in working capital	381.8	240.7	24.0	- 7.8
Change in working capital				
Change in inventories	- 178.0	9.2	-	-
Change in current receivables	- 3.2	- 67.1	- 14.0	0.0
Change in current liabilities	99.2	3.2	13.0	13.3
Cash flow from operating activities	299.8	186.0	23.0	5.5
Investment activities				
Disposal of associated companies	39.5	0.6	39.5	-
Investments in associated companies	-	-	-	- 0.3
Investments in machinery and equipment	- 127.3	- 92.8	- 0.1	-
Investments in buildings and land	- 57.1	- 41.0	-	-
Change in construction in progress	- 11.6	- 19.8	-	-
Investment in goodwill	- 20.6	- 15.0	-	-
Investment in other intangible fixed assets	- 2.4	- 0.4	-	-
Change in long-term receivables	-	- 2.0	- 58.4	5.8
Cash flow from investment activities	- 179.5	- 170.4	- 19.0	5.5
Operating cash flow ¹⁾	120.3	15.6	4.0	11.0
Acquired companies/lines of business ¹⁾	- 125.6	- 180.3	- 138.4	- 160.8
Financing activities				
Change in minority interest	1.1	1.2	-	-
Profit from participation in Group companies	-	-	89.9	53.2
Amortisation of long-term loans	- 87.4	- 124.1	- 51.4	- 13.7
Other changes in long-term liabilities and provisions	141.1	335.8	139.6	142.8
Shareholders' dividend	- 43.4	- 32.3	- 43.4	- 32.3
Cash flow from financing activities	11.4	180.6	134.7	150.0
Cash flow for the year	6.1	15.9	0.3	0.2
Liquid funds at the beginning of the year	81.5	67.1	0.3	0.1
Exchange rate difference in liquid funds	1.0	- 1.5	-	-
Liquid funds at year-end	88.6	81.5	0.6	0.3

¹⁾ For further information about operating cash flow and the acquisition of companies, please refer to page 43.

The NIBE Group abides by the provisions of the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's Recommendations. During 2004, a new recommendation came into effect: RR 29 Employee benefits. The adoption of this recommendation means that commitments under defined-benefit pension plans are now calculated using the same method across all Group companies. Formerly, these were reported in accordance with the legal practice in each country. The effect of this change in principle on the Group's equity is shown on page 50, and the change in equity and the effect on the item "Provisions for pensions" are explained in note 23. Under the transition rules in the recommendation, the comparison figures are not to be adjusted. The parent company will continue to treat defined-benefit pensions in accordance with Swedish legislation (The Safeguarding of Pension Commitments Act).

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, using recommendation RR1:00 of the Swedish Financial Accounting Standards Council.

Foreign subsidiaries are classified as independent businesses, so their income statements and balance sheets are translated using the current method. This means that the assets and liabilities of foreign subsidiaries are translated at the closing day rate, while 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.

Recommendation RR1:00 means that equity in an acquired company is determined on the

basis of a market valuation of assets and liabilities on the date of acquisition. Such market valuations constitute the Group acquisition cost. The difference between the acquisition value of the shares in the subsidiary and the value of the equity calculated in the acquisition analysis is recorded as Group goodwill. Only that part of the subsidiary's unrestricted equity that can be allotted to the parent company without a need to write down the shares, is included in Group non-restricted equity.

In the consolidated balance sheet, untaxed reserves are divided into deferred tax liability under "Provisions" and non-distributable funds under "Restricted equity". Appropriations involving changes in untaxed reserves are omitted from the consolidated balance sheet. The tax portion of the changes is recorded with the tax expense for the year in the income statement and the equity portion is included in the profit for the year. The rate for calculating deferred tax in Swedish subsidiaries is 28%, and for foreign subsidiaries, the relevant tax rate in the respective country. The required provisions have been made for intra-group profits.

Minority participations in the year's profit are entered separately in the consolidated income statement. Minority participations in the equity of subsidiaries are entered separately in the consolidated balance sheet.

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.

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 Taskforce.

Cash flow statement

The cash flow statement is drawn up in accordance with the Swedish Financial Accounting Standards Council's recommendation RR7. 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 (and cash equivalents) includes cash and bank balances.

Revenue recognition

Sales revenue is recognised with VAT, returns and discounts deducted. Revenue is generated almost exclusively from the sale of finished products. Sales revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer, when the Group no longer has possession or management control over the goods and when the revenue can be measured reliably.

This means that revenue is recognised when the goods are placed at the customers' disposal in accordance with the delivery terms arranged. Interest revenue is recognised using the effective interest method. Dividend revenue is recognised when the right to receive the dividend is established.

Segment reporting

Operationally, the primary segmentation of the Group's activities is into product group orientated business areas. The secondary segmentation is geographical by markets. See also notes 1 and 2.

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. Other than trading between Group companies, the Group has no transactions with related companies or individuals. The parent company's 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 note 8.

Accounting of income tax

Income tax accounting has been carried out using recommendation RR9 of the Swedish Financial Accounting Standards Council.

Reported income tax includes actual tax, adjustments for the previous year's actual tax and changes in deferred tax. Income tax liabilities and income taxes recoverable are valued at

the nominal amount in accordance with the tax regulations and tax rates approved or announced, and which there is good reason to believe will be confirmed.

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

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

Forward contracts are used to hedge exchange rates on both sales and purchase orders. Forward currency contracts in respect of sales and purchases are recognised when an invoice is issued or received through the use of the forward exchange rate in entering the receivable or liability. Changes in the value of forward contracts on orders when the invoice has not yet been issued or received are recorded off balance sheet.

Leasing

The Group follows the Swedish Financial Accounting Standards Council's recommendation RR6 in respect of finance leasing. Leased assets classified as finance leases are recorded as fixed assets, and future lease charges as interest-bearing liabilities. For leased assets classified as operating leases, annual lease expenses are recorded as an operating expense in the income statement.

Borrowing costs

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

Goodwill

The estimated economic life of goodwill is based both on the financial history of the companies and businesses acquired and their future prospects from the point of view of market strategy. Together with the potential for the companies' product range and current distribution systems, which are normally linked to well-known agents and dealers occupying positions in the leading ranks of the market, this motivates an economic life of 10–20 years for goodwill.

Research and development costs

Expenditure on research activities is written off as it arises.

Under RR15 (Intangible assets) expenditure for the development of new products is recognised as intangible assets if it is probable that such expenditure will lead to financial benefits for the company.

Within every business area, the NIBE Group has a number of employees whose task is to improve the quality of existing products and develop new products.

The economic benefits stemming from this type of development are normally not established until a very late stage. For this reason, no expenditure was capitalised in 2003 and 2004.

Valuation principles – depreciation of tangible and non-tangible assets

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

Goodwill	5 – 10%
Other intangible assets	10 – 20%
Buildings	2.5 – 5%
Land improvements	3.75 – 5%
Machinery and equipment	10 – 25%
Fixtures and fittings in premises	4%

Inventories

Inventories are valued at the lower of acquisition value or replacement cost for raw materials, consumables and finished goods, and at manufacturing cost for manufactured goods. In no case are stocks entered above actual

value. Interest is not included in stock values. Deliveries between Group companies are priced at market prices. Intra-group profits on Group company inventories are eliminated in the consolidated accounts. These eliminations affect operating profit/loss.

Receivables

Receivables have been entered at the amount which, after individual assessment, it is estimated will be paid.

Receivables and liabilities in foreign currencies

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where such an indication is found, the Group determines the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing the value in use, the present value of the estimated future cash flow is calculated using a discount rate before tax: when doing this, a weighted average cost of capital is used.

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

During 2004, there were no indications that a recoverable amount should be calculated for assets. In view of the ongoing transition to IFRS, a recoverable amount was determined during the year for the Group's goodwill items. The calculation did not give rise to a requirement for impairment.

Provisions

Provisions are recognised when the Group has or may be deemed to have an obligation as the result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. A further condition is that it must be possible to make a reliable estimate of the amount of the obligation. Guarantee risk reserves are recognised on the date of sale of the products covered by the guarantee, and are calculated on the basis of the cost history of equivalent obligations.

Employee benefits – pensions

The pensions liability is calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 29 (Employee benefits) which is obligatory from 2004. This corresponds to the current international accounting standard IAS 19 (Employee benefits). The recommendation lays down that, in calculating the pension liability, estimated future salary increases and inflation are to be taken into account. Within the Group there are a number of defined-contribution and defined-benefit pension plans.

For defined-benefit plans, pension costs are calculated using the projected unit credit method. These obligations are valued at the present value of expected future disbursements using a discount rate.

Actuarial gains and losses, outside the 10 per cent corridor, are recognised over the average remaining working lives of the employees.

Actuarial gains and losses in connection with the transition to RR 29, i.e. as at 1 January 2004, have been included in their entirety in the calculation of pension commitments.

The Group's contributions to defined-contribution plans are recognised as an expense during the period in which the employee renders the services to which the contributions relate.

The Group's contributions in respect of the ITP occupational pension scheme, financed through Alecta, are treated as a defined-contribution plan. For details, please refer to the information in note 23.

The impact of IFRS on the NIBE Group

General

With effect from 1 January 2005, the Group has adopted the International Financial Reporting Standards accounting principles (IFRS) in line with the requirements of the

European Commission (EC). The report for the first quarter of 2005 will be the first report from NIBE using IFRS.

The consolidated financial statements, which were formerly drawn up in accordance with Swedish generally accepted accounting principles (GAAP), will be recalculated in accordance with the IFRS requirements. A detailed account of the transition effects will be included in the report for the first quarter of 2005. A brief summary is given below of the most significant anticipated effects on the Group's equity and results for 2004 in consequence of the transition to IFRS.

The most significant transition effect will be in respect of depreciation on goodwill. Goodwill will no longer be depreciated, but will be subject to an annual impairment test. The goodwill items have undergone an impairment test. In no case has the carrying amount been found to exceed the recoverable amount. In addition, minority interests will be reclassified so that they are recognised as part of equity in the balance sheet and recognised in net profit in the income statement. IAS 16 requires a more detailed division of fixed assets, which is assessed as having a marginal effect on the depreciation periods of the assets.

Transition rules

The effects of the transition to IFRS are recognised in accordance with IFRS 1, "First-time Adoption of IFRS". In general, this means that a company must determine which generally accepted accounting principles it is affected by. These generally accepted accounting principles must then be applied retrospectively to determine the opening balance under IFRS. The opening balance is drawn up as at 1 January 2004.

Since the EC approval process has not yet been completed, the IFRS may be amended, and this would have consequences for the information provided below.

The following exceptions, which the NIBE Group has adopted, are permitted from this retrospective valuation:

- The option of adopting IFRS 3 (Business combinations) with effect from 1 January 2004.
- The option of including revaluations of plant and properties in accordance with the previous Swedish GAAP, at actual acquisition cost.
- The option of not recalculating comparable financial information for 2004 in accordance with IAS 39 (Financial instruments).

Analysis of the effects of the introduction of IAS 39 Financial instruments

IAS 39, as it has been adopted by the EC, will affect the opening balance as at 1 January 2005. The NIBE Group applies hedge accounting to future currency contracts, with the following effects.

According to IAS 39, derivatives must always be recognised at fair value in the balance sheet. If the derivative is not a currency hedge instrument, any changes in fair value are recognised in profit or loss. With a cash flow hedge which meets the requirements for hedge accounting, changes in the fair value of the hedge instrument are recognised in equity until such time as the underlying hedged item affects profit or loss. At that point all associated hedge items in equity are transferred to the income statement. Under Swedish GAAP, changes in the underlying fair value of the derivative are not recognised until the hedged item affects profit or loss.

Under the transition rules for IFRS, the fair value of the derivative as at 1 January 2005, defined in accordance with IAS 39, will be shown on the balance sheet, with a corresponding counter item in equity.

IFRS adjustments (in millions of SEK)	After adjustment for RR 29 Equity		Result 2004
	1 Jan 2004	31 Dec 2004	
According to Swedish GAAP	650.2	865.2	255.3
Depreciation on goodwill	–	24.8	24.8
Minority interest	–	3.3	1.1
Deferred tax on IFRS adjustments	–	– 1.7	– 1.7
Total IFRS adjustments	–	26.4	24.2
According to IFRS accounting	650.2	891.6	279.5

Note 1 Net sales and operating profit by segment

Net sales and operating profit by business area

(in millions of SEK)	Net sales		Operating profit	
	2004	2003	2004	2003
NIBE Element	1,146.6	1,058.6	53.0	41.2
NIBE Heating	1,593.1	1,100.6	200.8	145.7
NIBE Stoves	452.0	311.6	102.1	59.2
Group adjustments	- 30.7	- 19.7	- 15.3	- 12.3
Group total	3,161.0	2,451.1	340.6	233.8

Net sales and operating profit by geographical region

(in millions of SEK)	Net sales		Assets		Investments	
	2004	2003	2004	2003	2004	2003
Nordic countries	2,163.2	1,610.8	2,006.0	1,566.4	295.4	365.1
Rest of Europe	904.5	769.4	457.3	303.1	81.2	67.9
Other markets	93.3	70.9	8.3	1.3	2.7	0.1
Group total	3,161.0	2,451.1	2,471.6	1,870.8	379.3	433.1

All parent company sales are sales to Group companies.

Note 2 Information about the business areas

(in millions of SEK)	Element		Heating		Stoves		Elimination		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Income										
Total earnings	1,371.1	1,215.8	1,772.7	1,151.1	452.0	311.6	- 434.8	- 227.2	3,161.0	2,451.1
Internal sales	- 224.5	- 157.2	- 179.6	- 50.5	0	0	404.1	207.5	0.0	0.0
External sales	1,146.6	1,058.6	1,593.1	1,100.6	452.0	311.6	- 30.7	- 19.7	3,161.0	2,451.1
Profit										
Profit per business area	53.0	41.2	200.8	145.7	102.1	59.2	- 3.3	- 3.3	352.6	242.8
Undistributed costs									- 12.0	- 9.0
Operating profit									340.6	233.8
Financial income									45.0	9.3
Financial expenses									- 33.2	- 25.3
Tax for the year									- 96.0	- 72.9
Minority participation in profit after tax									- 1.1	- 0.5
Net profit for the year									255.3	144.4
Other information										
Assets	955.5	798.1	1,338.5	875.9	295.7	208.5	- 846.7	- 569.2	1,743.0	1,313.3
Undistributed assets									728.6	557.5
Total assets									2,471.6	1,870.8
Liabilities	843.6	690.9	936.2	548.9	80.7	100.5	- 675.4	- 435.6	1,185.1	904.7
Undistributed liabilities									418.0	317.0
Total liabilities									1,603.1	1,221.7
Investment	128.0	124.0	294.7	281.8	50.5	16.5				
Depreciation/amortisation	51.4	46.6	55.6	32.0	11.0	7.6				

Note 3 Payments to the auditors

In 2004 the Group paid SEK 3.1 million for auditing services (parent company SEK 0.1 million) and SEK 0.9 million for financial services other than auditing (parent company SEK 0.2 million).

(in millions of SEK)	2004		2003	
	Auditing services	Other services	Auditing services	Other services
SET Revisionsbyrå AB	1.7	0.6	1.1	0.3
Other accountants	1.4	0.3	1.1	0.2
Group total	3.1	0.9	2.2	0.5

Note 4 Salaries, average number of employees and numbers of men/women in senior positions

Salaries and other remunerations

(in millions of SEK)	2004	2003
Parent company	4.3	3.6
Subsidiaries	691.0	543.7
Group total	695.3	547.3

(in millions of SEK)	2004		2003	
	Social security contrib's	of which pension expenses	Social security contrib's	of which pensions expenses
Parent company	2.8	1.0	2.5	1.0
Subsidiaries	211.4	41.6	170.8	30.2
Group total	214.2	42.6	173.3	31.2

Of parent company pension costs, SEK 0.3 million (2003: SEK 0.3 million) relate to the MD/CEO. The parent company has no outstanding pension obligations to the Board/CEO. The corresponding sum for the Group is SEK 2.0 million (SEK 1.4 million). Outstanding Group pensions to the previous Board/CEO total SEK 1.3 million (SEK 1.4 million).

Salaries and other remuneration by country and between the Board/MD and other employees

(in millions of SEK)	2004		2003	
	Board and MD	Other employees	Board and MD	Other employees
Parent company	2.3	2.0	2.1	1.5
Subsidiaries in				
Sweden ¹⁾ (0.2 and 0.2)	3.8	335.1	2.8	277.6
Norway	2.1	32.7	1.0	20.2
Finland ¹⁾ (0.1 and 0)	2.8	71.9	1.6	60.8
Denmark	6.3	132.7	4.0	90.0
France	–	0.8	–	5.3
Germany	1.7	5.5	1.0	3.9
Poland ¹⁾ (0.1 and 0.1)	2.4	28.7	2.3	24.7
Czech R. ¹⁾ (0.3 and 0.5)	1.0	14.7	1.8	12.4
Italy	–	11.1	0.9	12.1
Netherlands	0.6	6.8	0.4	2.8
UK	0.7	5.3	–	–
Spain	1.2	19.2	0.9	15.5
China	0.2	1.3	–	–
USA ¹⁾ (0 and 0.2)	1.0	1.4	1.0	0.7
Group total	26.1	669.2	19.8	527.5

¹⁾ (of which bonus in millions of SEK)

Note 4 (cont'd)

Agreement on severance pay

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

Average numbers of employees and gender distribution

	2004		2003	
	Number of employees	Number of men	Number of employees	Number of men
Parent company	5	3	4	2
Subsidiaries in				
Sweden	1,278	1,081	1,094	906
Norway	104	86	62	50
Finland	305	193	278	157
Denmark	376	273	263	175
France	1	0	15	2
Germany	18	14	15	12
Poland	1,013	622	689	430
Czech Republic	343	182	311	170
Italy	57	33	62	33
Netherlands	22	18	14	9
UK	33	21	–	–
Spain	95	69	70	48
China	100	63	–	–
USA	5	4	4	2
Group total	3,755	2,662	2,881	1,996

Gender distribution at board/management level

	2004		2003	
	Total	Men	Total	Men
Company board				
Parent company	5	5	6	6
Subsidiaries	48	46	36	35
Corporate management				
Parent company	2	2	2	2
Subsidiaries	81	73	68	61

Note 5 Financial instruments

Financial instruments are every asset or liability which gives a contractual right or obligation to receive or pay cash or other financial asset.

Fair value of financial assets and liabilities

Receivables and liabilities are recognised mainly at historical acquisition value, and items in foreign currency are translated at the closing rate. Wherever hedging has taken place through forward contracts, the forward exchange rate is used instead. An assessment is made to establish that the fair values of the assets are not less than the acquisition values. Impairment may be appropriate here. Loan liabilities are recognised at acquisition value.

At the end of 2004, the Group had outstanding contracts in EUR, DKK, NOK, USD, GBP and CHF. The contracts will be repaid during 2005. The total net amount of the contracts, translated to SEK at the closing rate at the end of 2004, was SEK 211.5 million.

The difference between the total contract amount translated to SEK using the contractual exchange rate and the total contract amount translated to SEK using the closing rate at the end of 2004 generated an unrealised exchange gain of SEK 4.6 million.

For other financial assets and liabilities, there is no divergence between carrying amount and fair value.

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

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Exchange gains affecting operating profit	7.3	6.8	–	–
Exchange losses affecting operating profit	– 7.2	– 3.5	–	–
Net exchange rate difference affecting operating profit	0.1	3.3	–	–

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

Note 6 Leasing

During the year, Group expenses relating to finance leasing agreements totalling SEK 0.5 million (SEK 0.8 million) were capitalised. Leasing charges amounting to SEK 3.6 million (SEK 2.2 million) in respect of operating leases in the Group were expensed. The parent company has no leasing agreements. The value of the Group's agreed future leasing charges, relating to agreements for which the remaining term exceeds one year, are distributed as follows:

(in millions of SEK)	Financial leases		Operating leases	
	Current value		Nominal value	
Due for payment 2005	0.5		3.2	
Due for payment 2006 – 2009	0.4		16.6	
Due for payment 2010 –	–		27.5	
Total	0.9		47.3	

Note 7 Research and development costs

A total of SEK 62.7 million (SEK 49.2 million) to cover the cost of research and development is included under the heading "Cost of goods sold".

Note 8 Other operating income

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Profit on sale of fixed assets	2.3	3.5	–	–
Exchange gains	7.3	6.8	–	–
Other	13.7	14.0	0.2	–
Total	23.3	24.3	0.2	–

Note 9 Result of participations in Group companies and associated companies

Result of participations in Group companies

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Group contributions	–	–	19.5	8.0
Dividend	–	–	70.4	45.2
Total	–	–	89.9	53.2

Result of participations in associated companies

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Capital gain	37.5	–	37.5	–
Dividend	5.7	3.7	5.7	3.7
Total	43.2	3.7	43.2	3.7

NIBE Industrier's holding of 21.7% of the shares in Jøtul ASA was sold on 1 September 2004. The purchase sum consists of an initial purchase sum and an additional purchase sum. The additional purchase sum, which is to be paid at the latest on 30 June 2005, has not been determined since it is contingent on how large a portion of the agreed guaranteed amount it will be necessary to utilise.

Note 10 Interest income and similar profit/loss items

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Interest income, Group companies	–	–	3.2	2.9
Interest income, other	1.4	1.5	0.1	0.2
Other financial income	0.4	4.1	0.3	4.0
Total	1.8	5.6	3.6	7.1

Note 11 Interest expense and similar profit/loss items

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Interest expense, Group companies	–	–	1.1	1.8
Interest expense, other	32.5	23.4	9.8	6.7
Other financial expenses	0.7	1.9	0.2	0.2
Total	33.2	25.3	11.1	8.7

Note 12 Appropriations

(in millions of SEK)	Parent company	
	2004	2003
Reversal of tax allocation reserve	0.0	0.4
Transfer to tax allocation reserve	0.0	–0.4
Change in tax allocation reserve	0.0	0.0

Note 13 Tax

Tax on profit for the year (in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Actual tax for the year	76.8	58.9	0.0	0.3
Actual tax attrib. to preceding yrs	0.0	–0.5	–	–
Deferred tax	19.2	14.5	–	–
Total	96.0	72.9	0.0	0.3

Deferred tax expenses/tax recoverable for the year

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Tax expenses relating to temporary differences	24.8	17.8	–	–
Tax recoverable relating to temporary differences	–5.6	–3.3	–	–
Total	19.2	14.5	–	–

Note 13 (cont'd)

Tax in respect of items charged directly against equity

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Deferred tax attributable to exchange rate differences on transactions in foreign currencies	0.0	1.6	–	–

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

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Reported profit before tax	352.4	217.8	113.5	46.3
Tax at current rate	98.7	61.0	31.8	13.0
Depreciation on goodwill	5.3	3.9	–	–
Non-deductible expenses	0.9	1.9	0.0	0.0
Non-taxable earnings	–12.5	–1.2	–10.5	–
Dividends from subsidiaries	–	–	–21.3	–12.7
Adjusted tax for preceding years	0.0	–0.6	–	–
Deficit deductions not carried fwd	4.7	6.6	–	–
Effect of foreign tax rates	0.4	0.8	–	–
Other factors	–1.5	0.5	–	–
Reported tax expenses	96.0	72.9	0.0	0.3

Tax rate

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

Temporary differences

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

Deferred tax liability (in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Group surplus value in fixed assets	10.2	10.1	–	–
Untaxed reserves	96.3	73.8	–	–
Other factors	9.3	7.2	–	–
Total	115.8	91.1	–	–

Note 13 (cont'd)

Deferred tax recoverable (in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Provisions for pension commitments	0.5	0.5	–	–
Fixed assets	2.0	2.0	–	–
Loss carry-forwards	2.0	0.4	–	–
Other factors	0.2	0.7	–	–
Total	4.7	3.6	–	–

Deferred tax liabilities 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 loss carry-forwards which do not correspond to deferred income taxes recoverable for the Group amounted to SEK 12.8 million. The due dates for the loss carry-forwards lie within the following intervals:

Due date 1 – 5 yrs	8.0
Due date 6 – 10 yrs	–
Due date 10 years –	3.9
Due date undetermined	0.9

Note 14 Goodwill

(in millions of SEK)	Group	
	2004	2003
Acquisition value		
Acquisition value brought fwd	264.6	157.5
Acquisition value in companies acquired	3.6	23.5
Investment for the year	113.1	87.5
Reclassifications	0.9	– 1.3
Translation differences	– 2.0	– 2.6
Accumulated acquisition value carried forward	380.2	264.6
Depreciation		
Depreciation brought forward	77.5	59.5
Depreciation in companies acquired	2.8	0.2
Reclassifications	–	– 0.4
Depreciation for the year	24.8	19.1
Translation differences	– 0.2	– 0.9
Accumulated depreciation carried forward	104.9	77.5
Book value carried forward	275.3	187.1

Goodwill depreciation has been expensed in the following functions:

(in millions of SEK)	Group	
	2004	2003
Cost of goods sold	1.3	1.4
Selling expenses	23.0	17.3
Administrative expenses	0.5	0.4
Total depreciation	24.8	19.1

Note 15 Other intangible assets

Rights of tenancy, patents, licences, trademarks etc.

(in millions of SEK)	Group	
	2004	2003
Acquisition value		
Acquisition value brought fwd	8.4	3.5
Acq. value in companies acq'd	0.1	3.0
Investment for the year	1.7	2.1
Sales and divestments	– 0.6	–
Reclassifications	0.6	0.1
Translation differences	0.1	– 0.3
Accumulated acquisition value carried forward	10.3	8.4
Amortisation		
Amortisation brought forward	3.9	1.8
Amortisation in companies acq'd	–	0.8
Sales and divestments	– 0.6	–
Reclassifications	0.1	–
Amortisation for the year	2.2	1.6
Translation differences	– 0.2	– 0.3
Accumulated amortisation carried forward	5.4	3.9
Book value carried forward	4.9	4.5

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

(in millions of SEK)	Group	
	2004	2003
Cost of goods sold	1.3	1.2
Selling expenses	0.1	0.1
Administrative expenses	0.8	0.3
Total amortisation	2.2	1.6

Note 16 Land and buildings

(in millions of SEK)	Group	
	2004	2003
Acquisition value		
Acquisition value brought fwd	446.8	295.9
Acq. value in companies acq'd	74.1	115.4
Investment for the year	49.8	43.2
Sales and divestments	- 0.6	- 0.3
Reclassifications	12.0	-
Translation differences	4.1	- 7.4
Accumulated depreciation carried forward	586.2	446.8
Depreciation		
Depreciation brought forward	155.9	109.9
Depreciation in companies acq'd	25.9	36.2
Sales and divestments	- 0.1	0.0
Reclassifications	0.4	-
Depreciation for the year	15.3	11.3
Translation differences	- 0.3	- 1.5
Accumulated depreciation carried forward	197.1	155.9
Revaluations		
Revaluation brought forward	0.8	0.4
Revaluations in companies acq'd	4.5	0.6
Depreciation for the year on the revalued amount	- 0.2	- 0.2
Accumulated revaluation carried forward	5.1	0.8
Book value carried forward	394.2	291.7
of which, land	34.6	25.4
Book value carried forward of land and buildings in Sweden	174.9	144.0
Assessed tax value (Sweden)	70.4	55.6
of which, land	12.1	10.4

New construction, renovations and rebuilds in Sweden during 2004 have not yet been assessed for tax purposes.

Note 17 Machinery and equipment

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Acquisition value				
Acquisition value brought fwd	793.1	517.2	0.3	0.3
Acq. value in companies acq'd	138.7	216.2	-	-
Investment for the year	119.0	100.4	0.1	-
Sales and divestments	- 25.0	- 28.8	-	-
Reclassifications	19.2	0.9	-	-
Translation differences	4.7	- 12.8	-	-
Accumulated acquisition value carried forward	1,049.7	793.1	0.4	0.3
Depreciation				
Depreciation brought forward	467.9	300.3	0.1	-
Depreciation in companies acq'd	95.7	141.8	-	-
Sales and divestments	- 18.8	- 26.8	-	-
Reclassifications	1.0	0.3	-	-
Depreciation for the year	78.9	57.4	0.0	0.1
Translation differences	0.0	- 5.1	-	-
Accumulated depreciation carried forward	624.7	467.9	0.1	0.1
Book value carried forward	425.0	325.2	0.3	0.2

Note 18 Construction in progress

(in millions of SEK)	Group	
	2004	2003
Amount at start of year	42.4	23.6
Expenses during the year	74.9	76.9
Re-allocations during the year	- 63.3	- 57.0
Translation differences	2.5	- 1.1
Amount at year-end	56.5	42.4

Note 19 Shares in subsidiaries

(in millions of SEK)	Proportion of capital	Number of shares	Book value
Backer BHV AB	100%	37,170	55.3
Bröderna Håkansson Värme AB	100%	15,000	13.4
Calesco Foil AB	100%	10,500	37.5
Focus Värme AB	100%	3,000	2.6
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	39.5
METRO THERM A/S	100%	3,400	160.8
NIBE AB	100%	400,000	103.2
Nielsen A/S, Svend A.	100%	13	17.7
Palm Fastigheter i Partille AB	100%	1,000	0.1
Turun Lämpötekniikka AB, Oy	100%	100	18.9
Group total			595.8

Shares owned via subsidiaries

	Proportion of capital	Number of shares
Archi Form Nemi GmbH	100.0%	
Backer Elektro CZ a.s.	100.0%	
Backer Facsa S.L.	100.0%	34,502
Backer Fer s.r.l.	100.0%	
Backer OBR Sp. z.o.o.	100.0%	10,000
Calesco Foil Inc	100.0%	100
Cronspisen Kakelugnar AB	100.0%	5,500
Danothem Electric A/S ¹⁾	80.0%	800
Ebentex AB	100.0%	1,000
Eltop Praha s.r.o.	100.0%	
Höiax A/S	100.0%	1,000
Kiloval Oy	100.0%	33
KVM-Conheat A/S	100.0%	600
METRO THERM AB	100.0%	1,000
METRO THERM AB, Oy	100.0%	15
Meyer Vastus AB, Oy	100.0%	20
NIBE-BIAWAR Sp. z.o.o.	100.0%	83,962
NIBE Energietechnik B.V.	100.0%	180
NIBE Systemtechnik GmbH	100.0%	
Norells Automotive Inc	100.0%	100
Norells France SA	99.8%	12,405
Norells Sweden AB	100.0%	3,250
Norske Backer A/S	100.0%	12,000
Sheated Heating Elements Ltd	100.0%	68,000
Shel Holding Ltd	100.0%	50,000
Shel NIBE Manufacturing Co Ltd	100.0%	1,000
Sinusjevi Electric Heating B.V.	100.0%	180

¹⁾ Backer BHV AB has an option on the remaining 20% stake in the company. The option runs from March – June 2006.

Note 19 (cont'd)

Details of subsidiaries	Corporate ID number	Registered office
Archi Form Nemi GmbH	HRB1490	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: 1613120 (Ferrara)	Sant'Agostino, Italy
Backer OBR Sp. z.o.o.	8358936	Pyrzyce, Poland
Bröderna Håkansson Värme AB	556108-0259	Höör, Sweden
Calesco Foil AB	556000-5034	Hallstammar, Sweden
Calesco Foil Inc	20-0507801	Chicago, USA
Cronspisen Kakelugnar AB	556480-3806	Markaryd, Sweden
Danothem Electric A/S	10 12 60 61	Rødovre, Denmark
Ebentex AB	556087-2664	Markaryd, Sweden
Eltop Praha s.r.o.	44795751	Miretice, Czech Rep.
Focus Värme AB	556316-1412	Partille, Sweden
Handöl-Form AB	556194-1393	Markaryd, Sweden
Höiax A/S	936 030 327	Fredrikstad, Norway
Jevi A/S	12 85 42 77	Vejle, Denmark
Kaukora Oy	046.036	Raisio, Finland
Kiloval Oy	438.072	Lovisa, Finland
KVM-Conheat A/S	14 46 85 87	Vissenbjerg, Denmark
Loval Oy	379.654	Lovisa, Finland
METRO THERM AB	556554-1603	Kalmar, Sweden
METRO THERM AB, Oy	9314276	Espoo, Finland
METRO THERM A/S	20 56 71 12	Helsingør, Denmark
Meyer Vastus AB, Oy	224.101	Monninkylä, Finland
NIBE AB	556056-4485	Markaryd, Sweden
NIBE-BIAWAR Sp. z.o.o.	050042407	Bialystok, Poland
NIBE Energietechnik B.V.	20111793	Willemstad, Netherlands
NIBE Systemtechnik GmbH	HRB 5879	Celle, Germany
Nielsen A/S, Svend A.	42 16 59 13	Graested, Denmark
Norells Automotive Inc	36-4044600	Chicago, USA
Norells France SA	91379344781	Dieuze, France
Norells Sweden AB	556184-3581	Västerås, Sweden
Norske Backer A/S	919 799 064	Kongsvinger, Norway
Palm Fastigheter i Partill AB	556555-4440	Partille, Sweden
Sheated Heating Elements Ltd	766 637	London, UK
Shel Holding Ltd	1 309 597	London, UK
Shel NIBE Manufacturing Co Ltd	866 531	Hong Kong, China
Sinusjevi Electric Heating B.V.	37106129	Medemblik, Netherlands
Turun Lämpötekniikka AB, Oy	367.227	Åbo, Finland

Note 20 Shares in associated companies

Shares in associated companies held by the Group/parent company

Name	Corporate ID number	Registered office	Number of shares
MZUE Zelmech S.A. in bankruptcy	273617536	Mysowice, Poland	11,108
Linmet Glas-Keramik GmbH	HRB42968	Berlin, Germany	-

(in millions of SEK)	Share of equity	Book value	Group share of profit after tax 2004	Group share of equity 2004
MZUE Zelmech S.A. in bankruptcy	40.2%	0.0	0.0	0.0
Linmet Glas-Keramik GmbH	33.3%	0.0	0.0	0.0

Note 21 Current investments

(in millions of SEK)	Acquisition value	Market value	Book value
Listed securities	0.9	0.9	0.9

Note 22 Share capital

	Par value (SEK)	Number of A shares	Number of B shares	Total shares
At yearend	2.50	3,478,068	20,001,932	23,480,000

The dividend for 2004 proposed but not yet resolved of SEK 3.00 per share, corresponds to a total payout of SEK 70.4 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 2004 there were no convertible bonds or options that can dilute the share capital.

Note 23 Provisions for pensions

(in millions of SEK)	Group	
	2004	2003
FPG/PRI-pensions	21.7	24.9
Other pensions	4.7	4.6
Amount at year-end	26.4	29.5

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 financial year 2004, 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 6.7 million (2003: SEK 5.0 million). Alecta's surplus can be distributed to the policy holders and/or the insured. At the end of 2004, Alecta's surplus in the form of the collective funding ratio was 128% (2003: 120%). The collective funding ratio consists of the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance.

Defined-benefit pensions

The Group has defined-benefit pensions for Swedish companies for which the calculations and payments are handled through PRI Pensionstjänst AB. 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 juridical 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

Comparison figures are not given, since pensions are treated in accordance with RR 29 with effect from 1 January 2004

	Group 31 Dec 2004
Pension commitments in unfunded plans, present value	29.4
Unrecognised actuarial gains (+), losses (-), pension commitments	- 3.0
Provision for pensions, unfunded plans	26.4
Net liability according to balance sheet	26.4

Note 23 (cont'd)

Total pension costs	Group 2004
Pensions earned during the period	0.4
Interest on the commitment	1.2
Pension costs, defined-benefit plans	1.6
Pension costs, defined-contribution plans	41.0
Total pension costs	42.6

Reconciliation of pension provisions	Group 2004
Pension liabilities, balance brought forward (in acc. with local regulations in each country)	29.5
Change in accounting principles	- 3.7
Pension costs	1.6
Benefits paid	- 1.0
According to balance sheet	26.4

Actuarial assumptions	Group 2004
Discount rate on 1 January	5.75%
Discount rate on 31 December	5.00%
Expected salary increases	2.50%
Expected inflation	2.00%

Parent company

The parent company's reported pension liabilities amounted to SEK 0.0 million (SEK 0.2 million) and have been calculated in accordance with Swedish legislation (Safeguarding of Pension Commitments Act), and not in accordance with RR 29.

Note 24 Other provisions

Group (in millions of SEK)	Guarantee risk reserve	Other	Total
Amount at start of year	34.7	5.5	40.2
Changes during the year	8.6	0.3	8.9
Amount at year-end	43.3	5.8	49.1

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.

Note 25 Long-term liabilities

The following list shows long-term liabilities that fall due for payment more than five years after the accounting yearend.

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Liabilities to credit institutions	302.0	234.3	124.0	100.2
Liabilities to Group companies	-	-	28.5	28.5
Other liabilities	2.6	-	-	-
Amount at year-end	304.6	234.3	152.5	128.7

Note 26 Bank overdraft facilities

The sum of bank overdraft facilities granted in the Group as a whole amounted to SEK 381.4 million (SEK 383.7 million). During the year these have fallen by SEK 2.3 million. There is an agreement for long-term refinancing.

Note 27 Accrued expenses and deferred income

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Accrued salaries	96.4	79.8	1.2	1.0
Accrued social security contrib's.	44.1	38.1	1.0	1.2
Other items	88.4	63.8	1.2	1.0
Amount at year-end	228.9	181.7	3.4	3.2

Note 28 Pledged assets

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Floating charges	208.0	134.5	–	–
Real estate mortgages	218.1	181.1	–	–
Equipment, fixtures etc. with retention of title	1.8	2.2	–	–
Receivables	7.6	–	–	–
Shares in subsidiaries ¹⁾	826.6	686.0	253.2	253.2
Total pledged assets	1,262.1	1,003.8	253.2	253.2

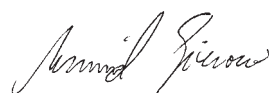
¹⁾ Liabilities for which shares have been pledged as collateral

	2004	2003	2004	2003
	43.1	49.2	27.9	31.9

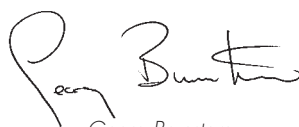
Note 29 Contingent liabilities

(in millions of SEK)	Group		Parent company	
	2004	2003	2004	2003
Pension obligations which have not been taken up among liabilities or provisions	0.5	0.5	–	–
Contingent liabilities in favour of other companies	–	–	26.4	24.9
Other contingent liabilities	6.0	8.3	–	–
Total contingent liabilities	6.5	8.8	26.4	24.9

Markaryd, Sweden, 14 March 2005



Arvid Gierow
Chairman of the Board



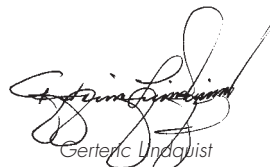
Georg Brunstam



Sam Strömersten



Billll Tunbrant



Gert Eric Undquist
MD and Chief Executive Officer

The balance sheets and income statements will be presented for approval at the Annual General Meeting on 11 May 2005.

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the Managing Director/CEO of NIBE Industrier AB for the year 2004. These accounts and the administration of the company and the application of the Swedish Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the Managing Director/CEO. 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 and the consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. 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 – 22 March 2005
SET Revisionsbyrå AB

Willard Möller
Authorised Public Accountant

The Annual General Meeting gives shareholders the opportunity to express their opinion by voting on issues relating to the Swedish Companies Act and the articles of association of NIBE Industrier AB. Such issues include, for example, the composition of the Board and emoluments paid to board members.

The work of the Board

The Board of NIBE Industrier consists of five directors elected by the Annual General Meeting. Employees of the company may, if necessary, be called in to appear before the Board to explain the background to specific issues or act as an expert resource. At its regular meetings the Board deals with standing items on its agenda, which are reviewed in accordance with its mandate.

During 2004 the Board convened on 11 occasions, six of which were conducted as telephone conferences.

Board meetings were held in connection with the publication of interim reports and the year-end unaudited figures, with the company's budget and with major investments and takeovers. Minutes were taken at all meetings.

In addition the Board has also met for two days of strategic discussions.

Once a month the Board receives a report on the company's financial performance and position. The Managing Director is in continual contact with the Chairman.

Group function

The Chief Executive Officer of the Group is also appointed Managing Director of the parent company by the Board. He assumes day-to-day control of the Group and it is to him that the three Business Area Managers report.

Financing, currency management, takeovers, start-ups, financial control and information, human resources and other strategic policy issues are dealt with at Group level.

The parent company, NIBE Industrier AB, has its registered office in Markaryd (Sweden) and its shares have been quoted on the Stockholm Stock Exchange's O list since 1997.

Management of the Business Areas

NIBE Industrier comprises three business areas, each with its own operational management responsible for the business area's financial performance.

Each business area has its own board, chaired by the Group CEO. The boards also include external members with the relevant industry experience. In addition to its responsibility for day-to-day operations, each business area is also responsible to the board of NIBE Industrier for its own strategic development. The separate boards for the business areas meet once a quarter.

Decision-making processes

The NIBE Industrier Board deals with all matters of import. 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, so no committees have been set up.

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.

Remuneration

Remuneration to the Board during 2004 totalled SEK 570,000, in accordance with a resolution passed by the AGM. The Chairman received SEK 228,000 of this in accordance with a Board resolution. No remuneration is paid to members of the Board who are otherwise employed in the Group.

During 2004, salary and remuneration totalling SEK 1,768,000 was paid to the CEO. The CEO has the free use of a company car. Salaries to other senior executives totalled SEK 4,954,000. Senior executives are also entitled to free use of a company car.

Severance pay

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

The period of notice for the CEO is six months in the event of the company giving notice. In addition to salary during the period of notice, the 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 CEO and other senior executives is 65. The CEO has an individual pension insurance arrangement equivalent to ITP (supplementary pensions for salaried employees). For 2004, the premium corresponded to 19% of salary up to 30 basic amounts. For salary in excess of this, a premium payment of 12% is made. This will provide a pension equivalent to the 20–30 basic amount range of the ITP plan, i.e. 32.5% of salary. For other senior executives in the Group, the ITP plan applies for that portion of salary up to 30 basic amounts. For that portion of salary in excess of this, fixed pension benefits are payable, equivalent to the ITP plan's level of 20–30 basic amounts. However, this does not

apply to one business area manager, who, in his capacity as managing director, has an individual pension arrangement with premiums that correspond to the ITP plan.

Incentive scheme

An incentive scheme applies to certain key members of staff, under which they are paid a variable bonus (equivalent to a maximum of three months' salary) if set targets are met.

This programme does not extend to the CEO.

Communication with the stock market

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

Earnings and a summary of the Group's financial position are presented quarterly and, like the Annual Report, are issued to all shareholders in written form. All takeovers are announced via press releases.

Full financial information relating to NIBE Industrier is available via our website www.nibe.se. 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).



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

BOARD OF DIRECTORS



Arvid Gierow (born 1943)
Chairman since 2003 and board member since 1997. Graduate in business administration.
Chairman of the Boards of ALMI Företagspartner Skåne AB, Marka Pac AB and Pronea Miljöteknik AB. Board member of Bong Ljungdahl AB and SHB, Stortorget, Helsingborg.
Shareholding in NIBE Industrier: 21,600 B shares.



Gerteric Lindquist (born 1951)
Board member since 1989.
Chief Executive Officer.
MD, NIBE Industrier AB and NIBE AB.
Graduate in engineering and business administration. NIBE employee since 1988. Shareholding in NIBE Industrier: 376,140 A shares and 890,860 B shares.



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

Sam Strömersten (born 1955)
Board member since 2001. Graduate in engineering.
Business Area Manager, Tetra Pak Processing Systems.
Shareholding in NIBE Industrier: 0.



Bill Tunbrant (born 1950)
Board member since 1997. Graduate in engineering.
Group Director Cramo Holding BV and MD for Cramo Instant AB.
Shareholding in NIBE Industrier: 1,600 B shares.



SENIOR EXECUTIVES



Gerteric Lindquist
Please refer to Board profile on left.



Leif Gustavsson (born 1945)
Financial Director, NIBE Industrier AB.
Economics graduate.
NIBE employee since 1966. Board member of Markaryd Sparbank savings bank. Shareholding in NIBE Industrier: 376,032 A shares and 763,328 B shares.



Christer Fredriksson (born 1955)
Graduate in engineering. Business Area Manager for NIBE Element and MD for Backer BHV AB. NIBE employee since 1992.
Shareholding in NIBE Industrier: 93,960 A shares and 179,240 B shares.



Kjell Ekermo (born 1956)
Graduate in engineering. Business Area Manager for NIBE Heating. NIBE employee since 1998.
Shareholding in NIBE Industrier: 26,800 B shares.



Niklas Gunnarsson (born 1965)
Engineer. Business Area Manager for NIBE Stoves.
NIBE employee since 1987.
Shareholding in NIBE Industrier: 26,800 B shares.

AUDITOR



SET Revisionsbyrå AB
Auditor-in-Chief
Willard Möller (born 1943)
Authorised Public Accountant.

NIBE Industrier AB

NIBE Industrier AB
Box 14
SE - 285 21 MARKARYD, Sweden
Tel +46 - 433 - 73 000
Fax +46 - 433 - 73 192

NIBE Element

NIBE Element
SE - 280 10 SÖSDALA, Sweden
Tel +46 451 - 661 00
Fax +46 451 - 614 37

Backer BHV AB
SE-280 10 SÖSDALA, Sweden
Tel +46 451 - 661 00
Fax +46 451 - 614 37

Backer Elektro CZ a.s.
Policická 444
CZ - 539 01 HUINSKO, Czech Republic
Tel +420 - 469 802 524
Fax +420 - 469 313 389

Backer Facsa, S.L.
Ctra De Ribes, km 50
ES - 08591 AIGUAFREDA, Spain
Tel +34 - 938 44 26 00
Fax +34 - 938 44 22 20

Backer FER s.r.l.
Via Statale 255 no 293
IT - 440 47 SANT' AGOSTINO, Italy
Tel +39 - 05 32 35 00 00
Fax +39 - 05 32 35 03 60

Backer OBR Sp. z.o.o.
u.l. Glowackiego 39
PL - 74 200 PYRZYCE, Poland
Tel +48 - 91 481 99 00
Fax +48 - 91 481 99 16

Calesco Foil AB
Västra Ävågen 11
SE - 730 40 KOLBÄCK, Sweden
Tel +46 220 - 453 00
Fax +46 220 - 453 50

Calesco Foil Inc.
The Rice Building
815 West Van Buren Suite 305
CHICAGO, IL 60607, USA
Tel +1 - 312 455 8121
Fax +1 - 312 455 8131

Danotherm Electric A/S
Næsbysvej 20
DK - 2610 RØDØVRE, Denmark
Tel +45 - 36 73 22 22
Fax +45 - 36 73 22 23

Éltop Praha s.r.o.
CZ - 539 55 MIRETICE 32, Czech Republic
Tel +420 - 469 344 176
Fax +420 - 469 344 419

JEVI A/S
Godthåbsvej 7
DK - 7100 VEJLE, Denmark
Tel +45 - 75 83 02 11
Fax +45 - 75 72 29 00

loval Oy
Pl 112, Vintergatan 5
FI - 07901 LOVISA, Finland
Tel +358 - 19 517 31
Fax +358 - 19 532 955

Norells Automotive Inc.
The Rice Building
815 West Van Buren Suite 305
CHICAGO, IL 60607, USA
Tel +1 - 312 455 8121
Fax +1 - 312 455 8131

Norells Sweden AB
Västra Ävågen 11
SE - 730 40 KOLBÄCK, Sweden
Tel +46 220 - 453 00
Fax +46 220 - 453 50

Norske Backer A/S
Postboks 203, Midtbyen
NO - 2202 KONGSVINGER, Norway
Tel +47 - 628 28 828
Fax +47 - 628 17 456

Oy Meyer Vastus AB
FI - 07230 MONNINKYLÄ, Finland
Tel +358 - 19 574 02 00
Fax +358 - 19 574 02 20

REBA Div. Industrial Applications
Branch of Backer Fer s.r.l.
Via Paarca Alto Milanese 1
IT - 21052 BUSTO ARSIZIO (Mi)
Italy
Tel +39 - 0331 35 13 95
Fax +39 - 0331 34 38 50

Sheated Heating Elements Ltd
Wardley Industrial Estate
Worsley, MANCHESTER M28 2DP
England
Tel +44 - 161 794 61 22
Fax +44 - 161 793 99 79

Shel NIBE Manufacturing Co Ltd
Hua Mai Road, Huang Go keng
Henggang Town, Longgan district
Shenzen, China
Tel +86 - 755 289 303 69
Fax +86 - 755 289 300 57

SinusJevi Electric Heating B.V.
Nijverheidsweg 2
NL - 1671 GC MEDEMBLIK
Netherlands
Tel +31 - 227 549 100
Fax +31 - 227 549 150

Svend A. Nielsen A/S
Gillelejevej 30
Esbønderup
DK - 3230 GRÆSTED, Denmark
Tel +45 - 48 39 88 88
Fax +45 - 48 39 88 98

NIBE Heating

NIBE Heating
Box 14
SE - 285 21 MARKARYD, Sweden
Tel +46 433 - 73 000
Fax +46 433 - 73 190

NIBE AB
Box 14
SE - 285 21 MARKARYD, Sweden
Tel +46 433 - 73 000
Fax +46 433 - 73 190

Focus Värme AB
Brodalsvägen 5
SE - 433 38 PARTILLE, Sweden
Tel +46 31 - 44 08 70
Fax +46 31 - 44 85 20

Haato Varaajat
Branch of NIBE AB (Sweden)
Valimotie 27
FI - 01510 VANDA, Finland
Tel +358 - 9 274 6970
Fax +358 - 9 274 69740

Høiax A/S
Triippeveien 5
NO - 1618 FREDRIKSTAD, Norway
Tel +47 - 69 35 55 00
Fax +47 - 69 35 55 01

Kaukora Oy
Box 21
FI - 21201 RAISIO, Finland
Tel +358 - 2 4374 600
Fax +358 - 2 4374 650

KVM-CONHEAT A/S
Industrivej 6
DK - 5492 VISSENBJERG, Denmark
Tel +45 - 64 47 31 00
Fax +45 - 64 47 31 30

METRO THERM AB
Daléngatan 1
SE - 392 39 KALMAR, Sweden
Tel +46 480 - 42 07 30
Fax +46 480 - 42 07 31

METRO THERM AB, Oy
Kuutamokatu 8 A
FI - 02210 ESPOO, Finland
Tel +358 - 943 91 230
Fax +358 - 943 91 23 23

METRO THERM A/S
Rundinsvej 55
DK - 3200 HELSINGE, Denmark
Tel +45 - 48 77 00 00
Fax +45 - 48 79 73 33

NIBE-BIAWAR Sp. z.o.o.
Al. Jana Pawla II 57
PL - 15 - 703 BIALYSTOK, Poland
Tel +48 - 85 66 284 90
Fax +48 - 85 65 103 80

NIBE Energietechnik B.V.
Hofstraat 18
NL - 4797 AC WILLEMSTAD
Netherlands
Tel +31 - 1684 73249
Fax +31 - 1684 76642

NIBE Systemtechnik GmbH
Am Reiherpahl 3
DE - 29223 CELLE, Germany
Tel +49 - 5141 7 54 60
Fax +49 - 5141 75 46 99

Oy Turun Lämpöteknikka AB
Autokatu 14
FI - 20380 ÅBO, Finland
Tel +358 - 2 2768 660
Fax +358 - 2 2768 670

TMV-Pannan
Branch of NIBE AB
Maskingatan 2
SE - 231 66 TRELLEBORG, Sweden
Tel +46 410 - 544 40
Fax +46 410 - 544 60

Vølund Varmeteknik
Branch of NIBE AB (Sweden)
Brogårdsvej 7
DK - 6920 VIDEBÆK, Denmark
Tel +45 - 97 17 20 33
Fax +45 - 97 17 29 33

NIBE Stoves

NIBE Stoves
Box 134
SE - 285 23 MARKARYD, Sweden
Tel +46 433 - 75 100
Fax +46 433 - 75 140

NIBE AB
Box 14
SE - 285 21 MARKARYD, Sweden
Tel +46 433 - 73 000
Fax +46 433 - 73 190



NIBE Industrier AB (publ) • Box 14 • SE - 285 21 MARKARYD, Sweden

Corporate identity number: 55 63 74 - 8309