

NIIBE

– world-class solutions in sustainable energy



Annual Report 2018

A global Group with companies and a presence worldwide

NIBE Group is a global organisation that contributes to a smaller carbon footprint and better utilisation of energy. In our three business areas – Climate Solutions, Element and Stoves – we develop, manufacture and market a wide range of eco-friendly, energy-efficient solutions for indoor climate comfort in all types of property, plus components and solutions for intelligent heating and control in industry and infrastructure.



NIBE Climate Solutions

Environmentally friendly, intelligent and energy-efficient products for climate control and increased indoor climate comfort and water heating.

The climate impact of properties is dramatically reduced with our products, with no reduction in comfort.

[Find out more on page 12](#)



NIBE Element

An industrial partner with customised components and intelligent solutions for heating and control with a focus on sustainability.

Most product groups enhance energy efficiency, optimise energy consumption and help reduce our carbon footprint.

[Find out more on page 20](#)



NIBE Stoves

Energy-efficient stoves for various heating needs and design requirements.

Increasing the exchange of old stoves for new ones with modern technology quickly has a positive effect on the environment.

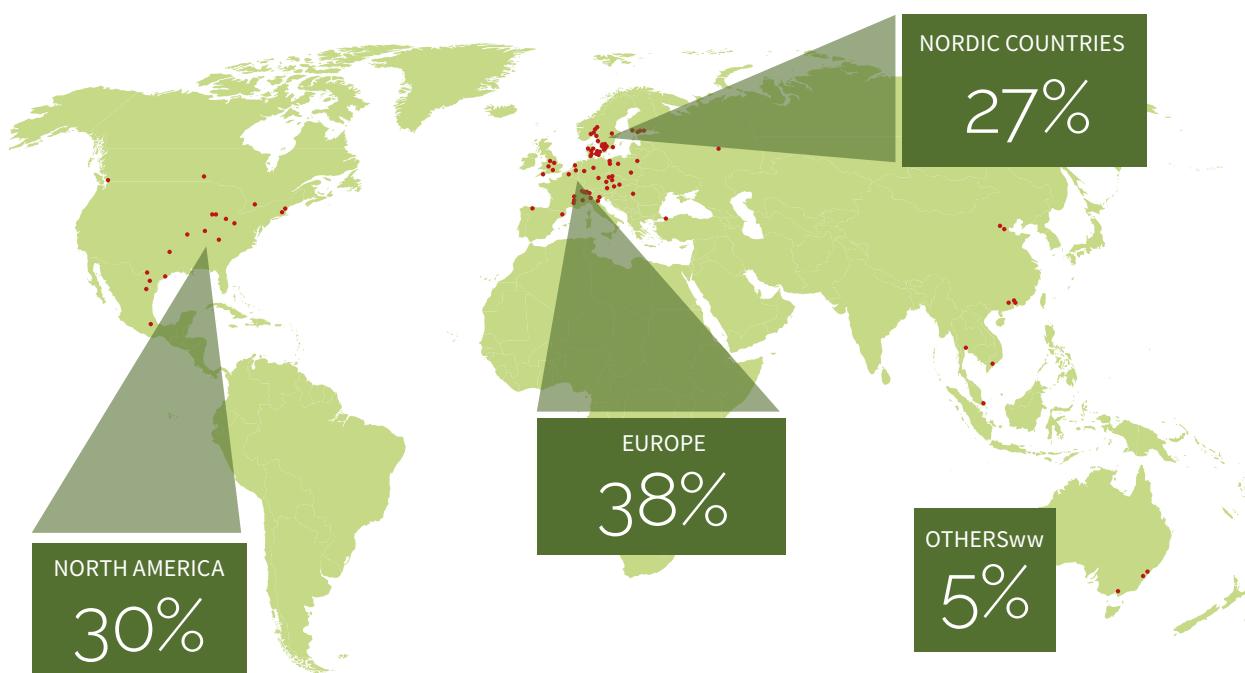
[Find out more on page 28](#)

It all started in Markaryd in the Swedish province of Småland more than 70 years ago, and from there NIBE has grown into an international company with 16,600 (14,300) employees and a presence worldwide. From the very start, the company was driven by a strong culture of entrepreneurship and a passion for responsible business operation. Its success factors are long-term investments in sustainable product development and strategic acquisitions. Combined, these factors have brought about strong, targeted growth, which generated sales of just over SEK 22 (19) billion in 2018.

NIBE has been listed under the name NIBE Industrier AB on the Nasdaq Nordic Large Cap list since 1997, with a secondary listing on the SIX Swiss Exchange since 2011.

SALES, GEOGRAPHICAL DISTRIBUTION 2018

2018



SALES SEK M

22,516

GROWTH %

18.5

OPERATING MARGIN %

12.6

PROFIT AFTER NET FINANCIAL ITEMS SEK M

2,667

PROFIT AFTER TAX SEK M

2,072

EQUITY/ASSETS RATIO %

47.7

EARNINGS PER SHARE SEK

4.11

PROPOSED DIVIDEND SEK

1.30

NIBE Group ratios

	Financial ratios		2018	2017	2016	2015	2014
Net sales	SEK m	22,516	19,009	15,348	13,243	11,033	
Growth	%	18.5	23.9	15.9	20.0	12.2	
Operating margin	%	12.6	12.3	12.9	12.8	12.6	
Profit after net financial items	SEK m	2,667	2,182	1,871	1,614	1,292	
Profit after tax	SEK m	2,072	1,703	1,376	1,237	982	
Equity ratio	%	47.7	45.8	46.6	39.9	36.2	
Earnings per share	SEK	4.11	3.38	2.93	2.67	2.12	
Proposed dividend	SEK	1.30	1.05	0.88	0.80	0.64	

Please refer to page 81 for definitions.

Contents



More energy-efficient, every day

NIBE contributes to an energy-efficient life every day in the home, and our customers should expect comfort, convenience and peace of mind. With intelligent, world-class solutions in sustainable energy, we contribute to a more sustainable society.

Find out more on page 50.

Helping to reduce energy consumption

With its products, it is natural for NIBE to play a key role in international ambitions to transition to a fossil-free society with reduced energy consumption. At the same time, we are gradually reducing our own climate and environmental impact throughout our added-value chain.

Find out more on page 53.



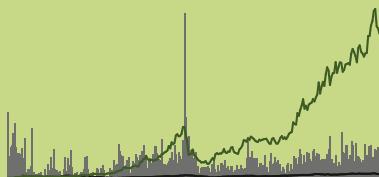
Commercial properties

NIBE heats, air conditions and ventilates large properties using intelligent, world-class energy solutions. The bigger the building, the more important it is to choose the right equipment for indoor climate comfort in terms of reliability, cost and the climate.

Find out more on page 51.



NIBE shares



Find out more on page 8.

Industrial partners

NIBE is a key industrial partner for many companies in various industries that require different components and solutions for intelligent heating and control.

Find out more on page 52.

Calendar

14 May 2019

Interim Report 1, January – March 2019

Annual General Meeting in Markaryd, Sweden, 17:00

16 August 2019

Interim Report 2, January – June 2019

15 November 2019

Interim Report 3, January – September 2019

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Chief Executive's report

Yet another strong year

Interim target of SEK 20 billion in sales exceeded
– next interim target SEK 40 billion

Yet another strong year of good growth

Continued good organic growth and a high rate of acquisition persisted in 2018. We saw general demand that remains relatively good in Europe, North America and Asia. However, there has been more obvious international uncertainty, considering both political tensions and downright trade barriers. Nevertheless, a decisive factor for the relatively good economic situation has naturally been the continued low interest rate level.

Another increasingly obvious positive trend is society's transition to a more sustainable outlook and behaviour, creating entirely new markets in which we feel well positioned.

Considering this, and entirely in line with our adopted strategies, we continued to work determinedly with the UN Global Compact by investing heavily in sustainable product development and consistent marketing to create the best possible conditions for future organic growth. At the same time, we continued to boost productivity, quality and product performance to facilitate strong margins in the long term.

The acquired units have also been integrated as planned, verifying once again that a recently acquired company can improve its profit considerably within a 24-month period by coordinating purchasing, exchanging production experience and intensifying collaboration on product development.

Group sales growth for 2018 was 18.5% (23.9%), of which organic growth accounted for 12.5% (4.4%). For the full year, the currency effect was positive for growth. During the first half of the year, the effect was negligible, while it was more marked in the second half, primarily in the third quarter.

It also gives us great satisfaction to note that we passed our interim target of SEK 20 billion in sales by a good margin during the year.

Strong performance across all three business areas

NIBE Climate Solutions

NIBE Climate Solutions continued to work purposefully and successfully to constantly strengthen its position as the leading supplier of intelligent, sustainable, high-performance end-to-end solutions designed for single-family homes. We are also working intensively and purposefully to establish ourselves in a similar position for commercial properties.

It is satisfying to note our good sales growth as well as the clear improvement in our operating margin. The main reasons for the good growth are the well-positioned, high-performance product range and the positive market conditions for heat pumps in both the US and several European countries. The improvement in operating margin is primarily due to organic growth and successful integration efforts,

particularly of the two major acquisitions completed in 2016/2017. However, some work remains to be done to fully compensate for the dramatic increases in material prices.

During the year, another two strategic acquisitions were made. The acquisition of Alfa Laval's business for district heating/cooling systems is a good addition to the business area's already strong and wide range of heat pumps. The acquisition of the remaining 55% of shares in the Italian ventilation and air conditioning company Rhoss is another step towards seriously establishing ourselves in the commercial climate control segment.

NIBE Element

NIBE Element continued its successful concept of offering the market a comprehensive, reasonably priced range of intelligent, sustainable, high-quality system solutions. This concept is based on both local presence in many countries and coordination of the units' respective strengths in systems solutions.

The lower operating margin is due partly to the delivery of a few large project orders with a good operating margin in the first six months of last year and partly to the less favourable product mix.

Our wide geographical distribution means there is good capacity to cope with both currency fluctuations and trade barriers. However,

this requires constant rationalisation and automation of the manufacturing units. Workplace health and safety is also a high priority.

Another two large acquisitions and several small bolt-on acquisitions were completed during the year. The acquisition of the US company BriskHeat, along with two small acquisitions in the same area, have made us the world leader in cloth heating jackets, which are primarily intended for the semiconductor industry. With the acquisition of the EMIN Group, which mainly produces coupling systems for fluids and operates in Turkey and Serbia, we have further strengthened our offering, particularly for customers in the climate control segment. A small bolt-on acquisition was also completed in the Czech Republic.

NIBE Stoves

NIBE Stoves has continued its stable growth, although the hot summer in Europe generally reduced overall demand. Thanks to our position as market leader, strong brands and an attractive product range, we were nevertheless able to improve both sales and market share.

To truly meet our own high sustainability requirements, we continue to focus our development resources on further improving combustion efficiency and even lower emissions. As a market leader, we also see this as a continuous work in progress.

The lower operating margin is primarily due to major long-term investments in product development and marketing, while the imple-

mented price increases have not yet fully compensated for the price increases on input material.

During the year, one strategic acquisition was made. As one of the leading suppliers of electric stoves, the British company CK Fires favourably expands our product range.

Good delivery reliability

To achieve our target for delivery reliability in Q3 and Q4, when the traditional high season begins, stocks of inputs and finished products were built up in the first half of the year in all three business areas. We can now conclude that we coped well with the high season with no delivery problems and that our stockbuilding was sound.

Level of investment reflects growth rate

The level of investment in the Group's continuing operations amounted to SEK 777 million (SEK 536 million) in 2018, compared with a depreciation rate of SEK 691 million. The level of investment over the next few years is expected to be just greater than or equal to the depreciation rate.

Good earnings performance

Operating profit improved by 20.7% compared with the previous year and the operating margin increased from 12.3% to 12.6%. The most significant contributing factor to the improved operating profit is organic growth, but acquired sales also help, and, to some extent, the weakened Swedish currency. The improvement in the operating margin is due to recovery of the operating margin in the NIBE Climate Solutions business area.

Profit after net financial items improved by 22.2% compared with the previous year. As a result, the profit margin improved to 11.8% from 11.5% in the previous year.

Next interim target

When we launched our four financial targets more than 25 years ago (see detailed descriptions on pages 38-39), we were a relatively small, privately owned company with annual sales of SEK 300 million.

The announcement of a minimum operating profit of 10% was hardly cause for anyone at the company to bat an eye, since profitability in principle has always been good. Nor has our minimum equity/assets ratio target of 30%, or 20% of return on equity, been cause for concern, largely because we had also achieved this in the past. What was perceived as something new and highly aggressive was our annual growth target of 20%, half of which would be organic and half through acquisitions. Although historically organic growth had been positive, no businesses had essentially been acquired. From a purely mathematical perspective, this growth target meant that we would double sales every four years while maintaining profitability. Was this possible?

When NIBE was listed in 1997, external reactions were much the same as the internal ones were a few years earlier. Was the growth target realistic?

It is therefore with great satisfaction that as we look back on 2018, we can see that we have passed the interim sales target of SEK 20 billion by a good margin and that our average growth rate over the past 25 years has been 19% – just shy of our target.

Two crucial factors for the healthy sales and profitability performance are our company philosophy, built on clear long-term goals, principles and values, and the accelerating transition to a more sustainable fossil-free society.

It is against this background that we should view our next interim sales target of SEK 40 billion by 2025, that is, unwavering confidence in the Group's future.

The trend towards a sustainable, energy-efficient, fossil-free and connected society can be likened to an avalanche that cannot be stopped. This means that market conditions will scarcely be a constraint. As has so far been the case, the challenge will instead lie in



Gerteric Lindquist, Managing Director and CEO

how well we succeed in continuing to live by our vision and to actualise our company's philosophy in our daily work. If we succeed, we will continue to be tough to beat and able to set bold new targets.

Outlook for 2019

- Our corporate philosophy and our strong range of products, with their focus on sustainability and energy efficiency, are in tune with the times in which we are living.
- We are well prepared to be proactive on acquisitions.
- Our internal efforts to enhance efficiency, combined with our rigorous cost control measures, will guarantee persistently healthy margins.
- As with previous years, the effects of economic trends, currency concerns, volatile energy prices and political turbulence in some parts of the world are hard to predict, but we remain cautiously positive about the year overall.

Markaryd, Sweden – March 2019


Gerteric Lindquist
Managing Director and CEO



An investment in NIBE shares has yielded good returns

Our focus on world-class sustainable energy solutions has produced over 20 years of profitable growth and a growing international presence. This has been a good investment for those who have been shareholders in NIBE Industrier since its initial public offering back in 1997.

Ambitious financial targets with a high level of compliance

NIBE has had average annual sales growth of nearly 18% since 1997 combined with an operating margin of between 10% and 13% and an average return on equity of just over 17%.

Since 1997, the share's total return has averaged 23% annually.

Meeting the demand for energy conservation

NIBE is well positioned thanks to the combination of several drivers that create continued demand for energy-efficient products.

Strong sustainability profile

We have long developed our products with the vision of creating world-class sustainable energy solutions in parallel with a focus on using resources in our business and value chain respectfully.

Continued growth in fragmented markets

NIBE's markets are characterised by their fragmentation, and thus the scope for continued consolidation remains good.

Dedicated management with a long-term view

Since its initial public offering, NIBE has had highly stable management.

Economies of scale generate profit for the Group's companies

NIBE's size creates economies of scale for all companies in the Group in several areas: joint purchasing, production efficiency expertise and an open product development environment, which accelerates time-to-market and provides opportunities for technology transfer.

A well-developed acquisition process

NIBE has a well-developed acquisition process and clear intentions for the companies and their existing management teams, which helps preserve market position and strong management.

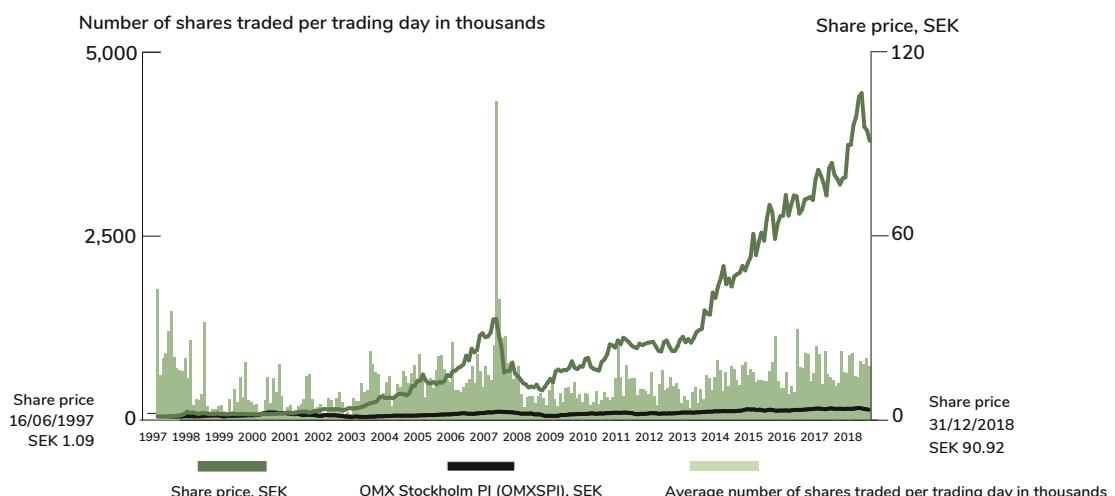
Strong corporate culture

With its roots in Småland, NIBE has an unmistakable entrepreneurial spirit and clear values that guide the entire Group.

Huge market potential

Our ambitious growth targets stem from our view that there is still great potential for both organic and acquisition-driven growth on a global scale.

Share performance, 1997-2018



Data per share

		2018	2017	2016	2015	2014
Number of shares	no.	504,016,622	504,016,622	504,016,622	462,455,387	462,455,387
Average number of shares	no.	504,016,622	504,016,622	469,382,260	462,455,387	462,455,387
Year-end share price	SEK	90.92	78.60	71.80	67.83	47.90
EPS (after tax)	SEK	4.11	3.38	2.93	2.67	2.12
Equity per share	SEK	30.57	25.41	24.06	16.06	14.19
Proposed dividend	SEK	1.30	1.05	0.88	0.80	0.64
Price/equity	times	2.97	3.09	2.98	4.22	3.38
Dividend yield	%	1.43	1.34	1.23	1.18	1.34
Total yield	%	17.33	10.93	7.15	43.28	40.41
Operating cash flow/share	SEK	2.21	3.15	2.90	3.36	2.37
Payout ratio	%	31.6	31.1	30.0	29.9	30.3
PE ratio (after tax)	times	22.1	23.3	24.5	25.4	22.6
Market capitalisation	SEK m	45,825	39,616	36,188	31,367	22,150
EBIT multiple	times	18.3	19.3	21.3	21.7	20.2
EV/sales	times	2.30	2.38	2.75	2.78	2.54
Share turnover	%	36.1	35.1	34.8	32.7	31.7

Definitions

Earnings per share (after full tax)

Earnings after tax divided by average number of shares.

Equity per share

Equity divided by number of shares.

Price/equity

Share price divided by equity per share, both as at end of period.

Dividend yield

Dividend as percentage of year-end share price.

Total yield

Change in share price for the period, plus dividend, as a percentage of share price at preceding year-end.

Operating cash flow/share

Cash flow after investments but before acquisition of companies/operations divided by average number of shares.

Payout ratio

Dividend as a percentage of earnings per share.

PE ratio (after tax)

Year-end share price divided by earnings per share.

Market capitalisation

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

EBIT multiple

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

EV/sales

Market capitalisation plus net debt (interest-bearing liabilities less financial current assets) plus non-controlling interests divided by net sales.

Share turnover

Total number of shares sold during the period as a percentage of number of shares.

Changes in share capital

	Increase in share capital (SEK)	Quota value (SEK)	Total number of shares	Total share capital (SEK)
1990 New share 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 share 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
2006 Split 4:1 ⁴⁾	–	0.625	93,920,000	58,700,000
2011 New share issue ⁵⁾	10,074,648	0.625	110,039,437	68,774,648
2012 New share issue ⁶⁾	133,876	0.625	110,253,638	68,908,524
2016 Split 4:1 ⁷⁾	–	0.15625	441,014,552	68,908,524
2016 New share issue ⁸⁾	9,844,073	0.15625	504,016,622	78,752,597

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

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

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

⁴⁾ Change in the quota value of each share from SEK 2.50 to SEK 0.625.

⁵⁾ Private placement to the former owners of the Schulthess Group at a subscription price of SEK 108.25 per share.

⁶⁾ Private placement to the former owners of the Schulthess Group at a subscription price of SEK 102.00 per share.

⁷⁾ Change in the quota value of each share from SEK 0.625 to SEK 0.15625.

⁸⁾ Private placement to the Company's shareholders at a subscription price of SEK 48.00 per share.

NIBE share performance 2018

NIBE's class B share is listed on Large Cap, Nasdaq Nordic under the name NIBE Industrier AB with ISIN code SE0008321293 in the Construction & Materials sector. NIBE was registered on the OTC list of the Stockholm Stock Exchange on 16 June 1997 following the issue of 1,170,000 new class B shares. The subscription price was SEK 70 per share. This corresponds to SEK 1.09 per share following the 4:1 splits carried out in 2003, 2006 and 2016. Private placements were conducted on two occasions since the initial public offering: in 2011/2012 with an issue of 65,334,552 B shares in conjunction with the secondary listing on the SIX Swiss Exchange, and in 2016 when 7,391,566 A shares and 55,610,504 B shares were issued.

Share capital

NIBE Industrier AB's share capital totals SEK 79 million and is divided into 58,532,590 class A shares and 445,484,032 class B shares. The quota value is SEK 0.15625 per share. Each class A share carries ten votes at General Meetings and each class B share carries one vote. All shares have equal rights to dividend. At the end of 2018 the company had no outstanding convertible loans or options that could risk diluting the share capital.

Secondary listing

Following the new share issue in 2011, NIBE's class B shares are now also listed on the SIX Swiss Exchange.

Share performance and turnover

In 2018, NIBE's share price rose by 15.7%, from SEK 78.60 to SEK 90.92. The OMX Stockholm_PI decreased by 7.7% during the same period. At the end of 2018, NIBE's market capitalisation, based on the latest price paid, was SEK 45,825 million. In 2018 a total of 181,816,664 NIBE shares were traded, corresponding to a share turnover of 36.1% over the year.

Dividend policy

The aim is, over the long term, to pay a dividend equivalent to 25-30% of Group profit after tax. The Board proposes a dividend of SEK 1.30 per share for the 2018 financial year, which equals 31.6% of Group profit after tax.

Shareholders

The number of shareholders continued to increase during the year. However, because of Swiss reporting regulations, it is, in principle, impossible to determine the current total number of shareholders for the Group's secondary listing on the SIX Swiss Exchange. Excluding these Swiss-registered owners, NIBE had 44,422 individual shareholders at the end of 2018, compared with 40,745 at the same time last year. The ten largest shareholders held 57.3% of the votes and 43.6% of the capital.

Analysts

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

Karl Bokvist, ABG Sundal Collier

Max Frydén, Danske Bank Markets

Olof Larshammar, DNB Markets

Marcela Klang, Handelsbanken Capital

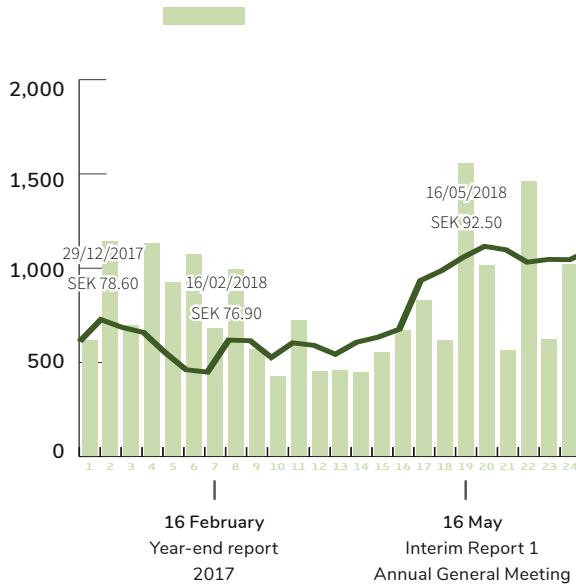
Carl Ragnestam, Nordea Markets

Clara Jonsson, SEB Equity Research

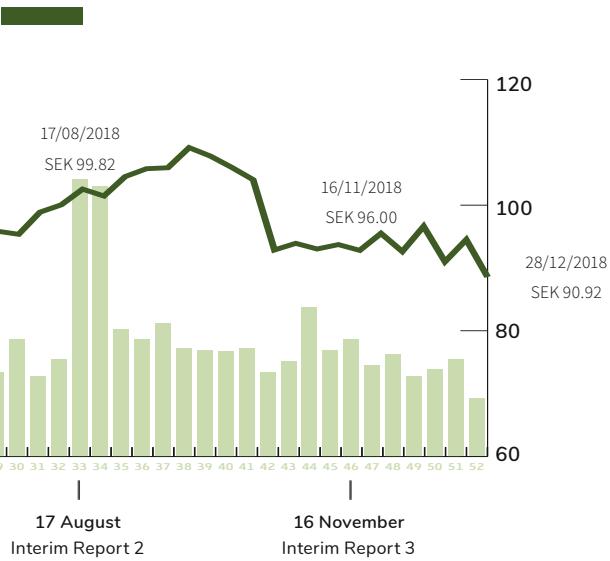
Douglas Lindahl, Kepler Cheuvreux

The share in 2018

Number of shares traded per trading day in thousands



Share price, SEK



Press releases during the year

First quarter

15 Jan NIBE acquires 60% of the shares in BriskHeat Corporation in the US
 16 Feb NIBE's year-end report 2017
 27 Mar NIBE acquires Alfa Laval's district heating/cooling business

Second quarter

16 Apr Notice of NIBE's 2018 annual general meeting
 16 Apr NIBE's Annual Report is published
 16 May NIBE's Interim Report 1 2018
 17 May Annual General Meeting of Shareholders

Third quarter

5 July NIBE acquires EVONIC FIRES in the UK
 17 Aug NIBE's Interim Report 2 2018
 20 Aug NIBE acquires EMIN Group with operations in Turkey and Serbia

Fourth quarter

17 Oct NIBE acquires remaining 55% of the shares in Italian ventilation and air conditioning company Rhoss S.p.A.
 16 Nov NIBE's Interim Report 3 2018

Major shareholders

(Source: Euroclear Sweden share register 28/12/2018)

Shareholders	Number of shares	Number of votes (%)
Current and former Board members and senior executives ¹⁾	107,603,243	46.54
Melker Schörling	54,927,359	20.34
Alecta Pensionsförsäkring	32,076,672	3.11
SSB and Trust Co, W9	26,884,008	2.61
Didner & Gerge Aktiefond	17,964,942	1.74
Lannebo Småbolag	9,350,600	0.91
BNY Mellon NA (Former Mellon), W9	8,571,831	0.83
CBNY-Norges Bank	5,956,115	0.58
JPM Chase Bank NA	4,770,000	0.46
JPM Chase NA	4,767,638	0.46
Andra AP-fonden	4,214,556	0.41
SIX SIS AG W8IMY	4,043,050	0.39
Svenska Handelsbanken, Småb.fond	4,000,000	0.39
Other holdings (44,387 shareholders)	218,886,608	21.23
Total	504,016,622	100.0

¹⁾ For current Board, see page 136.

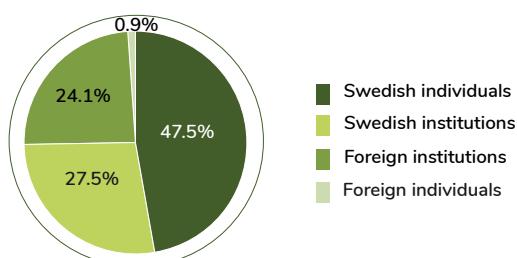
Shareholder structure

(Source: Euroclear Sweden share register 28/12/2018)

Number of shares	Number of owners	Number of owners (%)	Number of shares	Number of shares (%)
1 – 500	30,633	68.96	3,947,131	0.78
501 – 1,000	4,401	9.91	3,541,730	0.70
1,001 – 5,000	6,248	14.07	15,212,124	3.02
5,001 – 10,000	1,319	2.97	9,547,114	1.89
10,001 – 20,000	899	2.02	13,139,496	2.61
20,001 –	922	2.07	458,629,027	91.00
Total	44,422	100.0	504,016,622	100.0

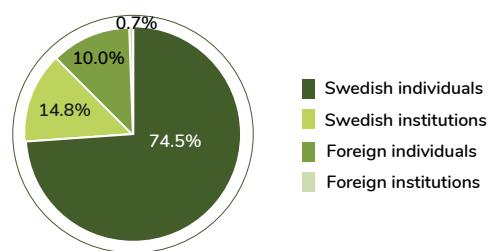
Share of capital, %

(Source Euroclear sharebook 2018-12-28)



Share of voting rights, %

(Source Euroclear sharebook 2018-12-28)



Business focus

We supply the market with world-class solutions in sustainable energy through intelligent, environmentally friendly products for indoor climate comfort and domestic hot water heating designed for both single-family houses and larger properties. The product range comprises both individual heating products and systems for heating, air conditioning, ventilation and heat recovery as well as local energy production.

Business objective

Our business objective is to consolidate our market-leading position in Europe and North America. The number of domestic markets will gradually be increased by acquisitions, the establishment of subsidiaries or the use of other well-established sales channels.

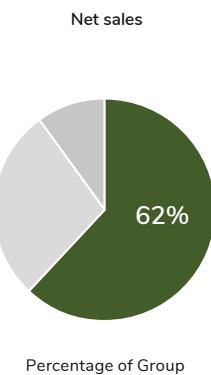
Targets

Growth target

We will achieve growth of at least 20% annually, of which half is organic.

In 2018, total growth was 18.6% (25.4%), of which 15.9% (3.5%) was organic. This means that organic growth was 12.4 percentage points higher than in 2017.

Growth has been 20.0% on average over the last five years.

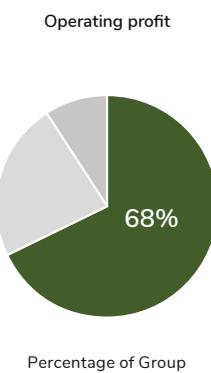


Operating margin target

The operating profit will be at least 10% of sales over a business cycle.

The operating profit in 2018 was 13.8% (13.3%) of sales. This means that the operating margin improved by 0.5 percentage points compared with 2017.

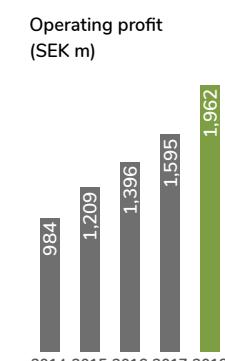
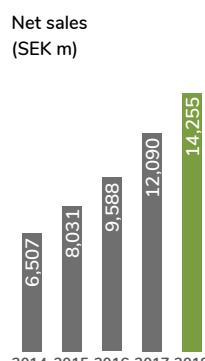
The operating margin has been 14.2% on average over the last five years.



Figures for 2018

In 2018, the Climate Solutions business area increased its net sales by 18.6% compared with 2017. The increase is primarily attributable to organic growth.

The operating profit for the business area increased by 23.0% compared with 2017. The increase is mainly due to increased sales and good cost control.



Intelligent climate control solutions

At NIBE Climate Solutions, we operate an extremely healthy business, and it feels very satisfying that we have taken a clear initiative on climate issues. We do this by accelerating the conversion of old and environmentally unsound technology based on the use of fossil fuels to more modern, intelligent and environmentally friendly product solutions that improve energy efficiency and leverage renewable energy. The global trends of electrification and continued digitalisation that aim to reduce our dependence on fossil fuels both validate and benefit our business. Our new digital concept, in which the heat pump is becoming more integrated in the intelligent home, is very much based on ease of use. The message "it's easy to be smart" signals that it is easy to be intelligent while protecting the climate and the environment.

Knowledge creates willingness to change, and the world listens

Selling our products and intelligent solutions for indoor climate control requires knowledge on the part of customers and society. An understanding of heat pumps is well established in northern Europe, but more efforts are needed in other markets to raise awareness of the technology steps needed for energy conversion and for promoting climate action throughout the world. In addition to traditional marketing, an intensified dialogue is under way with stakeholders in our various markets around the world.

In the last quarter of 2018, we initiated a targeted consumer campaign in the North American market that will run for three years and raise awareness of – and demand for – surface and geothermal pumps as a viable solution for the climate control of single-family homes. The goal is to reduce our dependence on government tax subsidies in the United States in the long term.

We are part of the energy transition, and more countries are taking greater steps to accelerate it. In the United States, government tax subsidies were reintroduced in early 2018 for the installation of surface and geothermal heat pumps. In the Netherlands, the government has adopted a green agenda whose vision is to convert to fossil-free heating and cooking (gas stoves). This means that the country's entrenched gas network should be fully phased out by 2050.

Commercial properties a growing segment

In addition to our strategy of positioning ourselves as a leading end-to-end provider of intelligent, sustainable climate control solutions designed for single-family homes, we have taken several steps to create a similar position in the market for commercial properties.

We hold a strong position with a product range for major commercial property projects throughout North America. The North American market is dominated by airborne systems for indoor climate comfort, so it is natural for us to offer products with a high energy-recovery rate in the ventilation arena as well, both for commercial and institutional and industrial applications.

With the acquisition of the remaining 55% of the shares in the Italian ventilation and air conditioning company Rhoss, we are also increasing the rate of our investment in climate control of large properties via our own well-established platform in Europe. The indoor climate of European commercial properties is also dependent on large ventilation systems that bring in fresh air and provide air conditioning during warm weather.



”It is part of our DNA to take advantage of the renewable energy created by nature.

**Klas Dahlberg,
Business Area Manager, NIBE Climate Solutions**

New digitalised platform

Ongoing investments in new products are crucial to being competitive in the market. During the year, we put much effort into our new digitalised platform for the smart home. In brief, this means that the heat pump is connected via the internet and wireless sensors in the home and can thus be adapted to a household's activities to further reduce energy consumption. The entire system can be easily monitored, even at a distance, by both the residents and the service technician.

Yet another intelligent climate control solution

With the acquisition of Alfa Laval's business for district heating/cooling systems, we have gained access to a high-quality product range under the well-known brands Cetetherm and Uranus. This also creates an opportunity for us to invest in 'cold district heating networks', where heat with a temperature of only 10-30 degrees is distributed from the district heating substation. This is then combined with a heat pump closer to the property. Yet another sustainable climate-control solution we can offer in urban areas.

We contribute to achieving climate goals

Our mission to help improve the climate looks incredibly promising. As we grow, so does our ability to contribute more substantially to a world full of environmentally friendly, intelligent and energy-efficient solutions for indoor climate comfort. The potential for our mission is excellent, considering all the properties that do not yet have our type of solutions but instead use fossil-fuel solutions.

Products that make the sustainable society of the future possible

NIBE Climate Solutions offers a wide range of products for intelligent, energy-efficient indoor climate comfort, including heating, air conditioning, heat recovery, ventilation and water heating for homes, apartment blocks and commercial properties. Most of our solutions are based on recovering renewable energy from soil, rock, sun, water or air.

Our products, which can be combined in system solutions with both existing and new systems, can be divided into the following categories:



Heat pumps

The principle is based on indirectly extracting energy from the sun, which is stored in rock, soil, air and water or surplus heat from ventilation exhaust air. The heat can be distributed in both waterborne and airborne systems, used to heat water and stored in an accumulator tank.



Ventilation products and air conditioning

Fresh air ventilation with heat recovery via the heated exhaust air, and products for generating air conditioning for single-family homes, large properties and industrial applications.



Climate control systems for large properties

Large residential properties and commercial properties usually have a climate control system that ensures good ventilation, a steady temperature and the correct humidity in all seasons. This requires system solutions that combine heating and air conditioning systems as well as ventilation units with heat recovery in which a heat pump produces heat, hot water and air conditioning.



Water heaters and accumulator tanks

Water heaters that are designed for energy-efficient heating either with electricity, a heat pump or solar panels. Accumulator tanks that make use of the heat from a wood burner or heat pump, designed for both single-family homes and installations in large properties.



District heating products

Local or district heating centre for distributing district heating to individual properties.



Solar panels

Solar power generated from solar cells that can be combined with a heat pump and/or sold to a power producer.



Domestic boilers

Wood-fired or pellet-fired boilers that are connected to an accumulator tank.



Commercial washing machines and tumble dryers

Washing machines and tumble dryers for large apartment blocks, hotels and hospitals.

NIBE ADDS VALUE

Klövern protects the environment with ground-breaking initiatives in air/water and solar cells

Swedish property company Klövern has made a bold move towards energy efficiency.

In 2017 the company decided to increase energy efficiency in one of its industrial properties, which houses an auto workshop and vehicle inspection centre, in order to lower operating costs and cut the pipes to the district heating system. Having had good experiences with geothermal heat pumps from NIBE, this time Klövern chose to test a completely new combination based on five 20 kW air/water heat pumps and solar panels with the capacity to generate 24,000 kWh per year.

"Previously we bought 253,000 kWh of district heating annually, and with NIBE's heat pumps we only need to use 73,000 kWh of electricity per year. Since we generate 24,000 kWh of solar energy, we only need to buy about 49,000 kWh. It's great, and we expect to get a return on our entire investment in about seven years. It's impressive how good air and water heat pumps have become, and nowadays they seem as efficient as geothermal heating and very reliable. The fact that we could then achieve fantastic overall cost efficiency with substantial support from solar makes the costing very attractive, and I look forward to more projects like this in our property portfolio," says Tobias Ljungkvist, operating technician at property company Klövern.



Brands



Product development and production that make a contribution

Extensive product development and several development centres

Product development is done at all our manufacturing subsidiaries. NIBE has product development centres focusing on the development of heat pumps and systems for indoor climate comfort not only in Sweden, but at other locations in the Nordic countries, Europe and North America.

Product development focuses on continuous improvement in performance, intelligent controls and the designing of systems in which renewable energy production is linked to climate systems and energy recovery via heat pumps. Software development is a major focus. Development costs correspond to approximately 3% of sales.

Synergies

There is continual growth in the international exchange and collaboration between the product development departments at our various companies, resulting in positive effects in the designing of new products in terms of both time-to-market and level of technology. The transatlantic development collaboration between our European and North American product development centres aims to combine European cutting-edge technology in heat pumps built for water-borne systems with the North American tradition of using airborne systems for both heating and air conditioning.

Development to achieve climate goals

Sustainability is an important factor throughout a product's life cycle. Proactive market-based product development has several target criteria. Our products must be resource-efficient in both production and operation and thus help reduce climate impact. Among other things, we anticipated the EU F-Gas Regulation, which entered into force in 2015 to reduce emissions from fluorinated greenhouse gases (F-gases) used as refrigerants in heat pumps and air-conditioning products. Since the 1990s, we have been using R290, a lower impact gas, in many of our heat pumps.

We develop our products according to certain main criteria:

- *Continuous improvement of energy efficiency*
- *Utilise renewable energy*
- *Higher output via advanced control*
- *Convertible (heat in winter/air conditioning in summer)*
- *Recyclable*
- *Environmentally adapted*
- *Better design*
- *Better overall cost efficiency*

Efficient in-house production

Production takes place in some twenty modern plants in 11 countries in Europe and North America and is continuously streamlined through automation and mechanisation. Our production units in Sweden, Germany and the US are the business area's biggest plants.

Manufacturing methods in the NIBE Group are evaluated regularly to optimise production processes and reduce environmental impact. The strategy is to gradually build up several specialised manufacturing units.

We invest continuously in all production units to improve the opportunities for cost-efficient production for both domestic markets and segments in our other priority markets that face fierce price competition. In 2018, we invested SEK 404 million (SEK 322 million) in our production facilities.

The good volume growth in Europe and North America in 2018 made it necessary to dramatically increase our workforce. This, combined with well-planned stockbuilding during the first six months of the year, has enabled us to maintain good delivery capacity throughout the year. However, low unemployment in North America has made it difficult to employ production staff.

Part of our production is in the Czech Republic, Poland and Russia, all of which have lower production wages relative to central and western Europe.

However, thanks to its modern, highly efficient production facilities in both high-cost and low-cost countries, we believe that NIBE Climate Solutions is well placed to assert itself in tomorrow's international market for climate control products.

Quality and environmental certification

We are working to introduce certified quality and environmental management systems for all our production units with more than 10 employees. We aim to introduce these systems within two years after acquiring a business. With several newly acquired units, this means that five companies are in the process of becoming certified to ISO 9001 and six companies to ISO 14001. To create the same structured, systematic approach to improving the working environment and reducing the risk of accidents, the management systems are being expanded to include the working environment as well.

Production management

The production of bulk products is based on forecasts. Large customised systems for commercial properties are manufactured to order.

Joint purchasing

Purchases of large shared volumes of inputs are coordinated within the business area and the Group.

NIBE's heat pumps are part of the solution for a greener Netherlands



The government of the Netherlands has adopted a green agenda with the vision of being a fossil-free nation by 2050.

Gas is to be completely phased out within 35 years, which means that today all seven million homes will require a different solution. A step has already been taken by abolishing the requirement that newly built houses must have gas as the energy source for heating and cooking. In addition, homes connected to gas are already being disconnected from the network. The disconnection began in 2017 and has involved 340,000 homes up to the end of 2018.

Heat pumps are a vital part of the solution and installations of NIBE's air/water heat pump range has increased significantly. The reasons for their popularity are obvious. With a seasonal coefficient of performance (SCOP) value above 5.0, a heat pump delivers more than five times the heat per year compared with an electric cartridge heater with the same energy consumption. In addition, it provides optimal savings as the heat pump automatically adjusts to the home's power needs year-round.

In the Kortenoord district of Wageningen, a new and innovative housing project that takes a sustainability approach is under way, and a total of roughly 1,000 homes are being built without a gas pipeline. The houses have optimum insulation and are equipped with new energy-saving products such as heat pumps, solar panels and solar water heaters.

Market drivers and trends

A global transition to more sustainable solutions

A fundamental driving force for our products is the necessary global transition to more sustainable energy solutions to reduce negative climate impact and conserve the earth's finite resources. According to the UN Environment Programme, buildings account for roughly 40% of total global energy consumption and emit a third of all greenhouse gases. Reducing greenhouse gas emissions from buildings demands a technology shift. Systems based on fossil energy sources such as oil, coal and natural gas must be phased out in favour of systems based on renewable energy that also require less input energy for the same output power.

The pace of this transition is driven by several factors:

- *Energy price developments*, both the prices of fossil fuels such as oil and natural gas and electricity prices.
- *Policy instruments*, direct financial assistance/subsidies for conversion, energy taxes, indirect aid affecting general new or rebuilding costs.
- *Regulatory requirements for products*, including the Ecodesign Directive, which sets minimum requirements for energy performance of products on the EU market. The directive aims to improve products' environmental performance throughout their life cycles. Another example is stricter energy conservation requirements in buildings. These requirements are largely national, but the EU is working to establish common requirements and standards.
- *Smart buildings*, increased demand for better energy performance and control of residential and commercial property climate systems.
- *The property and construction market*, demand for residential and commercial premises as well as economic conditions determine the extent of new construction and renovation.
- *Costs to the end consumer*, for investment and operating costs depending on the type of energy.

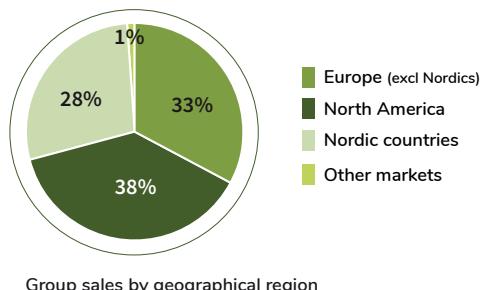
Group trends and business environment factors can be found on page 36.

Electrification and digitalisation are clear trends

The positive drivers for change concerning the climate are reflected in two distinct trends:

Electrification is evident in the transport sector, where hybrid and all-electric vehicles and rail-driven modes of transport are increasing. A change in attitude is also occurring when it comes to electricity as a source of energy for indoor climates. More people are realising that a heat pump consumes less electricity and thus reduces carbon emissions compared with a gas-based heating plant, even if the electricity is produced using fossil fuels. At the same time, expansion and research are under way to generate renewable electricity. Individuals are propelling the trend towards electrification through an increased willingness to invest in renewable electricity. This is evident in the increase in rooftop solar cells.

Digitalisation, where smart home systems are being set up by interconnecting the different parts of the house that affect climate and comfort: heating, cooling, ventilation, thermostat, hot water and algorithms for a household's energy consumption patterns.



Huge market potential

The addressable global market for climate control products is huge. We estimate that it totals at least SEK 1,000 billion, but a conservative estimate tells us that about SEK 500 billion is addressable for our products.

The heating, ventilation and air conditioning (HVAC) sector represents great business potential with good opportunities for future expansion with product solutions for indoor climate comfort. It is estimated that every year, an average of some five million heating units need to be replaced in single-family and two-family homes in the EU alone, including Switzerland and Norway. In addition, during an average year around one million new units are installed in new builds in the same countries. This means that the penetration for heat pumps designed for waterborne distribution is around 5% in the EU. The corresponding penetration rate in the US is less than 2%.

Europe is the base

The proportion of heat pumps in single-family and two-family homes is high in the Nordic countries and competes primarily with district heating in urban areas.

The proportion of heat pumps is lower in the rest of Europe, where gas boilers are predominant. Since boilers are not part of our product range, we remain a medium-sized player in the heating market across much of Europe. In the heat pumps market segment, however, we hold a market-leading position both in the Nordic region and in several other European countries.

Greater political will for sustainable domestic heating

In several European countries there is growing interest among policy makers to address global environmental and climate challenges, which has led to a dramatic market expansion. The governments of England, the Netherlands and

Norway have, in various ways, highlighted their ambitions to phase out heating products that use the fossil fuels oil and gas. Norway has come the furthest, with a total ban on oil-fired boilers from 2020 and an immediate ban for new builds. Similar decisions in England and the Netherlands will gradually require alternatives to gas-fired boilers, which currently dominate the heating market for single-family homes in these two markets.

NIBE Climate Solutions has increased its participation in the debate by continuously informing policy makers in the EU about the heat pump technology, relatively unknown to many, and its efficient use of stored renewable solar energy.

Strengthened position on a growing European heat pump market

We have further strengthened our market position on a growing European heat pump market, which has helped us grow organically in the region. All the Nordic markets have also continued to grow, which benefits us as the market leader in each country. The countries in eastern Europe have also enjoyed growth, resulting in relatively strong expansion for our units. In addition to increased demand, systematic and successful marketing has resulted in increased market share.

Subsidy to be reintroduced in US

On the North American market, the reintroduction of government tax subsidies for the installation of geothermal heat pumps in single-



The trend towards electrification, with increased expansion and research for generating renewable electricity, also builds interest in our products, which help lower carbon emissions.

family houses in the US was crucial to the positive market trend. The market decline in 2017 was a direct consequence of the removal of the subsidies.

With our experience from the European market, we are investing in a long-term consumer campaign to raise awareness of the necessity of conversion from fossil to renewable alternatives for indoor comfort in homes and on geothermal heat pumps as a sustainable solution for the climate control of single-family homes. The objective is to reduce dependence on government tax subsidies and to strengthen a market expansion of self-generated power in North America.

Commercial properties increasingly important

The international market for climate control products in commercial properties is becoming increasingly important. The market for commercial properties continued to grow in both North America and Europe. Recent acquisitions have further increased our competitiveness in this area. We see great potential for both new installations and replacement with modern technology in Sweden and worldwide. We are therefore developing the product range and evolving the organisation to boost our market share in this area, both on the domestic market and internationally.

Stable market for water heaters and district heating

Demand for traditional water heaters has remained stable in both the Nordics and the rest of Europe. Under the Ecodesign Directive, these products are subject to stricter specifications for better insulation and control. We are already compliant thanks to our focus on product development. Water heaters that provide for an entire household's hot-water needs must also be supplied with a heat-pump module to meet the standard requirements.

Both the Nordic and European markets for district heating products has remained relatively stable, while sales of pellet-fired products and conventional domestic wood-fired boilers have remained sluggish.

Fragmented market

The market for our lines of business remains fragmented and there are many manufacturers, both large and small. We are continuing to grow, yet the competition is growing. Large international HVAC groups are also focusing on energy conservation and more environmentally sound products.

Business model

Own subsidiaries

Via our international presence, we have a comprehensive distribution system for each market with our own subsidiaries or local importers/agents. The products are principally distributed either to wholesalers or directly to installers. The local installer is usually the end consumer's closest contact and the person who ultimately sells and installs the product. There may be different distribution systems on the same geographical market if we are represented by several operators.

The entire chain through to end user is vital

Our end customers are private homeowners and owners of rented properties and commercial premises. Other partners who have a strong influence in the decision-making process are installers, architects, planners, design engineers, house builders, consultants and energy consultants.

Several operators are involved in the commercial properties segment and the systems have grown in complexity, so the decision-making process tends to take a long time. At the same time, there is increasing direct contact between us as the producer and end customers, as deliveries are often made directly to the property.

We market our products through several channels to our end customers, but also to different partners. We also enhance our relationships by continuously offering training in our respective product groups and visits to our facilities.

Business focus

We provide the market with world-class solutions in sustainable energy by supplying both manufacturers and users with components and solutions for intelligent heating and control.

Business objective

NIBE Element will be one of the leading suppliers in the world, and its local presence and full range will be marketed on a growing number of domestic markets by means of suitable acquisitions or start-ups. Medium-sized series are marketed by country or industry, while unique special products and large bulk products are marketed globally.

Targets

Growth target

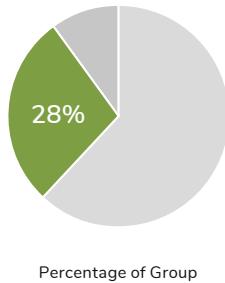
We will achieve growth of at least 20% annually, of which half is organic.

In 2018, total growth was 24.4% (20.0%), of which 9.1% (9.5%) was organic. This means that organic growth was 0.4 percentage points lower than in 2017.

Growth has been 17.6% on average over the last five years.



Net sales



Operating margin target

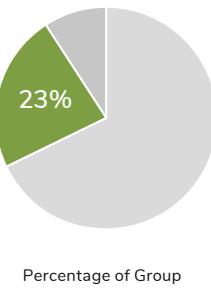
The operating profit will be at least 10% of sales over a business cycle.

The operating profit in 2018 was 10.2% (11.0%) of sales. This means that the operating margin decreased by 0.8 percentage points compared with 2017.

The operating margin has been 10.2% on average over the last five years.



Operating profit



Figures for 2018

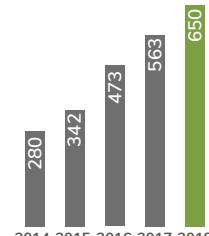
In 2018, the Element business area increased its net sales by 24.4% compared with 2017. The increase is attributable to acquisitions, consistent marketing and a strong market position.

The operating profit for the business area increased by 15.5% compared with 2017. The increase is mainly due to increased sales and good cost control.

Net sales (SEK m)



Rörelseresultat (Mkr)



Industrial global partner

We have created competitive units in their respective market segments through purposeful and consistent work with acquisitions and structural measures over several years. Technological development in general is constantly creating new business opportunities for us, and by refining our offerings with increased technology content we are also expanding our range to high-tech industries.

Geographically dispersed operations

We have a sales and production strategy that go hand in hand. To remain relevant as a supplier and partner, we must be able to offer cost-effective components and products with greater value added close to the customer. With geographically dispersed production facilities, we also have a better chance of addressing changes in labour supply, payroll expenses and trade tariffs. During the year we established the production of foil elements for the automotive industry in Vietnam as well as via the acquired production of cloth heating jackets in the US and Vietnam. In Turkey and Serbia, we established the production of fluid coupling systems via an acquisition.

World-leading supplier to the semiconductor industry

In our efforts to be one of the market leaders on the industrial market in North America, the year began with the acquisition of BriskHeat in the US. The company is a world leader in the cloth heating jackets segment, primarily for the semiconductor industry but also for laboratories and research. We see a growing long-term demand in this industry thanks to the increased use of electronics, especially in the automotive industry as it transitions to more sustainable transport solutions.

Niche player in surface heating

February saw the acquisition of Swedish company Hemi Heating, a niche player that develops and produces flexible surface heating systems with a focus on the highest quality and service levels for customers who demand the best. The company offers a wide range of heating products with control options. At the same time, we also acquired the industrial company Cellnergy in Singapore, which also specialises in surface heating.

Coupling systems – a new product range

At the end of the year Turkish EMIN Group was acquired, a manufacturing company with modern, highly automated production in Turkey and Serbia. The company's main products are fluid coupling systems sold to manufacturers of energy equipment. NIBE Climate Solutions was formerly EMIN's largest customer.



“ We continue to realise our established business objective of becoming a global supplier of components and solutions for intelligent heating and control through acquisitions and organic growth.

Christer Fredriksson,
Business Area Manager for NIBE Element

Continued robotisation and automation

We continue to work intensively to improve the competitiveness of our units in each market segment. This includes further investments in areas such as industrial robots and automation, along with measures to boost productivity. These measures are also being taken in our low-cost units to balance higher employee benefit expenses, employee turnover and staff shortages, and to attract more qualified employees to our type of industry. In parallel, we are taking several measures to create a more sustainable and attractive work environment. Expanding on additional Asian markets outside of China also gives us access to alternative low-cost production. These actions are essential if we are to maintain a stable operating margin at the established target of 10%.

Components and solutions that save energy

NIBE Element offers a wide range of components and solutions for intelligent heating and control that minimise energy losses. The offering is aimed at several market segments ranging from producers of highly specialised industrial systems to producers of consumer products.

We are steadily expanding our product range to include more technologies to meet customer requirements for energy optimisation and heating in various applications. We deliver components as well as complete solutions with fully assembled system products or unique customised solutions. We also offer measurement and control options, as well as tests and simulations in customer product development processes.

Energy efficiency in many sectors

Our customers are in a wide range of sectors, and our offerings help their products benefit end users in a variety of areas:

Domestic and household appliances

A complete range adapted for large-scale bulk production of solutions for heat generation and control for domestic and household appliances.

HVAC – for control and regulation of indoor climate

Includes converters and soft start relays that increase the service life of electric motors by protecting them from sudden loads. Heat exchangers that deliver stable heat adapted to actual demand while ensuring low heat loss.

Commercial products, professional kitchens

Customised solutions but also standard components based on various techniques such as thick film, vacuum brazing and heat pump modules, all adapted to international regulations and standards.

Energy sector

A wide range of products for both renewable energy production and the gas and oil industries. For example, electric resistors for wind turbines that improve the power supply quality and permit short interruptions in the grid without the need to shut down the turbine.

Transport – vehicles, rail-based, ships and aircraft

Intelligent solutions for both infrastructure and rail-based vehicles in the railway sector, as well as on-line control and software for equipment control. A wide range of components for the automotive industry, including electric and hybrid vehicles.

Advanced technology, medicine, aviation

Solutions for highly specialised, demanding areas of expertise such as medical equipment/laboratories, electronic and semiconductor equipment for space, defence and industrial robots, all with their specific specifications and rules.

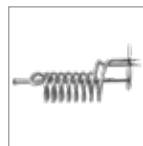
Industry, projects

Customised design and construction, plus installation and commissioning of controller cabinets and associated control panels. Also a wide range of standard components.

Brands

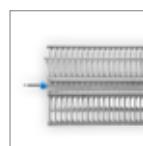


NIBE Element is a world-leading partner in intelligent heating and control. We offer solutions that help conserve energy and add value for several industries such as rail and infrastructure, automotive, lab/medicine, wind and HVAC. Our solutions are at the forefront of today's technology development and are just as current today as they were 70 years ago – especially when it comes to the energy transition occurring on several fronts. We master several technologies that enable our solutions to be manufactured optimally for their application and industry.



Tubular elements

Used for air heating and radiant heat, for example in heating fans, ovens and infrared heaters, and for heating liquids, such as in water heaters, dishwashers, washing machines and process heaters.



Aluminium elements

For optimum heat transfer by means of thermal radiation for use in domestic heaters like radiators and convector and for railway compartment heaters and frost protection.



Foil elements

Foil elements are used, for example, as defrosters in vehicle wing mirrors and camera systems.



Thick film elements

For heat generation in electric kettles, exhaust emission control and copiers.



PTC elements

For rapid heat generation in car heaters, towel rails, air dehumidifiers, air heaters and dryers.



High-power elements

For high output in small spaces, for example heating tools in the plastics, rubber, wood and paper industries, but also for heating liquids in medical and laboratory environments.



Open spirals and tapes

For heating air in tumble dryers and fan heaters.



Heat exchangers

Used for heat exchange between different media, for example in a heat pump's cooling circuit.



Heating cables

Usually in frost protection to prevent ice formation but also to maintain a specific temperature in containers, pipes, valves and gutters and in the process industry.



Heating jackets

Flexible elements that are sewn into synthetic textile for wrapping around vessels or pipes.



Ceramic elements

Ceramic heating elements are placed inside a tube and can therefore be easily replaced without needing to empty the tank or container in which the element is located.



Vacuum brazing

Brazing in a vacuum, a method that ensures high quality and is therefore used in space and aviation technology, medical devices and other clinically demanding applications.



Heat pump technology

Heat pump modules that cool, heat and dehumidify in hot and humid premises, for example in professional kitchens or laundries.



Resistors

Used for control and regulation of electricity. Products include braking resistors and power resistors.



Control equipment

Electronics with processor power and embedded software that can also be connected for remote control and monitoring, where necessary.



Flexible hoses

Fluid coupling system used for energy equipment.

Sustainable product development and production

Our product development is essential to our ability to survive on the competitive global market. Requirements for the various industries and technologies differ significantly in terms of performance and standards. The trend also involves growing demand for system solutions and thus increased technology content. This is also reflected in the fact that control is integrated with the elements themselves, i.e. sensors that are connected to control and monitoring equipment.

We have therefore invested in modern laboratories with well-developed testing facilities, where we collaborate closely with our customers to ensure that the products meet standards and requirements.

Sustainability is an important factor throughout a product's life cycle. Our products must, of course, be produced in a resource-efficient manner, but above all they must be energy-efficient to operate and help reduce climate impact. Product development costs comprise approximately 3% of sales.

Local product development in networks

Greater specialisation combined with proactive, fast-paced development in partnership with our customers is the reason why product development is largely decentralised at our subsidiaries. At the same time, we have an open climate for knowledge exchange between all subsidiaries, a network to which all newly acquired companies also have direct access. During the year, we appointed a head of knowledge and technology transfer who is involved in raising awareness and encouraging our companies to take part. This technology transfer creates continuous synergies that considerably reduce time-to-market in several areas.

Development in four dimensions

Our development process can be divided into four stages:

- *Product development* for brand new products, new functions for existing products and improved properties for existing products.
- *Product customisation* mainly occurs in consultation with the customer to develop unique solutions for the customer's special needs and customised solutions where we take a larger system responsibility.
- *Process development* optimises products in terms of choice of materials, quality and technical performance.
- *Technical production development* improves production in terms of machines, reduced environmental impact, production methods and efficiency.

Production that provides flexibility

Production takes place at some 60 plants in Europe, North America and Asia. Having production plants for bulk products on different continents gives us great flexibility, allowing us to relocate production based on the cost, tariff and currency situation. Our latest establishment of a new production plant for foil elements for the auto industry

in Vietnam boosts our competitiveness and capacity in this interesting segment and gives us additional flexibility.

Local production constitutes an important and major element of our competitive strength for deliveries of small and medium-sized series with short lead times.

For larger series and special products, production is based at specialist units.

More efficient production

Measures to boost productivity and quality are implemented continuously. Action programmes include time studies, improvements in production technology and performance-based pay systems.

Major investment programmes in robotisation and automation are now also taking place in low-cost countries in eastern Europe, China, Thailand and Mexico. It is long-term sustainable investments that contribute to higher, more consistent quality, resource efficiency and an improved working environment.

In 2018, we invested SEK 214 million (SEK 164 million) in production capacity and efficiency.

Quality and environmental certification

We are working to introduce certified quality and environmental management systems for all our production units with more than 10 employees. The aim is for this to be implemented within a two-year period after acquisition. With several newly acquired units, this means that two companies are in the process of becoming certified to ISO 9001 and four companies to ISO 14001. We are also continuously working to reduce the risk of accidents by introducing management systems for the working environment.

Production management

Both forecasts and customer orders determine production schedules, depending entirely on customer category and production volume.

Joint purchasing

Purchases are coordinated for basic commodities such as metals and minerals and for metalworking. Raw materials are hedged in special cases, mainly for specific customer contracts.

Secures electric power in the cold



Backer AB, a company in the NIBE Element Group, supplies heating technology and related control boards to the automotive industry.

The electric vehicle trend is facing fresh challenges. One of them is the cold, which can cause batteries to lose capacity or stop working and thus limit the vehicle's range.

At the request of Scania, which has developed a new electric bus, Backer has produced a solution that heats battery packs with integrated circuit boards that are easy to install in the vehicle assembly. Intelligent electronic control keeps the battery pack at the correct temperature, and the bus passengers arrive at their destination not only sustainably but safely.

Temperature-controlled heating jackets for process industries with high standards



High-quality heating jackets with temperature control are essential for preventing condensation and maintaining uninterrupted processes for semiconductor manufacturers.

BriskHeat, which is part of the NIBE Element business area, is a world-leading manufacturer of high-performance, temperature-controlled heating jackets with production in the US and Vietnam. BriskHeat's heating systems are widely used in sectors such as the semiconductor industry, where elevated temperatures must be maintained within very tight tolerances to prevent condensation build-up and to minimise downtime.

The heating jackets are normally installed on all components of the supply lines to and from the semiconductor production equipment. Thanks to advanced customisation features, the heaters can be mounted around complexly designed production equipment down to 6 mm narrow pipelines, while the proprietary control software meets the high demands of maintaining a uniform temperature throughout the system.

Market drivers and trends

Our operations continue to be affected by developments in the areas of energy and the environment. These developments drive our business, which responds to the need to make end products more energy-efficient and adapted to stricter requirements for reduced climate impact. This is particularly relevant in industries that also have a focus on sustainable development such as wind power, heat pumps, rail-based transport and electric and hybrid vehicles. This is also true for the traditional domestic and household appliances sector as the EU directives are placing tougher requirements on increased energy efficiency. Group-wide drivers and trends can be found on page 36.

Potential to capture market share

The addressable market for NIBE Element's product areas is currently estimated at approximately SEK 50 billion.

The market is generally fragmented, with many local operators and some large regional ones. However, the North American market is more homogeneous and can be regarded as one market. NIBE Element is a global supplier in several product categories of elements.

The markets for our product areas tend to keep pace with national industrial development and growth in GDP.

Positive market development

Overall, the international element market developed positively in 2018, with some variation between market segments. The domestic appliance industry and commercial products grew slightly during the year. With efficient high-volume production located in several countries with competitive cost levels, we have had a good opportunity to meet global customers' demand for high-quality products at competitive prices.

Market segments linked to energy conservation and sustainable development continued to perform well in 2018. We have also launched innovative new products in this area, contributing to good growth.

Although the automotive industry has experienced reduced demand in traditional product segments, the pace of development is high in terms of greater sustainability and environmental friendliness. A growing trend towards electric cars as well as commercial vehicles offers a wealth of new applications for our technologies and products. Market growth in rail-based transport has remained good in both infrastructure and vehicles, and we have successfully established ourselves as a global supplier in these interesting market segments.

Our focus on increasing our added value by supplying intelligent control for our products developed well during the year, above all for inverter control (speed control) for the HVAC industry.

Raw material prices and exchange rates have remained volatile, which is having a considerable effect on competitiveness. Dramatic price increases for some raw materials and input goods have necessitated price adjustments in several market segments.

Business model

Customers in several industries

Our commercial customers in, for example, the professional kitchens and refrigeration industries, are increasingly part of large groups of companies with coordinated purchasing, but they also have regional suppliers. Consequently, it is important to deal with them both centrally and locally.

For industrial products, our aim is to gradually increase our local presence so that we can deliver small runs and specialist products adapted to local needs with short lead times and local technical support.

Where, perhaps for cost reasons, we have chosen not to set up our own manufacturing operations, we have established a presence in the form of a sales and technical support office. We market our products by industry or country, depending on the size and structure of each industry.

Two main customer groups:

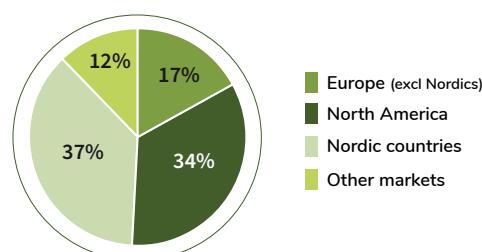
- *Original equipment manufacturer (OEM)*, where the customer buys our products and systems as part of their end product.
- *Industry*, where the components or system solutions are used primarily in the customer's own manufacturing process.

As one of the world-leading operators, we are represented globally and can distribute our products to both these customer groups in a cost-efficient, environmentally sound way, with good service as well as short transport distances.

Marketing

As a subcontractor, NIBE Element markets its offering to the B2B market primarily via trade fairs, sales staff and the internet.

For some large market segments, such as comfort, domestic appliances, wind power and transport, we now have global marketing managers who conduct marketing campaigns with shared sales platforms for groups of subsidiaries.



Group sales by geographical region

NIBE Stoves business area

Business focus

We supply the market with world-class solutions in sustainable energy by offering energy-efficient, value-for-money stove products in attractive designs as well as chimney systems, all developed and manufactured with minimum environmental impact.

Business objective

NIBE Stoves' objective is to supply a wide and complete range of stove products in order to confirm and consolidate its position as the market leader.

Expansion abroad will be supported by the continuous development of products tailored to new markets, combined with moves into new markets through acquisitions, the establishment of new subsidiaries or the use of existing sales channels.

Targets

Growth target

We will achieve growth of at least 20% annually, of which half is organic.

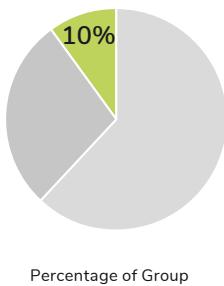
In 2018, total growth was 6.4% (26.6%), of which 4.5% (1.6%) was organic. This is an improvement in organic growth of 2.9 percentage points compared with 2017.

Growth has been 11.3% on average over the last five years.

Objective fulfilment Growth (%)



Net sales



Operating margin target

The operating profit will be at least 10% of sales over a business cycle.

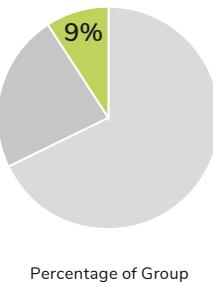
The operating profit in 2018 was 11.2% (12.3%) of sales. This means that the operating margin decreased by 1.1 percentage points compared with 2017.

The operating margin has been 12.1% on average over the last five years.

Objective fulfilment Operating margin (%)



Operating profit

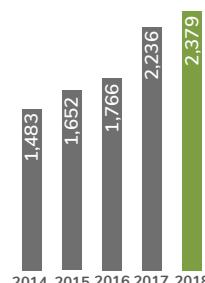


Figures for 2018

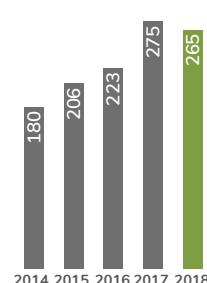
In 2018, the Stoves business area increased its net sales by 6.4% compared with 2017. The increase is primarily attributable to new product launches and consistent marketing.

The operating profit for the business area decreased by 3.6% compared with 2017. The decline is primarily due to long-term investments in product development and marketing, while the implemented price increases have not fully compensated for the price increases on material.

Net sales (SEK m)



Operating profit (SEK m)



Real fires provide warmth and comfort in all settings

A stove with real fire provides cosy warmth and a sense of security. It is therefore a product with positive associations for most people. Our mission is to promote both the benefits and the experience of a stove. As a leading supplier, we have an opportunity to help improve the industry and its products worldwide, which benefits both the end customer and society in general.

Market presence on three continents

Our international expansion has resulted in our products now being marketed on three continents: Europe, North America and Australia. We have a broad, growing product portfolio with 13 brands. Thanks to a high rate of development, we can continuously launch new products with a modern design under our various brands. One of the more acclaimed product innovations in 2018 was "ME" from Norwegian Nordpeis, a new stove concept featuring a totally innovative, fresh design with many option combinations.

Our stoves help to reduce emissions

We participate in the ongoing debate on the environmental impact of particulate emissions from wood firing by offering modern stoves with considerably higher efficiency and thus lower particulate emissions compared with older products. Our range already meets the EU's Ecodesign Directive that will take effect in 2022 with its requirements for better combustion and thus lower emissions. We are also a member of national trade organisations, taking a constructive approach to emission issues. We see that we can make a difference with our stoves by promoting the replacement of old technology with new technology to the benefit of both the environment and our own business. We are also continuing to further develop our products to achieve even lower emissions, something that we do in close cooperation with universities and colleges.

Electric stoves

In mid-2018 we complemented our product portfolio by acquiring 51% of the shares in CK Fires Ltd (known under the Evonic Fires brand) in Stratford-upon-Avon, England, and we have a call option for the remaining 49% of the shares by 2026. The company has around 35 employees and annual sales of approximately SEK 70 million, with an operating margin exceeding 10%. They



“We have increased our market share in most of our markets and continue to make an impression with new products.

Niklas Gunnarsson,
Business Area Manager for NIBE Stoves



have experienced high growth, which is why one of our first steps has been to expand production capacity.

Electric stoves represent a clearly growing market in the UK as well as in the rest of Europe and in North America. The Evonic Fires brand has a wide range of electric stoves and a well-developed retail network of about 250 dealers in the UK. The company also sells through distributors in Ireland, Spain, the Netherlands and the US.

Warming products that provide comfort

Cosy heat sources

NIBE Stoves' product range comprises stoves for different energy sources in various sizes and designs to suit different kinds of houses and commercial properties. The range also includes chimney systems and other accessories.

Most of the products in our range use renewable fuel. They are therefore climate-neutral, which means that we contribute to a more sustainable society. Our products already comply with the future Ecodesign Directive with lower emission levels. They have modern combustion technology, which ensures high efficiency and significantly lower particulate emissions than in older stove products.

Successful product portfolio

Our product portfolio, with its 13 strong brands in seven product groups, makes us an all-round supplier and a strong business partner in our industry.



Free-standing stoves



Inserts



Wood-burning inserts



Electric stoves



Heat-retaining products



Chimney systems



Accessories

Product development and production for strong brands

Product development, with a focus on performance and design, is ongoing and is essential for our future growth and development. Our various brands have completely independent product development departments that are governed by our shared guidelines on the environment and sustainability. This helps retain each brand's distinctive character and gives our customers great freedom of choice. Knowledge about technology for efficient combustion is exchanged regularly and naturally within the business area. This allows us to retain the flexibility we desire, while responding to regional product requirements and trends. Registration of designs is therefore an important measure to take. Product development costs correspond to 3.1% of sales in the business area.

In addition to the production of new stove models based on existing technology, we have continuously invested significant resources into developing combustion technology to meet the demands of the consumers of the future. Our products already meet the future Ecodesign requirements, which will be introduced in 2022, but our ambition is to make our products even better in terms of particulate emissions from wood firing. We have therefore intensified our efforts to find solutions to produce a commercially viable product with minimal particulate emissions.

Our product development can be divided into three areas:

- Design is essential to overall perception and may often be what determines whether a customer chooses one product over another. A stove must match the style of a home and be pleasing to the eye in terms of appearance and proportions. It should also be possible to see the fire through large glazed areas from as many angles as possible.
- Combustion technology is a very important area as all combustion entails some level of emissions with an impact on our environment and health. Efficient combustion is an important part of our responsible approach to producing sustainable products, and we constantly employ a high level of development resources on finding the best possible technology.
- Function is important as stove products need to be more than just beautiful. They need to heat homes. They must be reliable, safe, easy to install and easy to use. Therefore, we have both the components and the complete product thoroughly tested before it is released onto the market.

Our production units

NIBE Stoves has its own production plants in Sweden, the UK, Poland and Canada.

Most of our steel plate products sold in Europe are made in Sweden. The Swedish production plant is largely robotised and flow-optimised, making it one of the most efficient in our industry. We have come a long way in terms of both high quality and productivity, and we keep our environmental impact and energy consumption at low levels.

FPI has a corresponding plant in Canada where the North American brands are produced.

Stovax produces its wood-burning products at carefully selected subcontractors, while its gas-fired products under the brand Gazco are manufactured in its own plant in the UK. The Evonic Fires brand also has its own manufacturing unit for electric stoves in the UK.

Concrete surrounds, fireplace materials and heat-retaining products are manufactured in our plant in Poland. This unit mainly sup-

plies our own brands with components, but it is also an OEM supplier to other manufacturers in the industry.

Measures to boost productivity and quality are implemented continuously. We have implemented capacity investments in our UK plant to meet increased demand for gas-fired products, but we also invest long-term to achieve higher resource efficiency and an improved working environment. In 2018, investments of SEK 80 million (SEK 48 million) were made in our operations.

Better performance than current statutory requirements

We design and manufacture our products based on directives such as Ecodesign, REACH and RoHS. Our products usually perform better than the existing statutory requirements and our ambition is always to anticipate more stringent future requirements.

As new modern stoves have considerably higher efficiency and lower particulate emissions than older products, replacement quickly has a positive impact on the environment. The future Ecodesign requirements are a step in the right direction for our industry.

Quality and environmental certification

As part of our efforts to create structured working methods and a clear system, the production plants are certified to both ISO 9001 (quality) and ISO 14001 (environment). Certification efforts are under way for FPI in Canada. We also work continuously and systematically to create a safe place to work and to reduce the risk of accidents.

Production management

Production is based on forecasts. Seasonal variations on the stove market mean that part of the production volume is put into storage to ensure delivery capacity in the autumn high season.

Joint purchasing

Purchases of large shared volumes of inputs such as steel plate, castings and ceramic glass are coordinated both within the business area and the Group.

Brands

Contura

Premodul
by Contura

HAMPTON

Nordpeis

LOTUS
QUALITY FIRST

Geoman
A NATURAL WARMTH

VARDE

TermaTech...

evonicfires

STOVAX
FIRE. FEEL. INSPIRATION

REGENCY
FIREPLACE PRODUCTS

GAZCO
FIRE. FEEL. INSPIRATION

EXCALIBUR

Market drivers and trends

We operate on the consumer durables market. Customers' purchasing decisions are not only rational. They are largely also emotional. The market is fragmented with mostly regional suppliers. Stove preferences are a contributing factor and can depend on the firing feed (wood, pellets or gas) or on factors such as tradition and interior design.

The addressable market for NIBE Stoves in North America and Europe is estimated at SEK 30 billion. Our main markets are in Europe, North America, Australia and New Zealand.

Market drivers

- *Economic conditions* and developments in disposable income.
- *Interior design trends*.
- *Developments in the property market*, the degree of new construction and price trends and turnover of properties on the market, which is often directly related to renovation tendencies.
- *Seasonal variations* and weather conditions before and during the autumn/winter season.
- *Supplementary heat source* for longer power outages.
- *Energy price trends*, both the prices of fossil fuels such as oil and natural gas and electricity prices. Higher energy prices offer an incentive to buy supplementary heating.
- *The Ecodesign Directive* with new lower limits on hydrocarbon and particulate emissions.
- *Regional restrictions* on the use of wood-fired products due to emissions of hydrocarbons and particulates that may have a negative environmental impact.

Wood, gas, pellets or electricity

The three major energy sources for stoves are wood, gas and pellets. Firing with wood is traditional and dominates the market in Europe overall. A fourth category is the electric stove, which resembles a wood-burning stove with natural flames but is generated using electricity. Wood-burning stove products are available on all markets and have the highest volume.

Wood-burning stove products vary depending on the market. In North America they are mainly targeted to cope with extensive heating needs and must have long burn times. The products are fired with many large logs, while in Europe they are made for smaller logs in smaller volumes.

There is a strong tradition of using gas in the UK, Ireland, the Netherlands and North America because there are extensive gas supply networks, with the result that gas-fired stove products are popular. The Italian market is dominated by firing with pellets, and demand for pellet products has also increased in France in recent years. The products are an excellent additional heat source during the cooler part of the year.

Electric stoves are used where it is not possible to install a flue gas duct. They are primarily decorative but can also emit heat.

Market trends

The trend in 2018 was for generally weaker demand for stove products in Europe, but with variation between product segments and markets. While demand for wood-fired products has generally fallen on most markets, products for gas, pellets and electricity have continued to see increased demand, particularly on the markets on which they traditionally have a large share. With a broad range of products and well-developed distributor networks, we were able to increase sales and market share on several of our main markets despite demanding market conditions.

Demand in North America for stove products increased in 2018, primarily due to a generally positive economic climate. Gas-fired products dominate the market, and the trend is towards products with highly visible flames and low heat output. In central and northern North America, wood-fired products are sold almost exclusively, and demand has been stable.

Overall, we hold a very strong market position in the Nordic region, which continues to account for a considerable part of the business area. Demand has fluctuated in 2018. In Sweden, demand fell despite increased construction and a generally good economic climate. Investments in housing are increasingly competing with other durable goods and experiences. Demand for stove products in Norway, however, has increased. A general interest in stoves for the home and a high awareness of the fact that a stove is an alternative heat source in a power cut, for example, stimulates demand.

A more widespread debate on particulate emissions from wood firing is under way in several countries in Europe, which also affects both demand and government decisions in different ways. For example, Danish authorities are reintroducing subsidies to stimulate the decommissioning of old stoves. Replacing old products that have poor combustion technology with products that have modern technology and lower emissions is an efficient way of rapidly improving air quality. At the same time, it has a positive effect on market growth.

Although our products already comply with the Ecodesign requirements for 2022, our sustainability requirements are much stricter. We therefore invest heavily in development to ensure that we meet the requirements of the consumers of the future regarding high combustion efficiency and low emission levels, and we see this as a natural task for us as the market leader.

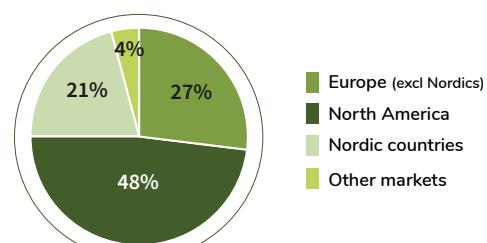
Business model

Marketing

Decisions to purchase our products are largely based on how customers experience them. Consequently, in-store displays are an important marketing channel, and much of our marketing resources are spent on in-store displays. Other channels are digital advertising, the interior design press and consumer and trade fairs.

Sales channels

Our products reach our end customers via a well-developed distribution network of dealers, usually without any intermediary. The dealers display the products and offer a higher level of service than the DIY sector, which primarily sells low-price products, a segment in which we have only a modest presence. Spare parts and accessories are increasingly sold online.



Group sales by geographical region

A stove provides peace of mind in a power cut



The storm Alfrida hit the Stockholm area at the end of the year and caused long-lasting blackouts for many residents, especially those who lived in rural areas. The blackouts created major nuisances when all the homes' electrical functions stopped working, like lights, water pumps, refrigerators, freezers and, not least, heat. A wood-burning stove is not only cosy but offers a great sense of security in crisis situations like this.

To quote the Swedish Civil Contingencies Agency: "Most important is to have water, food and heat and to be able to receive information from the authorities and media". They also state: "If your electricity is cut off during the cold season, your home will quickly chill down. Gather everyone in a room, hang blankets over the windows, cover the floor with rugs and build a tent over a table to keep in the heat. Consider fire hazards. Turn off all the lights and alternative heat sources before you go to sleep. Let fresh air in regularly to get oxygen".

Households that had wood-burning stoves could avoid these measures. The blogger "Cornucopia" writes: "The stove (a Contura) has kept the entire 1890's farmhouse warm and comfortable. Keeping an eye on the fire at night so the temperature doesn't drop, and we have a hard time reheating. The snow is really coming down now, and the wind is battering the north side of the house again."

This is in stark contrast to Sirpa Seppälä's situation, described in the newspaper Svenska Dagbladet:

"This morning it was just eight degrees indoors," explains Sirpa Seppälä, wrapped in layer upon layer of jackets. In the chair beside her sits neighbour Conny Wegebrand who fetched a kerosene stove from his hunting cabin to put on the floor in the living room – now the thermometer is just above nine degrees."



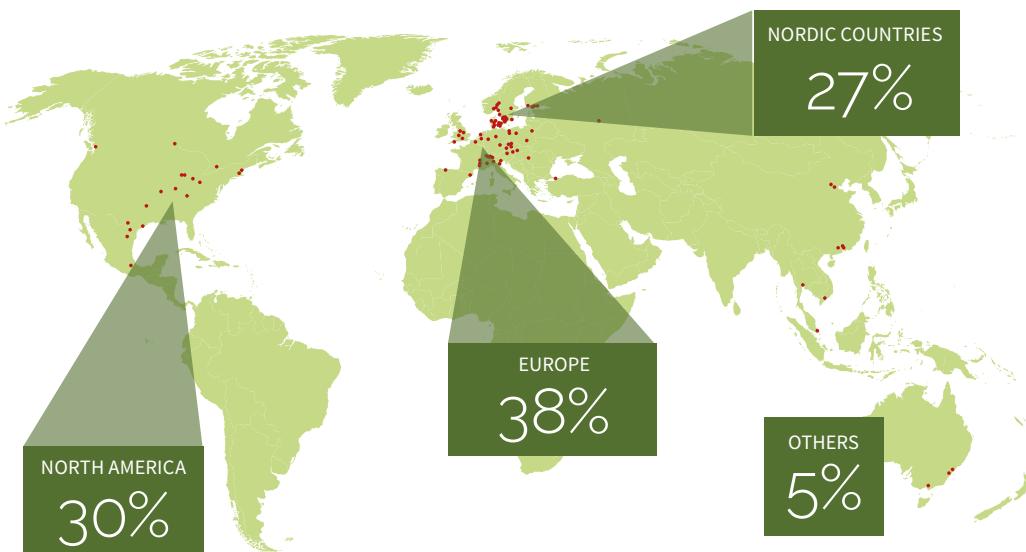
NIBE's vision

Our vision is to create world-class solutions in sustainable energy.

Mission

Our mission is to offer the market high-quality, innovative, intelligent and energy-efficient products and system solutions through our three business areas. The foundation for this is the NIBE Group's wide-ranging capabilities in product development, manufacturing and marketing.

SALES, GEOGRAPHICAL DISTRIBUTION 2018



Business focus meets vision

By purposefully developing our product portfolio so we can actively contribute to the transition to fossil-free technologies and higher energy efficiency, we have good opportunities to meet demand and achieve our vision – to create world-class solutions in sustainable energy.

Our three business areas all have a market presence on several continents, and we consider that we have a strong position to continue our global growth with the presence we have on industrialised markets worldwide. At the same time, we are boosting our ability to meet demand on several continents, to spread our business risks and to create opportunities for further growth.

Our position

A large market with room to grow

NIBE has a strong market position in Europe and North America in all three of the Group's business areas. Our ambitious growth targets stem from our view that there is still great potential for both organic and acquisition-driven growth on a global scale.

The overall addressable market size for NIBE is significant and is currently estimated at nearly SEK 600 billion. The biggest market is in domestic heating/air conditioning and ventilation, with the NIBE Climate Solutions market estimated at just over SEK 500 billion, followed by the NIBE Element market, estimated at just over SEK 50 billion, and the NIBE Stoves market, estimated at just over SEK 30 billion.



Well-proven acquisition methods

We have implemented acquisitions for a long time and have a well-proven acquisition process for analysis, implementation and integration. As our markets are globally fragmented with many operators, we still have good potential for further acquisitions. Our acquisition-driven growth takes place within the framework of strong, healthy finances.

A healthy corporate culture

Our background in Småland, Sweden, with a long tradition of high productivity, good quality and efficient cost control, means that we have a trust-based, decentralised organisation that has great flexibility to successfully meet the new or varied demands and conditions of the market.



Drivers and trends

We at NIBE work actively to create products and systems that are adapted to modern specifications for sustainable energy solutions. The aim is to increase energy efficiency and the proportion of renewable energy and thus create long-term value, both for our customers and for the climate. Like all international companies, we are affected by global trends that we constantly monitor and evaluate.



What NIBE does

Our products are a major contributory factor to accelerating the transition to sustainable solutions to stem climate change.

Climate change – the greatest challenge of our age

One of the biggest challenges involved in achieving a global sustainable society is to reduce emissions of greenhouse gases and slow down the current rate of climate change.

There is great international awareness of how climate change, which causes natural disasters and extreme weather conditions, is threatening our living conditions, biodiversity and social stability.

The international ambition is to reduce global warming to less than two degrees Celsius. This requires a reduction in greenhouse gas emissions of 70% by 2050 compared with the level in 2010, an annual reduction of 6.5%. Unfortunately, research indicates that even greater reductions in greenhouse gases are required to stop climate change.

Globalisation

Population growth and urbanisation boost demand for the transportation of goods and people. The transport sector is regarded as one of the greatest challenges as it is responsible for a significant proportion of greenhouse gas emissions and energy consumption. A great deal of research and development are being carried out in energy optimisation and renewable energy. We believe that we stand at the forefront of our industry.

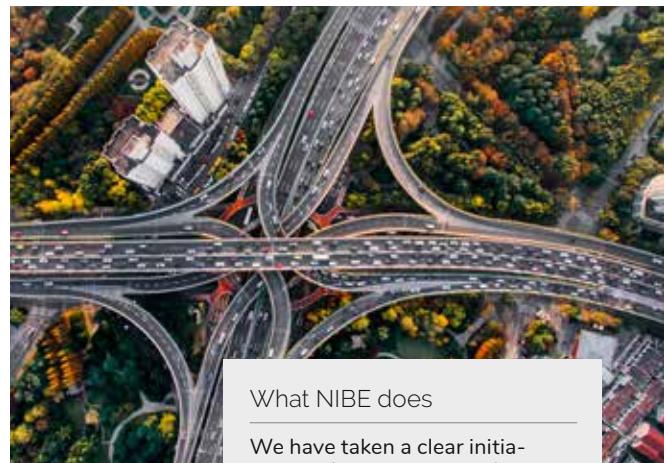
What NIBE does

Our product development, in collaboration with business partners in the transport sector, continuously results in new solutions for energy optimisation and control.



Population growth and growing cities

According to the latest UN calculations, the population of the earth will have grown from approximately 7.5 billion today to almost 10 billion by 2050. Today, 55% of the world's population lives in major cities and this figure is expected to increase to 70% by 2050.



What NIBE does

We have taken a clear initiative on climate issues with our sustainable energy solutions for indoor climate comfort in all types of buildings as well as for both private and public transport.

Infrastructure and clean technology

As the population grows and is concentrated in cities, the infrastructure becomes overloaded and the demand for resources, above all energy, increases. Cities currently account for 75% of world energy consumption and nearly 80% of carbon dioxide emissions. Demand for technology that supports the switch from fossil fuels will grow and, as this technology becomes more available and the market grows, the prices will fall, contributing in turn to even greater demand.



What NIBE does

We invest considerable development resources into control and communication in our products to be a part of the smart home.

Digitalisation

The increasing pace of digitalisation with the Internet of Things (IoT) is a key driver for future business, offering the potential for greater customer benefit, deeper customer relationships and new business opportunities. If the trend continues, 50 billion devices will be connected to the internet by 2020.

Properties

All the buildings in the world currently account for around 40% of total energy use and around one third of global emissions of greenhouse gases, most of which occur during the use phase. As buildings are used for many years, the energy-related product choices made today are important because they can affect the environment for several decades to come.



What NIBE does

We offer sustainable, energy-efficient solutions that reduce energy use and greenhouse gas emissions in all types of buildings.

Financial targets for long-term positive development

Operating margin

The operating profit for each business area and for the Group shall be at least 10% of sales over a full business cycle.

The operating margin must be at least 10% to give operations stability and prepare them for both acquisitions and rapid changes in the business environment. This is one of the cornerstones to ensuring long-term positive development and continuous growth. During the past five years, the average consolidated operating margin has been 12.6%.

Growth

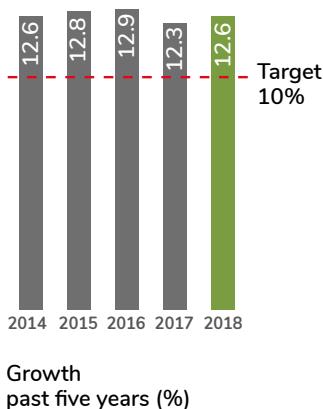
Average year-on-year growth shall be 20%, half organic and half acquired.

Half of the targeted average year-on-year growth should be organic over time. Stagnating growth poses a threat to the maintenance of healthy, sustainable profitability. Historically, acquired growth has balanced organic growth in that it has usually been lower than organic growth in good times and higher in difficult times. During the past five years, total average growth has been 18.0%.

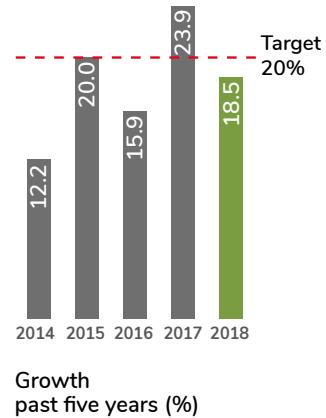
2018

Operating profit improved by 20.7% compared with the previous year, and the operating margin rose from 12.3% to 12.6%. Because of the acquired companies' varying levels of profitability and seasonal patterns, a full 12-month period is required before a completely accurate operating profit can be recognised. Administrative acquisition expenses amounted to SEK 15 million (SEK 34 million) during the year and costs were recognised for acquisition processes that were discontinued.

10%



20%



Return on equity

Return on equity over a business cycle must be at least 20%.

Good return on equity contributes to a stable ownership structure and share price and enhances our ability to attract further capital. During the past five years, the average return on equity has been 15.2%.

2018

At year-end, equity was SEK 15.4 billion, an increase of SEK 2.6 million on 2017.

Equity ratio

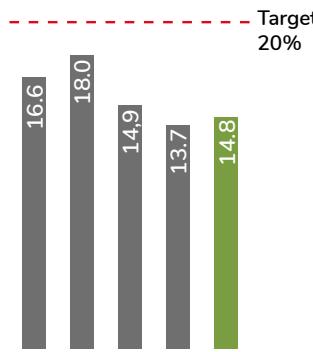
The equity/assets ratio must not fall below 30%.

A good equity/assets ratio shows that the Group has a strong financial position. This is also a necessity in a Group with strong growth. During the past five years, the average equity/assets ratio has been 44.2%.

2018

During the past year, equity increased by 20%, while total assets increased by 15%, which means that the equity/assets ratio has risen slightly.

20%



Return on equity
past five years (%)

30%



Equity/assets ratio
past five years (%)

Sustainability goals for a responsible business

Increased climate benefit in our product portfolio

The target has been for 55% of our sales to consist of LCE classified products* by the end of 2018.

Our products largely use renewable energy and much of our product portfolio helps customers make the switch to more energy-efficient use with a lower carbon footprint at home, in large properties and in industry. We aim to have a stable portfolio of products that help customers transition to a low-carbon economy.

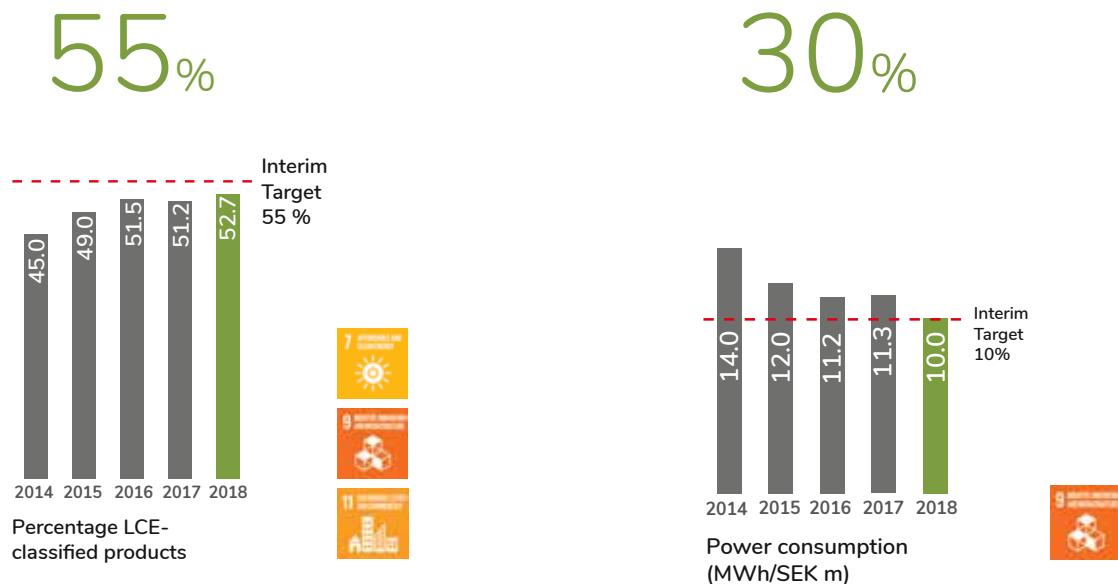
2018

Of our total 2018 sales, 52.7% consisted of LCE-classified** products.

The increases are within the product groups heat pumps, district heating and wind turbine components. We did not achieve the 2018 target, so the 55% target remains for next year. The outcome was affected by the implementation of strategic acquisitions, in which certain product segments like ventilation and air conditioning are not included as LCE products at present.

*FTSE LCE ICST™ (Financial Times Stock Exchange Low Carbon Economy Industrial Classification System) is a quantitative model designed to permit investors to assess a company's ability to adapt its business to the requirements related to reduced climate impact and depletion of resources.

**Product groups included in LCE: heat pumps, district heating, boilers and stoves for burning pellets and wood, PV panels, heat exchangers, components for rail, electric and hybrid vehicles and renewable energy production.



Continuously declining energy use

The target is to reduce energy use 30% by 2020 compared with 2013 as the baseline (measured in MWh/SEK M in sales).

We set a target in 2013 with a view to reducing the amount of energy purchased (primary and secondary) for our properties and processes, excluding internal transportation and self-generated power such as generated heat pump energy and solar panels in the business. This outcome is therefore not calculated on the total energy use of all Group companies in 2018, which is reported in our sustainability report.

2018

We based our calculation on the companies and operations included in the 2013 baseline of 14.0 MWh/SEK M, which resulted in 10.0 MWh/SEK M for 2018, a 29% decrease.

In addition to energy conservation, we have minimised the use of oil to heat our properties by increasing the use of heat pumps and energy-efficient ventilation solutions. We are also considering the possibility of generating our own energy via solar panels.

Ongoing energy audits since 2015 in our units include about 50% of our energy use within and outside the EU. These have provided savings of 15% in completed activities, which corresponds to a cost reduction of roughly SEK 10 million a year. Ongoing energy audits indicate a possible further energy saving of about 5% through various investments and behavioural changes.

A safe workplace with no accidents

Our long-term goal is zero accidents, of course, even though this is difficult to achieve. The interim target is an accident frequency of fewer than six accidents per million hours worked by the end of 2020.

Implementation of the occupational health and safety policy continues, and systematic preventive measures are carried out continuously. Action plans are drawn up in companies with an accident frequency higher than 10 and are followed up continuously at Board meetings and via sustainability site visits.

The measurement includes everyone who has performed work in our company. The measurement refers to the lost time injury frequency rate (LTIF), which measures accidents resulting in at least one day's lost work after the date of the accident per one million hours worked.

2018

The LTIF rate in 2018 was 10.2.

Injuries that occur frequently are cuts and strains. Problem solving and measures are implemented continuously for this type of injury.

Action plans are developed in companies that have an LTIF greater than 10.

Ensuring systematic quality and environmental initiatives

The long-term goal is for 100% of our production units to have certified management systems for ISO 9001 and ISO 14001.

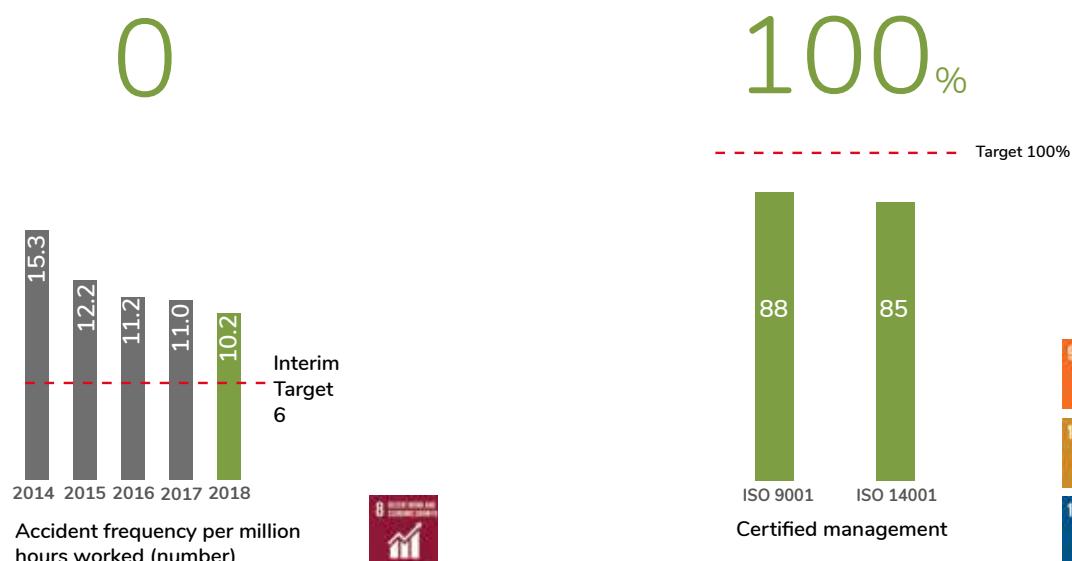
We are working to introduce certified quality and environmental management systems to all our production units with more than 10 employees. Acquired production units have a time frame of two full calendar years before certification must have been completed.

We measure the 2018 outcome against companies that have been in the Group since 2016.

2018

Nine new certificates were obtained in 2018.

Processes for certification are under way in companies acquired in 2017/18. We currently have eight companies in the process of becoming certified, and we have not succeeded in meeting the time frame of two calendar years due to restructuring and resource priorities. A decision was taken to accept discrepancies for one calendar year.



Management philosophy

Our business principles

Our management philosophy is deeply rooted in eight basic ideas that constitute the foundation of all our operations and create the conditions for our continued success. Although our top priority is profitability, which is essential to our ability to operate, we will never compromise on our values to achieve it. Our attitude is that long-term profitability can only be based on respect for legislation, honesty, good relations and transparency. Our business principles are available in 18 languages.

Good profitability

Good profitability is and always has been our tradition and is the most fundamental and important factor behind long-term success and sustained growth. It ensures freedom of action and independence, generates well-being and security for employees and makes us an attractive employer when we recruit new employees.



High productivity

High productivity is essential to good competitiveness, and our productivity philosophy is based on the belief that everything can always be improved and that, if you can't measure it, you can't improve it. Performance-based salary systems based on accurate methods time measurements (MTM) encourage optimisation of working time and promote high productivity and fair salaries.



Aggressive product development

Aggressive product development is crucial to good organic growth and establishing a foothold in new markets. Our focus is on leading the way in intelligent, energy-efficient, environmentally friendly products that help mitigate climate impact and promote sustainable development.



Quality in everything – focus on the customer

We must be a secure partner whom customers can always rely on. NIBE must have certified management systems for quality and the environment in place in its production facilities. NIBE must be available to help its customers when needed and deal with them in a professional manner so that they can choose the right solutions that will help reduce their costs and their environmental impact.



Focus on three core businesses

A clear focus on three business areas creates clarity both internally and externally. It also spreads risk and results in reasonable risk exposure. Another benefit is the constant increase in know-how in each area, which gives us an analytical advantage that can be used for acquisitions.



Committed employees

Commitment is created by clear, sincere leadership that sets a good example. Shared values, simple organisational forms and development opportunities for all create a culture characterised by initiative, humility and common sense in which everyone can thrive.



A long-term approach

A long-term approach means that responsibility, resilience and continuity will always triumph in the long run. Changes are only implemented after careful consideration and testing, and our ambition to create long-term relationships, internally as well as with customers and suppliers, provides the platform for truly sustainable business activities.



Market-oriented expansion built on common sense

Continuous growth is essential to our development. A combination of good organic growth and prudent acquisitions is the best possible way to constantly breathe new life into the organisation. Expansion into new markets must be carefully considered and consistently implemented.



Management philosophy

Our values

Our values are an important part of our management philosophy and our corporate culture, and they emphasise that we want to act as a responsible company in relation to the people near us, our external stakeholders and the environment. Our values are firmly rooted in our long and proud tradition of responsible entrepreneurship. We work consistently to communicate our core values to all employees in the Group. Our values are available in 18 languages.

Respect for human rights

Our most fundamental undertaking is to respect the people who are affected by our operations and their human rights.



Good working conditions

The working environment in our operations must maintain a high standard and contribute to employee well-being and development. Our suppliers and other partners must also share this approach.



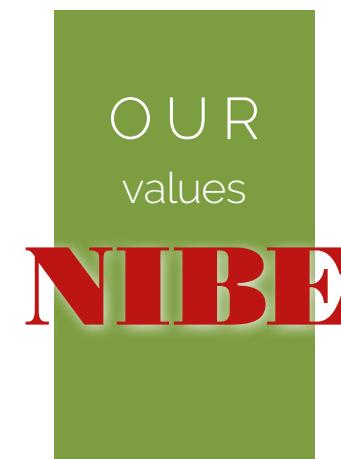
Reduced environmental impact

A holistic approach to environmental issues must play a key role in everything from product development activities, manufacturing and choice of materials to transportation, product functionality and end-of-life recycling.



Product liability

Our basic principle is that NIBE will pay due regard to all factors which have a bearing on the quality, safety and environmental performance of products.



Sound business ethics

We must comply with applicable legislation and have zero tolerance for bribery and corruption. We must also communicate honestly.



Transparency

To build trust and create relationships, we must be open and honest in our communication and follow rules and standards.



Responsible purchasing

We must prioritise suppliers that apply the same principles as we do in terms of code of conduct, quality requirements and business principles.



Corporate citizenship

We must be good citizens in the local communities in which we operate by supporting local initiatives and contributing to positive development.



Strategic focus areas for good profitability and sustainable value creation

Our goals are focused sharply on profitable growth and sustainable value creation with healthy finances. Our strategies for achieving the goals are tried and tested and based on our business principles, focusing on four strategic areas: growth with profitability, innovation, market-oriented expansion and a long-term approach.

Growth with profitability

Innovation

Market-oriented expansion

A long-term approach

Growth with profitability

Our total average growth target of 20% a year should be achieved half through organic growth and half through strategic acquisitions. Sustainable growth creates prospects for good profitability.

Organic growth

We constantly focus on growth initiatives in different product areas and we invest considerable resources in product development. The pace of development for new sustainable products and solutions is high, resulting in frequent product launches. In parallel, we continuously evolve our operations with a high rate of investment so that our growth can produce good profitability.

Our entire value chain, from vision to end customer, should be based on the sustainability principles contained in our business principles and values.

Efficient production

High productivity is essential to good competitiveness. Our productivity philosophy is grounded in the belief that everything can always be improved and that, if you can't measure it, you can't improve it. MTM data provides a sound basis for accurate costings and calculations, efficient production planning, reliable investment data and opportunities to follow up business activities correctly. Performance-based salary systems based on accurate MTM data help encourage optimisation of working time and promote high productivity and fair salaries.

Newly acquired companies are offered the chance to learn from our knowledge and experience, which is highly appreciated and builds good relationships and trust.

Joint purchasing

The cost of materials is a significant expense item for all our companies. Coordinated purchasing, both in each business area and between the business areas, rapidly provides noticeable advantages such as efficient use of resources and reduced costs. Collaboration with newly acquired companies starts immediately to quickly reduce both direct and indirect costs.

Acquired growth

We prioritise the acquisition of strong brands and products that complement our existing range, and markets that strengthen our position globally.

Decisive assessment criteria for acquisitions

For a potential acquisition to be interesting, it must add new technology, enable us to establish a presence in new geographical markets and/or increase our share in existing markets.

We apply the acquisition model below. The basic requirements are that a company must have:

- a strong position in terms of the market and technology
- competent management
- a real entrepreneurial spirit
- development potential within the framework of NIBE's strategies
- sound finances, and, if profitability is not satisfactory, it must have the potential to improve within a reasonable time.

Continued autonomy after acquisition

By actively encouraging continued curiosity, creativity and commitment, we motivate acquired companies to remain entrepreneurial. This is essential to their future potential.

Permitting acquired companies to retain their identity and brands creates continuity on local markets. In many instances, keeping companies intact with the full management team in the locations and environments where they were originally established also provides the best conditions for them to realise their full potential. Companies can also continue to play a vital, responsible role in their business community.

The objectives and management philosophy of the NIBE Group are always implemented, but otherwise new companies in the Group retain a high level of autonomy. Integration into the NIBE Group is about leveraging the benefits of belonging to a much larger cluster of companies.

Acquisition model

ANALYSIS	IMPLEMENTATION	INTEGRATION
The analysis phase is precise but fast. Our three sectors are well defined and with our history we have good insight into the objects that are available and access to relevant ratios for conducting comparisons and analyses.	In the implementation phase there is always complete transparency about our intentions with the acquisition. We are always very clear and open about the information we provide on our management philosophy and strategy, which often facilitates the process.	In the integration phase, we aim to retain not only brands, but also skilled employees at every level. We quickly begin to realise obvious synergies, for example in purchasing and knowledge transfer to improve operations.



Innovation focusing on intelligent energy solutions

Intelligent energy solutions is a broad concept that touches on all areas of the energy landscape, from infrastructure design to everyday consumer applications.

Growth with profitability

Innovation

Market-oriented expansion

A long-term approach

Sustainable energy solutions

Our focus on world-class solutions in sustainable energy contributes to the global goal of reducing atmospheric emissions and thus to a better, more climate-friendly world.

Digital technology development is focused on making future energy systems around the world more connected, intelligent, reliable and sustainable. NIBE contributes to this development.

Product development

Always being at the cutting edge with the most attractive product range is key to profitable growth. With a high rate of product development, based on research and new technology, we can offer products and solutions that appeal to the market while helping to reduce environmental impact. We constantly challenge ourselves to find the solutions that can best contribute to a faster transition to a fossil-free society.

Shared digital platforms

Our modern climate control solutions are becoming increasingly smart, and demand for remote control via digital platforms is constantly growing.

These rapid developments require significant development resources. To streamline the development process, we are creating shared digital platforms that can be used in our companies to lower the hurdle of starting to use new technology.

Commercialisation

Our brands are kept strong by products that are characterised by quality, innovation that supports sustainable development and competitive prices. With carefully considered marketing, we are perfectly placed to increase our market share on existing markets and expand into new markets.

Safe products

Our decentralised organisation means greater proximity to and understanding of the market. Strong business relationships are built with a high level of customer knowledge and factual marketing. Our customers must feel secure in the knowledge that our products are safe and manufactured responsibly, ethically and sustainably. We make a great effort to be available and offer good service and effective customer support.



Market-oriented expansion in an increasingly sustainable world

The globalisation of our business gives us the chance to be represented in the right location with the right provider. With our decentralised organisation, we can scale our businesses and develop locally in the best possible way while still leveraging the benefits of belonging to a global Group.

We invest in attractive market segments and thereby ensure an optimal market presence globally. An efficient, competitive organisational structure also helps us to develop different offerings that simplify and increase customer value.

The large number of acquisitions carried out has included new technologies, new products, new markets and new production capacity, but ongoing initiatives and investments in existing operations in terms of product development, new technology and qualified employees are also crucial to continued market-oriented sustainable expansion.

Employee commitment

Motivated, committed employees and management are essential to continued success. Leadership is very important for driving forward our corporate culture, which is based on diligence and job satisfaction.

Internal recruitment plays an important part in filling leadership and key roles. We make sure to continuously update our skills through training and personal development, but we also use external recruitment to obtain new expertise.

Responsible purchasing

To ensure that purchases from our suppliers are made responsibly, in addition to specific requirements on product quality, delivery capacity, commercial conditions and environmental performance, we also evaluate suppliers based on the UN Global Compact's global goals for

Growth with profitability

Innovation

Market-oriented expansion

A long-term approach

the environment, human rights, working conditions and anti-corruption. This involves a more time-consuming evaluation, but it lowers the risk of interruptions in material flow and events that may harm our reputation.

Quality and environmental certification

With a requirement for quality and environmental certification in all companies, we guarantee continuous activities to achieve good quality and reduced environmental impact while we eliminate risks in the working environment.

Management and monitoring

Long-term profitable growth and sustainable value creation require professional, structured management and effective monitoring. Our management approach is based on decentralisation in our three business areas with clear responsibility for profits in well-defined profit centres.

Management by objectives is important. Clear goals linked to both finances and sustainability create a firm framework for business development and accountability in each profit centre. Our management strategy is based on a combination of values, business ethics and respect for common standards.

Monitoring takes place efficiently at all levels of the organisation via the Group's shared reporting and consolidation systems. Deviations from assumptions made can then be quickly followed up and dealt with.

A long-term approach

Since our beginnings nearly 70 years ago, we have created a global Group and a presence worldwide as well as a solid platform for further expansion with profitability. Clear shared values and long-term ownership are behind the continuity and stability in the Group.

Growth with profitability

Innovation

Market-oriented expansion

A long-term approach

Innovative products from the start

The development of innovative products has been fundamental right from the start. The manufacture of the tubular element, which was a new, easily applicable heating component for households and industry, began back in 1949 and laid the foundation for today's NIBE Element business area.

The manufacture of NIBE's water heaters began in 1952, the same year a law was passed requiring farmers to have hot water in their milking parlours. With innovative product development based on this platform, our very first heat pump was introduced in 1981. This was then further developed into the NIBE Climate Solutions business area.

NIBE won a sub-contract to manufacture stoves under the Handöl brand in 1965, and Handöl's entire operations were subsequently acquired. This was the start of establishing the NIBE Stoves business area.

Committed, innovative leaders

Committed, innovative founders and leaders have been the backbone of NIBE's stable expansion and solid financial development.

The Bernerup family, landowners from Scania, founded the two companies Backer Electro-Värme AB and NIBE-Verken AB, and from the initials in Nils Bernerup's first and last names the company name NIBE was born. With two external operational managers, the family ran the companies for 40 successful years.

When the family decided to sell both companies in 1989, several employees and two external investors formed NIBE Industrier AB and acquired all operations. At the same time, Gerteric Lindquist was appointed Managing Director and CEO.

To allow for further expansion and to broaden ownership, a new share issue was implemented in 1997 and in connection with this NIBE Industrier AB was listed on the Stockholm Stock Exchange.

An intensive era of acquisitions

Good profits and the stock exchange listing created the conditions for an intensive era of acquisitions and development into a global Group.

The acquisitions today make us:

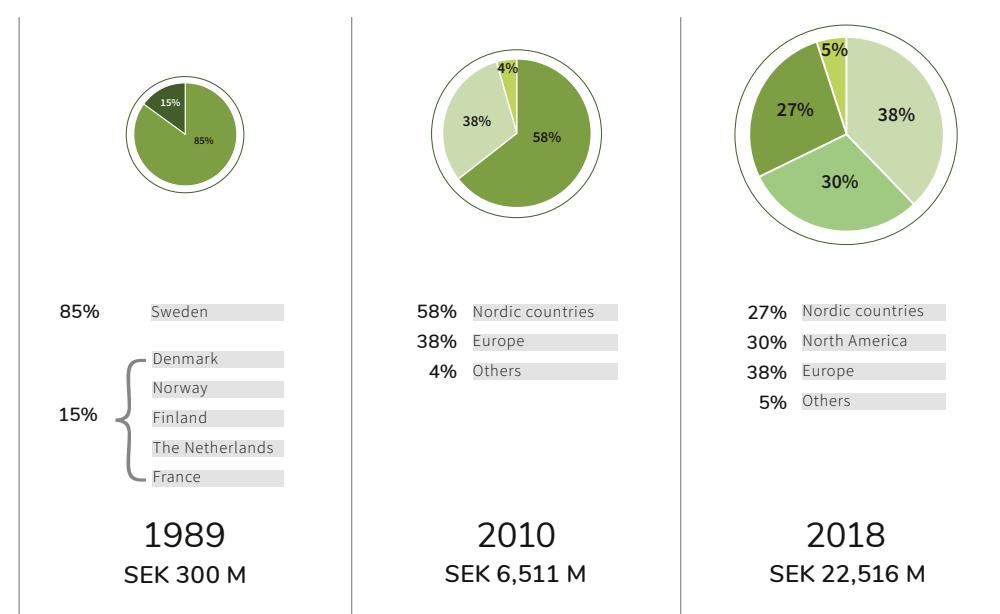
- a major European heat pump supplier and market leader in North America in heat pumps, both for single-family homes and commercial properties.
- one of the world-leading element suppliers, with many new product groups and a strong local presence in a great number of countries around the world.
- a European market leader in stoves, with a stable platform in North America for stoves.

A stable platform for the future

With our focus on sustainable energy solutions, stable growth with good profitability together with a market-oriented decentralised organisation guided by NIBE's objectives and management philosophy, we believe that we have created a stable platform for the future.

Together with continued good organic growth, good acquisition opportunities and stable ownership, this builds a solid foundation for the continued sustainable development of our business.

Geographical distribution of sales growth in 1989, 2010 and 2018



How NIBE adds value



Customer offering



Sales

Honest marketing of sustainable products and solutions lays the foundations for customer satisfaction, long-term relationships and stable earnings. By arguing in favour of our sustainable products and solutions, we are also taking a clear initiative on climate issues.

Products in use

Our products add value for our customers year after year in the form of reduced energy costs, reduced climate impact and better functionality. This also means that customers contribute to the transition to a more sustainable future.

Recycling

The contents of our products are highly recyclable (about 98%), which is important to reducing environmental impact. We have producer responsibility for consumer products and are associated with recycling systems where they are available for collection of products after use.

Targets and outcomes

Find out more on page 38.

Added value

Products

- Proportion of LCE classified products: 52.7%
- Heat pumps, renewable energy
- Solar products, renewable energy
- Heat exchanger, energy recovery, energy optimisation
- Components, energy conservation
- Stoves, renewable energy

Stakeholders Economic value

Customers	Sales	SEK 22,516 m
Suppliers	Payments	SEK 13,563 m
Shareholders	Dividend	SEK 529 m
Employees	Salaries and social security contributions	SEK 5,742 m
Public sector	Taxes	SEK 595 m
Local community	Sponsorship, donations	SEK 2.5 m
Lenders	Interest	SEK 155 m

NIBE adds value

- in the home
- in large properties
- in industry
- for the climate

Find out more on page 50.



Corporate sustainability

Administration report, page 69.

NIBE adds value – in the home

Comfort, convenience and peace of mind

NIBE wants to help reduce energy consumption for our customers and for society at large by developing world-class solutions in sustainable energy. Much of what we experience as comfort, convenience and peace of mind in our modern homes comes from equipment that uses energy to heat, air condition, ventilate or otherwise achieve a comfortable indoor climate. NIBE is involved with most of these types of equipment, either as a manufacturer of a product or system solution, or as a manufacturer of one or more components in a product.



Making life simpler and more convenient

Constant access to hot water is an important part of our quality of life. NIBE offers households peace of mind with its reliable, energy-efficient water heaters. Washing machines and tumble dryers, which make life easier for many of us, also need to be energy-efficient. They contain several components made by NIBE.



The kitchen – the heart of the home

Our modern kitchens today contain many appliances that are used frequently. Most of them, such as toasters, coffee makers, ovens and dishwashers, incorporate components produced by NIBE, which helps them be as energy-efficient as possible when they are used.



A pleasant indoor climate

A heat pump from NIBE is one of the most energy-efficient ways to heat your home and it causes lower carbon dioxide emissions than traditional heating with fossil fuels. This both reduces costs and saves the environment for current and future generations. Combined with waterborne underfloor heating, it also produces a comfortable indoor climate.



Cosy up to a stove

A stove from NIBE really makes a house cosy. It gently heats and becomes a natural place to gather on winter days and evenings. A stove saves money and, as combustion is very efficient and wood is a renewable energy source, it helps save the planet too.

NIBE adds value – in large properties

We heat, air-condition and ventilate

The bigger the building, the higher the investment in indoor climate comfort equipment and the more important it is to make the right choices in terms of reliability, cost and the climate. NIBE has the knowledge, experience and technical solutions to achieve the best concept for any type of property, whether it is an apartment block, an industrial building, a farm, a hotel, a church or a country house.



Hotels

Heat, air conditioning and ventilation are some of the biggest cost items and some of the biggest environmental aspects of large hotels. The entire indoor climate comfort system can be automated and controlled remotely using NIBE's online solutions. Heat pumps save energy even when idle, and the units have active cooling modules that produce excellent air conditioning.



Renovation of old buildings

Old country houses and mansions present a challenge when it comes to reducing heating costs. Consequently, it makes financial sense to invest in a modern heating system when they are renovated. NIBE can offer knowledge and the latest renewable energy technology, which permits old properties to be climate-friendly without losing their charm and beauty.



Apartment blocks

In apartment blocks, each apartment may have shared or individual heating, but in both cases the building can have a shared control and monitoring centre with NIBE concept solutions. These make it possible to optimise energy use in the property. Heat pumps produce heat and hot water and enable air conditioning.



Public buildings

Public buildings have traditionally been heated with oil, gas or coal. Many buildings are still heated in this way, and they need to switch to cleaner, more modern, greener technology. NIBE offers climate control solutions based on technology such as geothermal energy, which is good for the environment and saves costs.

NIBE adds value – in industry

We offer intelligent heating and control

NIBE is a partner to many companies in a wide range of industries, developing and manufacturing components and solutions for intelligent heating and control that offer various solutions for a host of specific products.



Equipment that saves lives

In the medtech industry, developments are rapid and new solutions save lives. NIBE contributes by being at the cutting edge of product development based on foil elements for various applications such as operating tables, sterilisation equipment, DNA analysis and respirators.



Vehicle customers' comfort requirements

The requirements for comfort in various types of vehicles are constantly becoming stricter. This has generated a great need for new applications based on element technology. One of the latest applications is heated windscreens from NIBE. This will probably be a standard feature of vehicles in the future.



Hybrid vehicles

New hybrid vehicle models are constantly being launched for both passengers and commercial use. NIBE plays an active part in the development of products for efficient energy utilisation, for example delivering elements for battery heaters and interior heaters using sources such as braking energy.



Resistors have many areas of application

NIBE is a major manufacturer of resistors, which are an important balancing component in electronic systems and products. NIBE resistors are used for controlling and regulating wind turbines, industrial robots, lifts, electric motors and a wealth of other applications across a broad spectrum of industries.

NIBE adds value – for a better climate

We help conserve energy and support sustainable development

It is natural for NIBE, with its products, to play a key role in international ambitions to achieve sustainability. We see it as our responsibility to focus on creating a product portfolio that supports the transition to a fossil-free society with reduced energy consumption. We also reduce our own impact on the climate and the environment in all stages, from production to suppliers.



Frequency control

Frequency-controlled compressors in heat pumps optimise energy use and reduce strain on the electricity grids. NIBE's production of frequency converters, called inverters, meets very strict requirements for accuracy and quality.



Heat pump modules in other industries

Heat pump technology has also begun to make its mark in industry. By utilising the Group's expertise in heat pump technology, NIBE can offer heat pump modules in industrial processes and commercial products. For example, in professional kitchens and laundries, heat pump modules are used both in machinery and to cool and dehumidify the air, producing a better working environment and enhancing energy efficiency.



Solar cells

With solar cells on the roof, property owners can produce electricity for their own use and any surplus is supplied to the grid. This is good for the climate and produces a significant gain, whichever form of heating is already used in the property. The most efficient solution is to combine solar cells with a heat pump solution.



Major investments in rail-based transport

The use of private cars and heavy goods vehicles on roads presents a major challenge when it comes to reducing carbon dioxide emissions. Several countries are therefore currently implementing major projects to improve infrastructure, particularly that of rail-based transport. NIBE is contributing by supplying equipment both for vehicles and for heating rails and points, which are controlled and regulated automatically.

Business opportunities and risks

As a global organisation, we have many business opportunities yet face various types of risk, which may have a greater or lower impact on the Group. The risks are mainly defined as factors that can affect our ability to achieve the targets set for the Group. This applies both to financial targets and to goals in other areas.

Many of the risks can affect the company both positively and negatively. This means that our ability to manage different risks also determines our success, that is, our ability to achieve and even surpass the set goals.

Structure and value chain

NIBE's organisational structure, with dispersed global operations, helps to reduce risk. NIBE operates in three business areas that deliver wholly or partly to different customer segments and end users. The operations are therefore affected differently in the business cycle and the competitive landscape also varies. Sales through many different channels and distribution routes increase flexibility.

Our operations have a substantial geographical spread, with companies and a market presence throughout the world. Having production units in different currency zones also provides great flexibility and increases our competitiveness.

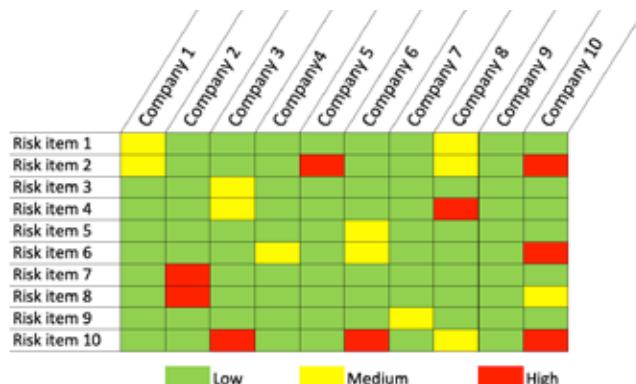
Risk management

The Board decides the Group's strategic direction based on Group management's recommendations. Responsibility for long-term and overall risk management follows NIBE's organisational structure. To counteract the effects of the various business risks facing the company, NIBE takes a systematic, proactive approach. The common framework and the NIBE Internal Control Standard (NICS) tool were created to secure the process and facilitate ongoing efforts.

In accordance with NICS, the process starts locally and then rolls up to Group level. Risks and opportunities are divided into four sections: business, finance, IT and sustainability.

Identified risks are classified according to the probability that the risk materialises and how the criteria are met. The outcome is evaluated annually at Board level, after which decisions are taken concerning priority actions in the different areas.

NIBE's business risks are managed locally at the company level but are coordinated if deemed necessary. The tools consist mainly of the companies' current reporting, risk assessment, risk management and action plans.



Assessment model for risk management

Financial risks are managed in accordance with the Group's financial policy and manuals governing annual accounts, system access, authorisation routines and system changes. Sustainability and IT risks are largely coordinated at Group level, but risk assessment and action plans are implemented locally by each company's Board. These risks are managed in accordance with our values and guidelines.

For more information on NIBE's financial risk management and external risks, see page 86 and Note 7 in the administration report.

Internal control

NIBE's internal control process, ultimately under the responsibility of the Board of Directors, is designed to provide reasonable assurance that the company's efforts to achieve its goals are being implemented and that the reporting is prepared in accordance with applicable laws and regulations and other requirements for listed companies. Financial reports will also be prepared in accordance with generally accepted accounting principles.

Each employee in the Group is responsible for internal control at their own level:

- The CEO and Group management for NIBE are responsible for overall internal control and implementing NICS at Group level.
- Business area managers are responsible for ensuring that the required process is in place in their own area, which in turn means that all local Boards apply the process to each lower-tier subsidiary.
- Local Boards are responsible for ensuring that NICS is implemented in their companies and, where applicable, lower-tier subsidiaries. In addition, local Boards must ensure that additional national requirements are met.
- Local management is responsible for internal control in its operations and owns the risks and action plans within its individual areas of responsibility.

Monitoring occurs through a minimum of four annual Board meetings in all companies, as well as through several internal control audits at the companies. Furthermore, as regards financial reporting, at NIBE it is a matter of principle for all commercial companies, regardless of their size, to undergo an annual audit by the auditors.

Crisis management

To minimise risk impact, a crisis management programme is also in place, with routines and policies for the local companies that cover the risk areas identified in the risk assessments. In the event of major incidents that may affect the Group as a whole, the Group's crisis organisation including the Board of Directors must be informed and assess how to manage the incident.



Shared opportunities and risks

Each business area works systematically to identify opportunities for further developing their own areas based on the environment in which they operate. At the same time, there are several opportunities and risks that are common to all three business areas.

Opportunities

- Great market potential
- Great interest in renewable energy and energy efficiency
- International market presence
- Broad product portfolio
- Strong brands
- Intensive product development
- Access to effective production
- Synergies
- Expansion through acquisitions

Risks

- New laws and government decisions with a short-term perspective for product adaptations
- Weak economic climate
- Energy prices
- Price trends of raw materials
- Currency fluctuations

Overall, NICS clarifies roles and responsibilities, increases risk awareness, provides improved decision-making support and improves all round process efficiency. NICS is based on the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework covers these components: control environment, risk assessment, control activities, information and communication, and monitoring.

Specific business area opportunities and risks

NIBE Climate Solutions

Opportunities

- Energy and environmental policies for accelerating the transition to renewable energy use
- Low market penetration in North America
- Most advanced product development centres for heat pumps in Europe and North America
- Most modern heat pump factories in Europe and North America

Risks

- New technologies outside our current areas of expertise
- Reductions in new builds
- Low gas and oil prices mean continued use of fossil energy sources
- Artificially high electricity prices in several markets using the reasoning that the transition to less use of fossil energy sources should be paid for with taxes on electricity

NIBE Element

Opportunities

- Energy technology is a globally expanding market
- Market position as a front-runner among manufacturers worldwide
- Increased growth through delivery of solutions, including measurement and control
- Industry restructuring and expansion through acquisitions

Risks

- New technologies restricted by patents
- Cost trends in our production countries
- Disproportionate product liability in the event of quality defects
- Payment problems among some major customers
- Political risks on certain markets

NIBE Stoves

Opportunities

- Sales potential in new product segments
- New political decisions relating to energy and the environment
- Products already largely adapted to the Ecodesign Directive

Risks

- Local authority restrictions on the use of wood-burning products

NIBE takes responsibility

Our focus on world-class solutions in sustainable energy contributes to the global goal of reducing emissions of atmospheric greenhouse gases. Our entire value chain, from vision to end customers, must be based on the sustainability principles in our business principles and values, which are firmly rooted in our long tradition of responsible entrepreneurship. We are responsible not only for the financial performance of our operations but for their social and environmental impacts. NIBE's responsibility forms the Group's framework for sustainability efforts in four different areas.



Responsibility in business

Find out more on page 58



Responsibility for the environment

Find out more on page 60



Responsibility for employees

Find out more on page 62



Social responsibility

Find out more on page 64

Our sustainable value creation supports international initiatives

NIBE's vision to offer sustainable energy solutions means that it has long been natural for us to contribute to a sustainable society in the ways we can. By delivering long-term sustainable value to our customers, we are also able to maintain good profitability and help achieve the global development goals.



UN Global Goals for Sustainable Development – Agenda 2030

In September 2015, the member states of the UN adopted global sustainable development goals (SDGs). The 17 SDGs provide guidance for everyone's commitment to establish a clear plan and to take the necessary steps up to 2030 to create long-term sustainable development, eliminate extreme poverty, solve the climate crisis and reduce inequalities and injustices in the world.

Achieving these objectives requires a great deal of commitment from all, both at international and national levels. This is a team effort and all the SDGs are equally important. As a company, we have a responsibility to lead the way and drive change towards a more sustainable future.

In line with our operational priorities and our assessments of where we can assert influence, we have chosen to work mainly with 6 of the 17 global goals in Agenda 2030.

<p>Goal 7 Ensure access to affordable, reliable, sustainable and modern energy for all</p> <p>NIBE's actions Increase the proportion of products based on renewable energy and meet the market's need for energy-efficient and clean energy solutions.</p>	<p>Goal 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> <p>NIBE's actions Promote a safe and secure working environment, protect workers' rights and ensure decent working conditions in both their own activities and in the supply chain, along with protecting jobs and growth.</p>	<p>Goal 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation</p> <p>NIBE's actions Make production more sustainable by using resources efficiently, using clean and eco-friendly technologies, and providing resources for research and development.</p>
<p>Goal 11 Make cities and human settlements inclusive, safe, resilient and sustainable</p> <p>NIBE's actions Provide resource-efficient and climate-adapted components, products and solutions that contribute to sustainable cities and secure infrastructure.</p>	<p>Goal 12 Ensure sustainable consumption and production patterns</p> <p>NIBE's actions Apply sustainable methods of chemical management and reduce emissions to air, water and soil. Economise resources, minimise waste, recycle and reuse more. Report sustainability information transparently in our reporting cycle.</p>	<p>Goal 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</p> <p>NIBE's actions Respect and maintain national and cross-border legislation, and actively work against all forms of corruption. Create systems for internal control of compliance with legislation and ethical business principles.</p>

UN Global Compact

For an international company, national legislation is sometimes insufficient when it comes to creating consensus and common guidelines for the entire Group. We have therefore made a commitment to adhere to the UN Global Compact as a commonly accepted platform of mutual principles that can be applied equally by all our companies, partners and suppliers, wherever they are in the world.



Responsibility in business

We work on corporate responsibility throughout the value chain

To continuously strengthen our market position and achieve our set goals, we take long-term actions that combine aggressive product development with strategic acquisitions.

Sound business ethics form our fundamental responsibility throughout our value chain.

Both financial and legal due diligence as well as environmental evaluations are conducted in connection with acquisitions.

We continuously evaluate our suppliers for responsible sourcing.

Each year, a risk assessment is performed based on our working model for risk management, which includes our business risks.

We provide training in anti-corruption and have a whistle-blowing system for reporting unethical conduct.

We signed the UN Global Compact in 2014 and in 2016 committed ourselves to 6 of the 17 sustainability goals in Agenda 2030.

Established targets and metrics are followed up at company level to monitor developments and the strategic goals are followed up on a global level.

We regularly follow up with on-site visits to ensure that our operations meet the requirements of corporate responsibility.

Products and new development

International estimates predict an increase in energy demand of 40% by 2040. This means that the rate of global energy efficiency enhancement must increase along with a shift towards renewable energy production, and in this respect, we are well positioned for the future.

We have modern development centres in several countries and collaborate with organisations worldwide to ensure that our products and solutions are at the cutting edge. In 2018, we allocated SEK 614 million to product development and strategic development projects to further strengthen our position in these segments, with a focus on making our products energy efficient and using renewable energy (LCE*).

The detailed requirements for product liability continue to grow as regards product safety, environmental impact, inputs and packaging, which is also a natural part of the development process.

We invest many resources in the new digital tools, in the product offering with adaptations to a more connected global world as well as in the development process, so we can have a global business with a local presence. This also helps to reduce environmental impact.

Acquisitions and local development

Due to acquisitions and our increased global presence, the number of local production units is also increasing around the world. Our main principle is to continue to operate businesses where they were founded, thus benefiting the local community in terms of both jobs and purchases from local businesses and entrepreneurs.

Sound business ethics

Our values and business principles entail zero tolerance for all forms of corruption. This is clearly communicated in all contracts with suppliers and other business partners.

We do not manufacture products that are prohibited in some countries or markets, but individual markets may have local laws and customer requirements that must be followed.

In addition to mandatory training in anti-corruption, which all exposed employees must attend regularly, we urge our employees to be vigilant, to ask for advice in situations in which they feel uncertain and to report all incidents in which they have been subjected to any form of attempted bribery or other unethical conduct.

*Product groups included in LCE: heat pumps, district heating, boilers and stoves for burning pellets and wood, PV panels, heat exchangers, components for rail, electric and hybrid vehicles and renewable energy production.



The Group's whistle-blowing policy has been implemented and translated into all local languages where we operate. Two matters were referred to the whistle-blowing department anonymously in 2018. Both matters were classed as HR matters and were submitted for handling by the respective business area manager outside the whistle-blowing system.

We are transparent in our communication and reporting and we comply with laws and requirements as a matter of course. We do not provide financial support to political organisations or to individuals. If situations arise where there is a risk of anti-competitive behaviour, we examine them using external resources.

Responsible purchasing

We set high standards for our suppliers in terms of product quality, delivery reliability, compliance with legislation and environmental performance. These standards are based on the ten principles of the UN's Global Compact and are aligned with our values.

Suppliers are regularly evaluated in terms of quality, environment, health and safety, ethics, corruption, human rights and risks. As part of the evaluation, the supplier is asked to sign our Supplier Code of Conduct. If necessary, audits are conducted with the supplier and, where we see nonconformities, we work together with them to improve their internal working conditions and to promote transparency and ethical business practices.

If we identify unacceptable risks in exceptional cases, or a lack of desire to make improvements, we may ultimately stop working with a supplier. In 2018, we did not receive any reports of child labour, forced labour or other serious violations of human rights or labour law policies.

In 2018, we began to set goals for the evaluation of new and existing suppliers of direct materials. By year-end 2020, our goal is to have evaluated all new suppliers in the global system and for 50% of existing suppliers to have undergone a periodic evaluation.

We collaborate strategically with some suppliers in areas that include co-development of components so that they work well in our products.

All numerical statistics can be found on page 130 and onwards.

We buy direct material from suppliers that are largely located in the country where the purchase is made.

Most new suppliers are added through our acquisitions.

Examples of energy-efficient products

- Heat pumps reduce energy consumption by up to 80% and can be run on renewable energy
- Solar cells generate renewable energy that can be made available anywhere
- Heat exchangers optimise and recover energy, reducing demand for supplied energy
- Wood-fired stoves and fireplaces radiate heat and create well-being, use renewable energy and meet COP 22 environmental requirements
- Components that increase energy efficiency
- Components that defrost and heat

NIBE supports the Agenda 2030 goals by



Increasing the proportion of products based on renewable energy and meeting market demand for energy-efficient, clean energy solutions. (Goal 7)



Providing resource-efficient and climate-adapted components, products and solutions that contribute to sustainable cities and secure infrastructure. (Goal 11)

Responsibility for the environment

We see our environmental responsibility throughout the processing chain and strive to reduce the environmental and climate impact of products throughout their life cycles

All our production units must hold environmental certification and make continuous improvements to reduce their negative impact on the air and water.

We continuously invest heavily in technology development and purification equipment in our manufacturing processes.

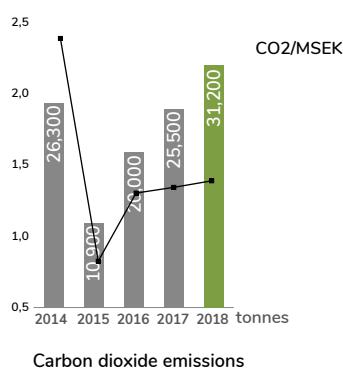
Working systematically according to the precautionary and substitution principles in connection with product and process development reduces our environmental impact.

We work to conserve energy and use renewable energy to a greater extent.

The aim is to reduce the amount of solid and hazardous waste by working with a higher level of recycling.

Established targets and metrics are followed up at company level to monitor developments and the strategic goals are followed up on a global level.

We regularly make site visits to ensure that environmental initiatives in our operations meet our requirements.



The increase over the past two years is related to quality assurance of reported amounts of natural gas and LPG.

Climate impact

One of our greatest opportunities is helping to reduce climate impact by reducing greenhouse gas emissions from our operations. The most important measure we can take is to continuously boost energy efficiency in all our operations. In properties that still use fossil fuels as their primary source of heat, we are in the process of replacing these sources with renewable alternatives. We actively buy renewable electricity (GoO certified**) for our global operations. We will launch our own generation of renewable electricity through the installation of solar panels. In transportation, we have reviewed our company car policy, but after discussions with our auto suppliers we are waiting until the market provides a somewhat wider range before we start using vehicles that run on renewable energy sources.

Our LCE* products support a shift towards a lower carbon economy and help customers to improve energy efficiency and convert to renewable energy use. Through investments in product development, which means that inputs such as refrigerants should have a lower CO2 equivalent, the products' environmental impact is also reduced at the end of its useful life.

*See page 59 for LCE product groups.

**GoO is information and a guarantee that the electricity we buy originates from renewable sources.

Environmental impact

Another great opportunity is helping to reduce environmental impact by optimising the use of materials in our manufacturing processes, which contributes to reduced waste and emissions. We are also making improvements that were identified through energy audits.

Our biggest direct environmental impact consists of the use of natural resources and metals. Other areas that have a major impact are the use of chemicals, packaging and energy and the generation of waste. Other impacts on air, soil and water are also present.

We apply the precautionary principle during the product life cycle and when we adapt our processes, by conducting preventive environmental risk assessments.

External stakeholders can file complaints about environmental performance. In 2018, no significant spills were reported, and there was one report of exceeding the limit of an environmental permit. Nor have any fines, injunctions or judicial trials been reported regarding breaches of environmental legislation or permits.

Natural resources and metals

Our input materials mainly consist of metals such as iron, copper and brass. Other input materials include minerals, stone, concrete and enamel.

Chemicals

We comply with current chemicals legislation, such as REACH and RoHS, and are phasing out chemicals that may be harmful to health and the environment or that give rise to hazardous waste according to the substitution principle.

In 2018 we used chemicals for process materials, lubricants and plastics and for welding, soldering and surface treatment of metals.

Continuous site visits take place to ensure proper use and storage and the proper use of protective equipment where there is a risk of exposure.

Refrigerants

To reduce the global climate impact, technologies are currently being changed to use refrigerants with a lower GWP in our products. In 2018, we added our cooling media losses from product filling in production as part of our CO2 impact.

Packaging

Packaging material consisting of wood, paperboard, plastics and steel is used. Packaging complies with EU and other global requirements.

Waste

A large part of our environmental impact comes from waste generation, so recycling is a very important matter.

The greatest challenge to succeeding in increasing recycling and reducing waste to landfills is in countries that do not yet have systems and infrastructure for sorting waste. In such cases, as far as possible, we make every effort to create our own solutions while also influencing society to assume greater responsibility for its waste management.

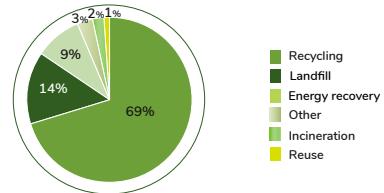
Air emissions

Emissions of carbon dioxide from our own production also include purchased energy and our own vehicles. The increase is because several of the newly acquired companies largely use gas as an energy source.

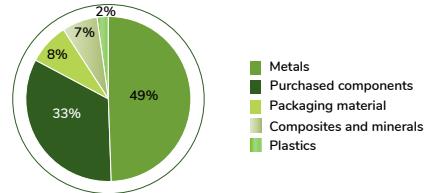
We lack the data at present for purchased transportation and business travel, so these components are not included.

Water

Clean water will be in short supply globally in the future and will therefore become increasingly important. Today we use relatively small amounts of water in our processes, and water availability at our production facilities is good. We are working to reduce emissions from our processes through recirculation and purification processes.



Waste categories % of total use



Overview of major materials % of total use

NIBE supports the Agenda 2030 goals by



Making production more sustainable by using resources efficiently, using clean and eco-friendly technologies, and providing resources for research and development. (Goal 9)



Applying sustainable methods of chemical management and reducing emissions to air, water and soil. Economising resources, minimising waste, recycling and reusing more. Reporting sustainability information transparently in our reporting cycle. (Goal 12)

All numerical statistics can be found on page 130 and onwards.

Responsibility for employees

Our ability to retain and attract skilled, committed talent is key to achieving our goals today and into the future

Our shared values and a clear code of conduct must guide our decisions and day-to-day operations.

Through our decentralised leadership, we can maintain simple organisational structures with an independent operational leadership and a local character.

Our internal training efforts and the educational collaboration we have with external partners, universities and schools augments our ability to ensure long-term staffing needs.

In countries with traditionally fewer permanent forms of employment, staff turnover is high. But we are making every effort to find ways to reduce staff turnover in these countries.

Established targets and metrics are followed up at the company level to monitor progress, and strategic goals are followed up on a global level.

We regularly follow up with on-site visits to ensure that working conditions, diversity and equal treatment meet our requirements.

Committed employees

We want all our 16,569 (14,271) employees to thrive, develop and feel proud of their work.

Via our shared values and a clear code of conduct, which guide our decisions and day-to-day operations, we can maintain simple organisational structures with independent operational leadership. This inspires employee engagement and an incentive to develop and make use of their potential. Our values are therefore a natural part of our induction for new employees.

To best translate our values and our resources into results, we base our work methods on five basic principles that involve workflows, collaboration, efficiency, good habits and standardisation.

If you want to thrive at NIBE, initiative, humility and common sense make a winning combination. We must treat each other with respect, and leaders and managers must set a good example in terms of honesty and straightforward communication.

Our operations are knowledge-intensive and are under constant development. Locally in the companies, we identify training and development needs and continuously give our employees the opportunity to grow.

Good working conditions

We work hard to improve the working environment at all our plants to create safe workplaces and reduce ill-health. Our overarching goal is to have zero-accident workplaces, with an interim LTIF target of less than six by the end of 2020. In units with the highest accident rates, action plans are drawn up and systematic risk assessments are conducted.

A greater focus on compliance with our health and safety policy and accident reporting has resulted in more companies improving their reporting.

In 2018 no serious deviations were reported, but minor nonconformities occurred that mainly involved deficiencies in the physical working environment or inadequate maintenance of machinery and buildings.

We regularly ensure that working conditions in our operations meet our standards. Site visits are conducted at which management is asked to present how the Group's values are implemented and how they work on the areas included in the agenda. Any need for improvement or nonconformities are documented and reported to the individual company, business area managers and Group management. Each business area manager is responsible for ensuring that measures proposed are taken.



Diversity and equal treatment

Our employees, with their unique experience, knowledge and talents, add great value to our operations. We conduct a global business with cultural and social differences, and so it is important for us to have a diversity and equal treatment policy. We try to work in a way that ensures tolerance to differences and want to give everyone the same opportunities for development, training and careers. Our employees can report complaints internally through local systems and procedures. In 2018, 2 (1) incident reports were received involving discrimination.

Respect for human rights

We operate in countries where human rights might be restricted. Our position on human rights and workers' rights is summed up in our values and our stance on modern slavery and human trafficking. Our annual risk assessment includes an evaluation of the risk of human rights violations. There should be no risk of child labour or forced labour in our own companies, and collective bargaining is permitted.

NIBE supports the Agenda 2030 goals by



Promoting a safe and secure working environment, protecting workers' rights and ensuring decent working conditions in both their own activities and in the supply chain, along with protecting jobs and growth. (Goal 8)

All numerical statistics can be found on page 130 and onwards.

Local social responsibility

As a part of society, we must act responsibly as a company

We expect all companies in the Group to comply with statutory requirements, agreements and contracts, and our shared principles and values, regardless of the type of society in which the companies are based.

As a company, we do what we can locally where we are established to act as a responsible member of the community.

Our values help us decide in each case what priorities are needed to look after our employees and their families and to protect our interests.

Partnerships with local schools and institutes of higher education offer development opportunities for both parties.

Within the framework of our values and business principles, each company has great freedom to decide for itself how it wants to contribute to developing the community.

We see a heightened risk of conflict resulting from the impact of climate change on nature, which contributes to a shortage of drinking water and food.



Hand in Hand

Since 2015 we have been working with the organisation Hand in Hand, becoming a sponsor for a village project. The project aims to lift an entire village out of poverty. Women in smaller groups are educated and trained in entrepreneurship and finance. They can apply for microloans to run their own businesses.

In addition to the village project, we have expanded our commitment to supporting a girls' school in the same area. It offers school-

ing for girls who otherwise have very sporadic schooling, if any at all. In addition to attending regular school, children are encouraged to find their talents, build up their self-confidence and learn to take care of themselves.

To ensure that our efforts produce results we visited both the village and the girls' school, and we can state that we truly made a difference for the women and children in the area.



Towards new heights

In Sweden during 2018 we participated in the regional knowledge project “Towards new heights”, which aims to spark young people’s interest in science and mathematics. Thousands of students together with their teachers were given a unique opportunity to visit the Nobel Museum’s creative exhibition, Xperiment, which is currently located at our premises in Markaryd. They were also offered study visits to modern manufacturing sites, which was a great hit with students and teachers alike. This is a good example of how we as a company can contribute to the development of the community where we operate, while interacting with our future labour force.

Support for others

In many communities where we are a major player, local development is positively affected by our presence and our need for services. As employers, taxpayers and partners to many local entrepreneurs, we have a major positive impact on local economies and investments in infrastructure.

Within the framework of our values and business principles, each company has great freedom to decide for itself how it wants to contribute to developing the community.

In 2018, we sponsored local initiatives relating to culture, sport, health and youth in the amount of SEK 2.5 million (SEK 2.3 million).

As an international company, we also want to contribute to international initiatives that are very close to our hearts. Children are our future, which is why we have decided to support SOS Children’s Villages with financial contributions that go towards homes, education and better living conditions for vulnerable children.

Local partnerships for the future

We work with several schools to ensure a good influx of new employees to our businesses in the long term. Young people of all ages are invited to visit our companies to learn about the opportunities available and encourage them to study.

We also have firmly established partnerships with universities and institutes of higher education, offering opportunities for joint development projects, degree projects and internships, both locally and internationally.

NIBE supports the Agenda 2030 goals by



Respecting and maintaining national and cross-border legislation, and actively working against all forms of corruption. Creating systems for internal control of compliance with legislation and ethical business principles. (Goal 16)

All numerical statistics can be found on page 130 and onwards.

Dialogue with our stakeholders

Through a continuous dialogue with our stakeholders, we ensure that we have identified our most important sustainability areas and that we focus on the right issues for the future as well. The biggest high-influence groups of stakeholders are owners, customers, employees, suppliers, investors and fund management companies as well as government authorities and the local community.

In 2016, we conducted the first major dialogue with a selection of stakeholders from most of these groups. In addition to sending a targeted survey to around 300 representatives of various stakeholder groups, we conducted several interviews and gathered data from analyses of the company.

We then supplemented this data by continuously gathering additional information in connection with spontaneous contacts with the various stakeholder groups, at face-to-face meetings or through questionnaires.

There have been no dramatic changes in stakeholder expectations of and views on the company.

We see a greater interest in sustainability from analysts, banks and funds, as well as from research institutes and universities. In addition to the usual surveys, interviews or visits are often requested. The topics include inputs, the conversion to new technology in the products due to new regulatory requirements, and diversity and human resource management.

Materiality analysis

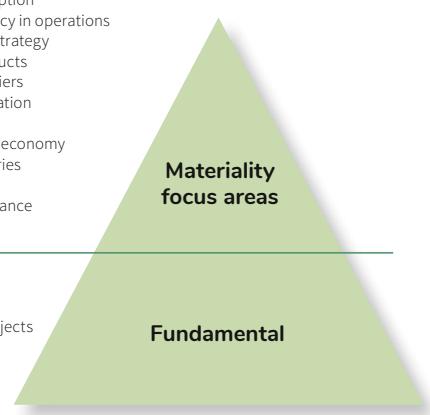
The materiality analysis conducted at the end of 2016 was updated in respect of this year's developments and stakeholder dialogue. We have determined the scope and boundaries in dialogue with management and stakeholders based on trends and GRI aspects, along with their impact on our value chain both within and outside the organisation. These aspects are summarised in the following model.

If we compare NIBE's current work in the areas identified as priorities in the materiality analysis, it is well aligned with the choices and priorities made by NIBE to date.

- NIBE's products support the transition to more sustainable cities and infrastructure. The product range is largely based on energy efficiency enhancement and renewable energy and is therefore aligned with climate-adapted products (LCE) as a business strategy.
- NIBE invests in energy conservation and renewables in its own operations and has measurable targets for this.
- The decision to sign the UN Global Compact reinforced NIBE's previously communicated values to respect human rights and take responsibility for the environment, working environment and ethical business practices.
- NIBE has an accident rate target to create a safe working environment.
- NIBE has chosen to have certified management systems within environment and quality.
- NIBE has responded to the need to train its staff.
- Supplier evaluations regarding sustainability have resulted in clearer targets and action plans.

Materiality and focus areas

- 1 Business ethics and anti-corruption
- 2 Renewable energy and efficiency in operations
- 1 Sustainability in the business strategy
- 2 Safe and energy-efficient products
- 1 Evaluated and approved suppliers
- 3 Gender equality in the organisation
- 1 Product development
- 2 Life-cycle analysis and circular economy
- 3 Working environment and injuries
- 4 Open communication
- 2 Environment and quality assurance



Explanation

1. Responsibility in business, 2. Responsibility for the environment,
3. Responsibility for employees, 4. Social responsibility

Stakeholder*	Dialogue	Topics
Customers	Surveys Business dialogues Contracts	Safe products Sustainable products Business relationship
Employees	Employee dialogue	Security Skills
Suppliers	Surveys Business dialogues Contracts	Long-term approach Performance
Investors	Surveys Quarterly reports Face-to-face meetings	Risk minimisation Return on equity Long-term approach
Management	Sustainability council	Governance Focus areas Resources
Shareholders	Annual General Meeting Face-to-face meetings Management discussions	Return on equity Long-term approach Risk minimisation
Authorities	Reports Visits/Audits Lobbying	Laws and compliance Human resource management Infrastructure
Local communities	Local collaboration Involvement in stakeholder groups	School partnerships Sponsorships Standard committee topics

*NIBE used an assessment method in which we considered each stakeholder group based on their power, legitimacy and urgency (Mitchell et al., 1997).

Visits from investors

As part of our stakeholder dialogue as well as Roburfonden's evaluation of NIBE Group's sustainability efforts, Kristin Wallander from Swedbank Robur Fonder paid a visit to one of our production facilities.

Robur Fonder is Swedbank's wholly owned subsidiary, and Ms Wallander is responsible for evaluating and approving companies included in its sustainability funds. Ms Wallander spent a day together with our sustainability team, which presented NIBE Group's sustainability efforts and results. She also followed along on one of our sustainability site visits, this time to Backer Springfield factory in China, a company in the NIBE Element business area.

This visit demonstrates the growing interest in sustainability issues from investment fund managers, who want to both analyse and see things for themselves. Special focus was placed on procedures for health and safety, supplier work and staff concerns.

NIBE works extensively using tools like environment and quality certifications along with evaluating risky suppliers and monitoring them via site visits. Robur Fonder was pleased with our sustainability efforts but pointed out that there are more challenges ahead throughout our value chain that must be addressed and overcome. Following Robur's visit, the company assessed that the quality of our sustainability work meets the standards it imposes for several of its funds that have sustainability criteria.

Sustainability visits

An important part of anchoring our sustainability strategies in our daily tasks is the sustainability team's regular visits to our companies. The frequency of these visits is adapted to each company's circumstances and development, but each company is visited at least once every three to four years and the visits normally last for a few days. Initially, we have discussions with company management around sustainable development, climate change and global trends that drive the need for change in decisions and behaviours. But above all, we discuss the opportunities they present for developing our business to make us better equipped for the future.

We also follow up on how our different goals and policies are implemented and how our risks and action plans are incorporated and followed, as well as how sustainability data reporting to the Group is functioning. We also follow up on how to address anti-corruption and human rights and how to follow up and evaluate their suppliers.

The second part of the visit includes a production review and meeting with employees to follow up on how our strategies and policies are being implemented in the field. For example, we review fire protection, workplace health and safety, and product safety on the factory floor, as well as external environmental risks and climate-related risks.

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



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Important events during the financial year

Acquisitions

In January, NIBE acquired 60% of the shares in US element company BriskHeat Corporation, which also operates in Vietnam, China, Taiwan and the Netherlands. With 650 employees and annual sales of around SEK 320 million, BriskHeat is the world leader in cloth heating jackets. The company was consolidated into the NIBE Element business area as from January 2018. Agreement has also been reached on the acquisition of the remaining 40% of shares in the company in 2021.

Alfa Laval's business for district heating/cooling systems (Cetetherm) was acquired in March. The business generates sales of approximately SEK 300 million, employs around 60 people in Sweden, France, Russia, the Czech Republic, Finland, the UK and Slovakia, and was consolidated into the NIBE Climate Solutions business area as from June 2018. The acquisition value is still provisional.

At the beginning of July, NIBE acquired 51% of the shares in the UK company CK Fires Ltd, which has a wide range of electric stoves under the brand name Evonic fires. The company, which has sales of approximately SEK 70 million, was consolidated into the NIBE Stoves business area as from July 2018. Agreement has also been reached on the acquisition of the remaining 49% of shares in the company by 2026. The acquisition value is still provisional.

A contract was signed in August to acquire 51% of the shares in the element company EMIN Group, which has operations in Turkey and Serbia. Operations consist partly in the production of fluid coupling systems. Sales are approximately SEK 140 million, with an operating margin of over 10%. After approval by the Turkish competition authority, operations were consolidated into the NIBE Element business area as from December 2018. NIBE has an option to acquire a further 29% of shares in 2025. The acquisition value is still provisional.

At the start of October, a contract was signed to acquire the remaining 55% of the shares in the Italian ventilation and air conditioning company Rhoss S.p.A. in January 2019. The company, which has sales of approximately SEK 670 million, will be consolidated into the NIBE Climate Solutions business area as from January 2019.

Remuneration

The Annual General Meeting determines the level of remuneration to the Chairman of the Board and other directors.

The Annual General Meeting also determines the guidelines for the remuneration of the managing director and other senior executives, in accordance with which the Board subsequently determines the remuneration of the managing director. The remuneration of other senior executives is determined by the Managing Director in consultation with the Chairman of the Board. Decisions in this regard are reported to the Board of Directors. For further details of remuneration for the year, please refer to Note 6.

The Board proposes that remuneration for 2019 should be determined according to the same principles as those adopted in 2018.

Environmental issues

NIBE has production facilities in 26 countries. Their environmental impact primarily consists of:

- Use of raw materials such as metals and plastics
- Use of natural resources such as energy and water
- Generation of waste
- Emission of air and water pollutants
- Transportation

NIBE complies with national environmental legislation in all countries in which we have production facilities.

Where operations require a permit, results and any failure to comply with permit conditions are reported to the environmental authorities in the country in question and to the Group's sustainability department. Failure to comply with environmental conditions was reported in 2018, and measures are being introduced to remedy this.

The Group manages improvements in its environmental performance by following key ratios, setting targets and reporting results according to the GRI standards. Several of our products have a positive impact on the environment as they help reduce energy consumption, increase the use of renewable energy and thus reduce climate impact.

This year, the Sustainability Report is integrated in the Annual Report. To read more about sustainability targets, see page 40. For the GRI index, see page 124, and for statistics, see page 130.

Staff issues, human rights and anti-corruption measures

NIBE's staff policy assumes that everyone is of equal value and everyone should have the same opportunities to develop in the company, regardless of gender, ethnicity, age or background. We want all our employees to see NIBE as a secure, fair employer that works to ensure a good working environment, good working conditions, diversity and equal opportunities. In 2018, NIBE implemented its Diversity and Equal Treatment Policy in line with new requirements.

Our policy to respect human rights and work to prevent discrimination also extends to our suppliers, and we evaluate new suppliers against our requirements. We also monitor existing suppliers against our requirements for human rights and working conditions.

Our values and our well-established code of conduct form the basis for our employees to work together, show commitment and enjoy freedom with responsibility. As part of our internal controls within the Group, several subsidiaries are evaluated every year to ensure that everyone applies the same principles and that the standard of working conditions remains high.

To read more about our employees, see page 62, and about responsible purchasing, see page 59.

NIBE's anti-corruption measures include training for all employees and the Group's whistleblower function. Our contracts with our business partners include a provision on zero tolerance for corruption. See page 58.

Research and development

The NIBE Group carries out market-leading research and development within each of its three business areas. We believe that this is a crucial factor behind continued organic growth and our ability to establish a presence in new markets. It also means that we can respond quickly to changes in what our customers want and transform their wishes into the best possible solution in the relevant market context. See Note 9.

Future trends

- Our corporate philosophy and our strong range of products, with their focus on sustainability and energy efficiency, are in tune with the times in which we are living.
- We are well prepared to continue to be proactive on acquisitions.
- Our internal efforts to enhance efficiency, combined with our rigorous cost control measures, will guarantee persistently healthy margins.
- As with previous years, the effects of economic trends, currency concerns, volatile energy prices and political turbulence in some parts of the world are hard to predict, but we remain cautiously positive about the year overall.

Ownership

NIBE's share capital is divided into 58,532,590 class A shares and 445,484,032 class B shares. Each A share carries ten votes at the Annual General Meeting and each B share carries one vote. Class A shares, which represent approximately 56% of the votes, have pre-emption rights as per the company's articles of association.

The company has two shareholders who each hold more than 10% of the votes, one of them a group of shareholders consisting of present and former directors and managers with around 47% of the votes, the other Melker Schörling, with around 20% of the votes.

Proposal for appropriation of profits

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

Profit brought forward	SEK 2,222 M
Share premium reserve	SEK 4,751 M
Net profit for the year	SEK 634 M
Total	SEK 7,607 M

The Board of Directors proposes issuing a dividend to shareholders of SEK 1.30 per share, equivalent to a total pay-out of SEK 655 million. A total of SEK 6,952 million will be carried over in the accounts: SEK 4,751 million of this in the share premium reserve and SEK 2,201 million as profit brought forward.

The Board of Directors considers that the proposed dividend is reasonable considering the requirements that the nature, scope and inherent risks of the business operations make on the amount of equity and the company's and the Group's consolidation needs, liquidity and financial position. This must be seen against the background of the information provided in the Annual Report. Before proposing this dividend, the Board has paid due consideration to the investments planned.

Corporate governance report

The corporate governance report on pages 118-121 is not part of the administration report.

Five-year overview

Income statement

(SEK million)	2018	2017	2016	2015	2014
Net sales	22,516	19,009	15,348	13,243	11,033
Cost of goods sold	– 15,054	– 12,446	– 9,817	– 8,461	– 7,106
Gross profit	7,462	6,563	5,531	4,782	3,927
Selling expenses	– 3,432	– 3,140	– 2,664	– 2,371	– 1,977
Administrative expenses	– 1,453	– 1,240	– 1,042	– 838	– 707
Other operating income	252	161	155	127	142
Operating profit	2,829	2,344	1,980	1,700	1,385
Net financial items	– 162	– 162	– 109	– 86	– 93
Profit after financial items	2,667	2,182	1,871	1,614	1,292
Tax	– 595	– 479	– 495	– 377	– 310
Net profit	2,072	1,703	1,376	1,237	982
Net profit attributable to non-controlling interest	– 2	–	–	–	–
Includes amortisation/depreciation according to plan as follows:	691	640	542	480	402

Balance sheet

(SEK million)	2018	2017	2016	2015	2014
Intangible assets	17,029	14,744	14,716	10,209	9,731
Property, plant and equipment	3,410	3,043	2,820	2,117	2,078
Financial assets	589	331	389	467	367
Total non-current assets	21,028	18,118	17,925	12,793	12,176
Inventories	4,106	3,247	2,799	2,115	2,109
Current receivables	3,968	3,203	2,798	1,901	1,844
Investments in securities etc.	166	90	160	347	154
Cash and equivalents	3,023	3,332	2,342	1,448	1,827
Total current assets	11,263	9,872	8,099	5,811	5,934
Total assets	32,291	27,990	26,024	18,604	18,110
Equity	15,421	12,807	12,129	7,428	6,560
Non-current liabilities and provisions					
– non-interest-bearing	3,973	2,859	2,763	1,605	1,849
– interest-bearing	7,357	6,960	5,858	7,118	7,558
Current liabilities and provisions					
– non-interest-bearing	3,658	3,348	2,596	2,289	1,849
– interest-bearing	1,882	2,016	2,678	164	294
Total equity and liabilities	32,291	27,990	26,024	18,604	18,110

Statement of cash flows

(SEK million)	2018	2017	2016	2015	2014
Cash flow before change in working capital	2,652	2,307	2,045	1,717	1,327
Change in working capital	– 764	– 184	– 274	222	77
Cash flow from operating activities	1,888	2,123	1,771	1,939	1,404
Investments in existing operations	– 777	– 536	– 412	– 384	– 308
Operating cash flow	1,111	1,587	1,359	1,555	1,096
Acquisition of businesses	– 1,001	– 822	– 4,357	– 171	– 2,648
Cash flow after investments	110	765	– 2,998	1,384	– 1,552
Financing	30	703	3,998	– 1,302	2,095
Shareholders' dividends	– 530	– 444	– 369	– 298	– 259
Cash flow for the year	– 390	1,024	631	– 216	284
Cash and equivalents at start of year	3,422	2,502	1,795	1,981	1,594
Exchange difference in cash and equivalents	157	– 104	76	30	103
Cash and equivalents at end of year	3,189	3,422	2,502	1,795	1,981

Income statement over the past five years

Growth

The sales target is annual growth of 20%, preferably with half of this total generated organically and half through acquisitions. Over the past five years, sales rose from SEK 9,834 million to SEK 22,516 million. This was achieved by means of a proactive acquisition strategy. During the period, 41 acquisitions and business combinations were implemented.

Average growth during the five-year period was 18.0%. Organic growth accounted for a rise in Group sales of 7.5% and acquired growth for 10.5% over the past five years.

Operating margin

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

During the five-year period, NIBE Climate Solutions' average operating margin was 14.2%. NIBE Element's operating margin was an average of 10.2% during the period, while NIBE Stoves' average operating margin was 12.1%.

The Group's operating margin over the five-year period averaged 12.6% and return on equity averaged 15.2%.

Balance sheet over the past five years

Over the past five years total assets rose from SEK 12,967 million to SEK 32,291 million.

Intangible assets

Intangible assets consists mainly of goodwill, trademarks/brands and market positions that have arisen in connection with the acquisition of businesses or operations. Goodwill and brands are tested annually for impairment by calculating the present value of future cash flows. The principles used by the Group for impairment testing are described in Note 2 to the accounts under the heading 'Goodwill and trademarks'.

Property, plant and equipment

Property, plant and equipment consists solely of land, buildings and machinery. Their value increased by SEK 1,521 million over the most recent five-year period. Of this increase, approximately 34% was added through acquisitions, and the remaining 66% through investments in existing businesses. These investments were implemented largely in the Group's facilities in Markaryd, Sweden, where most of the production facilities for NIBE Climate Solutions and NIBE Stoves are located, as well as in the Group's production plants in Poland and the US.

Current assets

Current assets consist of inventories and current receivables (mainly accounts receivable) and constitute approximately 25% of total assets. Normally, both of these items are directly related to sales and, therefore, growth.

Interest-bearing liabilities

Current and non-current interest-bearing liabilities and provisions consist of loans from banks and other financial institutions, bond loans and pension provisions. These items increased from SEK 4,592 million to SEK 9,239 million over the past five years. This increase is attributable to new borrowing, primarily to finance the Group's major acquisitions in 2014 and 2016.

The Group's target is for the equity/assets ratio not to fall below 30%. Over the past five years this ratio averaged 44.2%.

Non-interest-bearing liabilities

Non-current, non-interest-bearing liabilities and provisions consist mainly of deferred tax, additional considerations and warranty provisions. These grew from SEK 1,267 million to SEK 3,973 million over the past five years, chiefly as a consequence of liabilities for additional considerations and deferred tax attributable to intangible assets that have arisen on the acquisition of other companies.

Current non-interest-bearing liabilities and provisions grew by SEK 2,125 million over the past five years, from SEK 1,533 million to SEK 3,658 million, approximately 81% of which represents accrued expenses and accounts payable, which are both directly related to the expansion of the business.

Cash flow over the past five years

Cash flow before change in working capital

Over the most recent five-year period, cash flow before change in working capital showed a positive trend.

Working capital

Working capital, measured as current assets less current liabilities, amounted to an average of approximately 18% of sales over the five-year period.

Investments in existing operations

On average, investments in existing operations over the past five years corresponded to approximately 85% of depreciation according to plan. The explanation for this moderate level is a combination of the Group's organic growth and the fact that most of the Group's production plants were already considered to have adequate capacity for future growth. However, investments in 2018 exceeded the rate of depreciation.

Operating cash flow

The Group's operating cash flow was positive over the past five years. This is because the investment rate in existing operations was moderate, while considerable attention was paid to the Group's day-to-day working capital. The operating cash flow was lower in 2018 than in previous years. Good organic growth meant an abnormally large buildup of stock and higher investments in the Group's production facilities than in previous years.

Acquisition of businesses

During the period, NIBE Industrier AB pursued an aggressive acquisition strategy. Over the last five years, 41 acquisitions and business combinations were implemented, with 13 of these in the NIBE Climate Solutions business area, 26 in NIBE Element and 2 in NIBE Stoves. The rate of acquisition was high in 2014, including the acquisition of the North American company WaterFurnace Renewable Energy Inc. The rate of acquisition was relatively low in 2015, and subsequently increased in 2016, including the acquisition of the North American company Climate Control Group Inc. Many small acquisitions were completed in 2017 and 2018. The objective is to continue to pursue an aggressive acquisition strategy going forward.

Financing

A preferential rights issue was held in 2016. After transaction costs, this injected SEK 3,008 million into the company. Otherwise, capital requirements over the past five years – for takeovers, investments in existing operations, and working capital for organic expansion and share dividends – were financed by the company's own internally generated cash flows and loans. In recent years, bond loans have largely replaced bank financing.

Shareholders' dividends

NIBE Industrier AB aims to pay share dividends of 25-30% of the net profit for the year after tax. Over the most recent five-year period, share dividends varied between 29.9% and 32.2% of the year's profit after tax.

Consolidated income statement

(SEK million)		2018	2017
Net sales	Note 3	22,516	19,009
Cost of goods sold		– 15,054	– 12,446
Gross profit		7,462	6,563
Selling expenses		– 3,432	– 3,140
Administrative expenses	Note 5	– 1,453	– 1,240
Other operating income	Note 10	252	161
Operating profit	Notes 3-10	2,829	2,344
Profit from financial items			
Profit from participations in associates and joint ventures	Note 23	6	4
Financial income	Note 12	173	89
Financial expenses	Note 13	– 341	– 255
Profit after net financial items		2,667	2,182
Tax	Note 15	– 595	– 479
Net profit		2,072	1,703
Profit for the year attributable to			
Parent shareholders		2,074	1,703
Non-controlling interest		– 2	–
Net profit		2,072	1,703
Includes amortisation/depreciation according to plan as follows:		691	640
Average number of shares		504,016,622	504,016,622
Net profit per share before and after dilution, SEK		4.11	3.38
Proposed dividend per share in SEK		1.30	1.05
Statement of comprehensive income			
Net profit		2,072	1,703
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains and losses in retirement benefit plans	Note 26	40	41
Tax attributable to other comprehensive income	Note 15	– 9	– 9
		31	32
Items that may be reclassified to profit or loss			
Cash flow hedges		1	3
Hedging of net investment		– 59	59
Exchange differences		1,153	– 742
Tax attributable to other comprehensive income	Note 15	– 73	67
		1,022	– 613
Total other comprehensive income		1,053	– 581
Total comprehensive income		3,125	1,122
Total comprehensive income attributable to			
Parent shareholders		3,128	1,122
Non-controlling interest		– 3	–
Total comprehensive income		3,125	1,122

Comments on the income statement

Net sales

The target for the Group is annual growth of 20%, preferably with half of this total generated organically and half through acquisitions.

Consolidated net sales increased during the year by SEK 3,507 million (18.5%) to SEK 22,516 million (SEK 19,009 million).

Consolidated net sales outside Sweden amounted to SEK 19,556 million (SEK 16,249 million), an increase of SEK 3,307 million (20.4%). This means that net sales abroad accounted for 86.9% (85.5%) of total net sales. Consolidated net sales on the Swedish market increased by 7.2% to SEK 2,960 million (SEK 2,760 million).

As acquired sales growth during the year totalled SEK 1,146 million (6.0%), this means that organic sales increased by SEK 2,361 million or 12.5%. The weakening of the Swedish krona during the year had a positive effect on organic growth.

Operating profit

The target is for the operating profit for both the Group and each business area to be at least 10% of sales over a business cycle.

Group operating profit totalled SEK 2,829 million, an increase of 20.7% on the operating profit of SEK 2,344 million for the preceding year. The operating margin was 12.6% compared with 12.3% in the preceding year. The improvement in operating margin is mainly because sales of heat pumps increased considerably in 2018 in both Europe and the US. The increased demand in Europe is most obvious on markets in which governments have displayed an ambition to phase out fossil fuels, while in the US it is primarily because the tax subsidies that had been withdrawn were reintroduced at the start of the year. Operating profit for the year has been charged with acquisition expenses of SEK 15 million, compared with SEK 34 million last year, which were recognised as administrative expenses in the consolidated income statement.

Profit after financial items

Profit after financial items rose by 22.2% to SEK 2,667 million (SEK 2,182 million) to yield a profit margin of SEK 11.8% (11.5%). Net financial items for the Group was SEK -162 million, the same as in the preceding year. Consolidated interest-bearing liabilities at year-end amounted to SEK 9,239 million, against SEK 8,976 million at the start of the year. The average interest rate during the year was 1.7% (1.5%). Net financial items include exchange gains and losses.

Tax

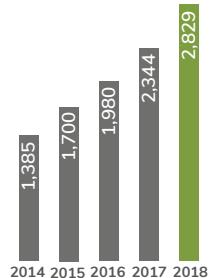
The tax expense for the year was SEK 595 million (SEK 479 million), which gives an effective tax rate of 22.3% (22.0%).

Net sales
past five years (SEK m)



Net sales rose by 18.5% in 2018

Operating profit
past five years (SEK m)



Operating profit rose by 20.7% in 2018

Profit after
financial items
past five years (SEK m)



Profit after financial items rose by 22.2% in 2018

Performance per business area during the year

Quarterly data

Consolidated income statement

(SEK million)	2018				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	4,862	5,371	5,785	6,498	4,370	4,639	4,644	5,356
Operating expenses	- 4,365	- 4,739	- 4,990	- 5,593	- 3,944	- 4,110	- 3,981	- 4,630
Operating profit	497	632	795	905	426	529	663	726
Net financial items	- 54	- 44	- 36	- 28	- 30	- 48	- 51	- 33
Profit after net financial items	443	588	759	877	396	481	612	693
Tax	- 107	- 148	- 152	- 188	- 103	- 123	- 130	- 123
Net profit	336	440	607	689	293	358	482	570

Net sales – by business area

NIBE Climate Solutions	2,971	3,384	3,752	4,148	2,640	2,940	3,003	3,437
NIBE Element	1,483	1,652	1,576	1,638	1,285	1,325	1,212	1,280
NIBE Stoves	524	471	563	821	520	451	517	748
Elimination of Group transactions	-116	-136	-106	-109	-75	-77	-88	-109
Group total	4,862	5,371	5,785	6,498	4,370	4,639	4,644	5,356

Operating profit – by business area

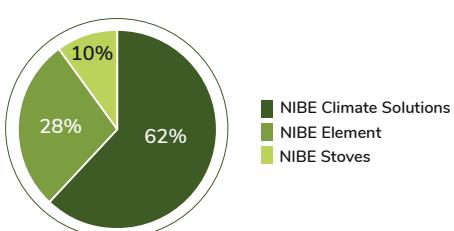
NIBE Climate Solutions	308	436	590	628	256	356	460	523
NIBE Element	154	198	164	134	142	158	149	114
NIBE Stoves	45	23	59	138	45	31	69	130
Elimination of Group transactions	- 10	- 25	- 18	5	- 17	- 16	- 15	- 41
Group total	497	632	795	905	426	529	663	726

Sales by Business Area

Past 9 quarters (in millions of SEK)

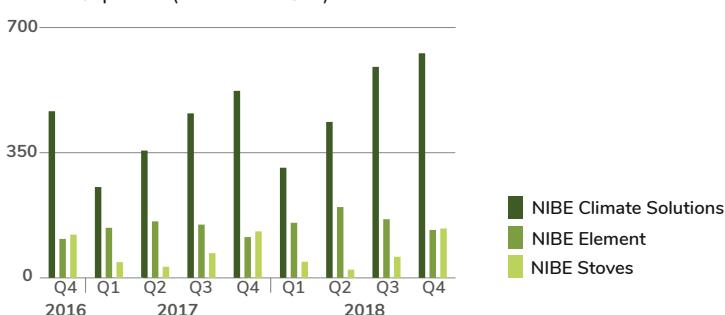


Business Area contributions to sales

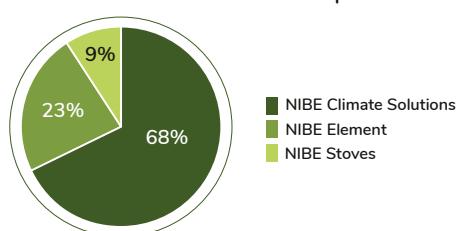


Operating profit by Business Area

Past 9 quarters (in millions of SEK)



Business Area contributions to profit



NIBE Climate Solutions

Net sales for the year amounted to SEK 14,255 million, compared with SEK 12,020 million for the preceding year. The increase in sales was SEK 2,235 million (18.6%), with acquired sales accounting for SEK 325 million (2.7%), which means that organic growth was SEK 1,910 million (15.9%). During the past five years, sales increased from SEK 5,740 million to SEK 14,255 million.

Operating profit increased from SEK 1,595 million to SEK 1,962 million, which represents growth in profits of 23.0% and an operating margin of 13.8% (13.3%) for the year. Over the past five years, the operating margin averaged 14.2%.

Several of NIBE Climate Solutions' main heat pump markets in Europe had healthy growth during the year. This applies above all to markets such as the UK, the Netherlands and Norway, where the governments have displayed an ambition to phase out fossil energy sources such as oil and gas. Demand in the US increased considerably during the year after the decision in early 2018 to reintroduce state subsidies for the installation of heat pumps.



Net sales rose by 18.6% in 2018

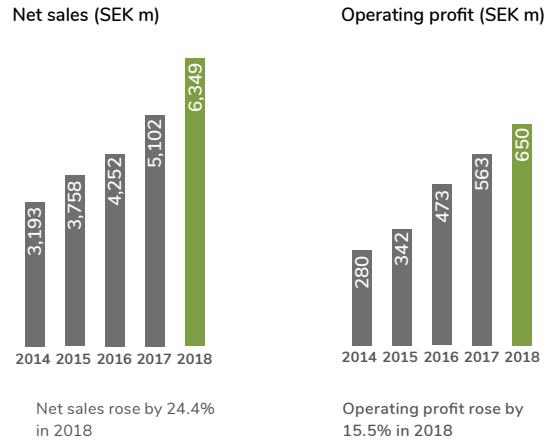
Operating profit rose by 23.0% in 2018

NIBE Element

Net sales for the year amounted to SEK 6,349 million, compared with SEK 5,102 million for the preceding year. The increase in sales was SEK 1,247 million (24.4%), with acquired sales accounting for SEK 780 million (15.3%), which means that organic growth was SEK 467 million (9.1%). During the past five years, sales increased from SEK 2,822 million to SEK 6,349 million.

Operating profit increased from SEK 563 million to SEK 650 million, which represents growth in profits of 15.5% and an operating margin of 10.2% (11.0%) for the year. Over the past five years, the operating margin averaged 10.2%.

Demand for NIBE Element's products grew overall during the year, and this is the main reason for the healthy organic growth. However, growth in demand varied between markets and product segments. The decrease in operating margin on the previous year is largely due to a less favourable product mix.



Net sales rose by 24.4% in 2018

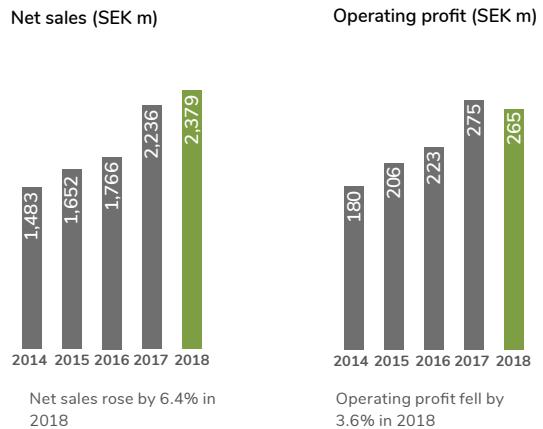
Operating profit rose by 15.5% in 2018

NIBE Stoves

Net sales for the year amounted to SEK 2,379 million, compared with SEK 2,236 million for the preceding year. The increase in sales was SEK 143 million (6.4%), with acquired sales accounting for SEK 42 million (1.9%), which means that organic growth was SEK 101 million (4.5%). Over the past five years, sales increased from SEK 1,395 million to SEK 2,379 million.

Operating profit decreased from SEK 275 million to SEK 265 million, which represents a fall in profits of 3.6% and an operating margin of 11.2% (12.3%) for the year. Over the past five years, the operating margin averaged 12.1%.

The increase in organic sales should be seen against the background of reduced demand in Europe in several product segments. However, there was growth on the North American market, particularly for gas-fired products. Major investments in product development and marketing during the year are the primary cause of the poorer operating margin.



Net sales rose by 6.4% in 2018

Operating profit fell by 3.6% in 2018

Consolidated balance sheet

Assets			Equity and liabilities		
(SEK million)	31 Dec 2018	31 Dec 2017	(SEK million)	31 Dec 2018	31 Dec 2017
NON-CURRENT ASSETS					
Intangible assets			EQUITY	Note 25	
Market positions	Note 16	1,703	Share capital	79	79
Brands and trademarks	Note 17	2,091	Contributed capital	4,818	4,818
Goodwill	Note 17	12,750	Other reserves	1,103	80
Other intangible assets	Note 18	485	Profit brought forward	9,406	7,830
Total intangible assets		17,029	Equity attributable to parent	15,406	12,807
Property, plant and equipment			Non-controlling interest	15	-
Land and buildings	Note 20	1,811	TOTAL EQUITY	15,421	12,807
Machinery and equipment	Note 21	1,376	NON-CURRENT LIABILITIES AND PROVISIONS		
Construction in progress	Note 19	223	Provisions for pensions	Note 26	457
Total property, plant and equipment		3,410	Provisions for taxes	Note 15	1,095
Financial assets			Guarantee risk reserve	Note 27	596
Participations in associates and joint ventures	Note 23	181	Other provisions, non-interest-bearing	Note 27	200
Investments held as non-current assets		20	Liabilities to credit institutions	Note 7	1,564
Deferred tax assets	Note 15	276	Bond loans	Note 28	5,360
Other non-current receivables	Note 24	112	Other liabilities, interest-bearing		17
Total financial assets		589	Other liabilities, non-interest-bearing	Note 29	2,041
TOTAL NON-CURRENT ASSETS	21,028	18,118	TOTAL NON-CURRENT LIABILITIES AND PROVISIONS	11,330	9,819
CURRENT ASSETS					
Inventories			CURRENT LIABILITIES AND PROVISIONS		
Raw materials and consumables		2,061	Liabilities to credit institutions	Note 30	982
Work in progress		303	Bond loans	Note 28	900
Finished products and goods for resale		1,742	Accounts payable		1,648
Total inventories		4,106	Advance payments from customers		36
Current receivables			Current tax liabilities		127
Accounts receivable		3,313	Other liabilities	Note 32	527
Current tax assets		274	Accrued expenses and deferred income	Note 33	1,320
Other receivables		165	TOTAL CURRENT LIABILITIES AND PROVISIONS	5,540	5,364
Prepaid expenses and accrued income		216	TOTAL EQUITY AND LIABILITIES	32,291	27,990
Total current receivables		3,968			
Investments in securities etc.		166			
Cash and equivalents		3,023			
TOTAL CURRENT ASSETS	11,263	9,872			
TOTAL ASSETS	32,291	27,990			

GROUP
Changes in equity

(SEK million)	Share capital	Contributed capital	Other reserves 1)	Profit brought forward	Equity attributable to parent	Non-controlling interest	Total equity
Equity							
31 Dec 2016	79	4,818	693	6,539	12,129		12,129
Net profit for the year				1,703	1,703		1,703
Other comprehensive income for the year			– 613	32	– 581		– 581
Comprehensive income for the year			– 613	1,735	1,122		1,122
Dividend				– 444	– 444		– 444
Equity							
31 Dec 2017	79	4,818	80	7,830	12,807		12,807
Change in non-controlling interest						19	19
Net profit for the year				2,074	2,074	– 2	2,072
Other comprehensive income for the year			1,023	31	1,054	– 1	1,053
Comprehensive income for the year			1,023	2,105	3,128	– 3	3,125
Dividend				– 529	– 529	– 1	– 530
Equity							
31 Dec 2018	79	4,818	1,103	9,406	15,406	15	15,421

1) Other reserves

(SEK million)	Cash flow hedges	Hedging of net investments	Exchange differences	Total other reserves
Other reserves				
31 Dec 2016	2	– 573	1,264	693
Change during the year	3	59	– 742	– 680
Tax	– 1	– 13	81	67
Other reserves				
31 Dec 2017	4	– 527	603	80
Change during the year	1	– 59	1,154	1,096
Tax	– 1	13	– 85	– 73
Other reserves carried forward, 31 Dec 2018	4	– 573	1,672	1,103

Comments on the balance sheet

Total assets

Consolidated total assets rose by SEK 4,301 million (15.4%) during the year from SEK 27,990 million in the preceding year to SEK 32,291 million. The principal reasons for the increase are the addition of assets and liabilities through the acquisitions made during the year, and the weakening of the Swedish krona, which resulted in large exchange differences on translation of consolidated assets and liabilities in foreign currencies.

Working capital

Consolidated working capital excluding cash and bank balances increased by SEK 1,314 million (42.4%) during the year from SEK 3,102 million in the preceding year to SEK 4,416 million. In relation to net sales, working capital increased from 16.3% to 19.6%. This is primarily due to good organic growth during the year, which meant an increase mostly in inventories and accounts receivable.

Equity ratio and returns

The consolidated equity ratio at year-end was 47.7% (45.8%). Equity totalled SEK 15,421 million (SEK 12,807 million).

The Group's profitability target is a return on equity of at least 20%

in the long term. The return on equity in 2018 was 14.8% (13.7%). The increase is due to an increase in consolidated profit after net financial items on the previous year. The return on capital employed was 13.0% (11.5%).

Interest-bearing liabilities

Consolidated interest-bearing liabilities at year-end amounted to SEK 9,239 million (SEK 8,976 million). The increase of SEK 263 million is primarily due to exchange rate effects as consolidated liabilities in foreign currencies increased after translation. Since one of the Group's credit agreements expires in 2019, the liabilities covered by the agreement were recognised as current liabilities to credit institutions.

Consolidated net liabilities, defined as interest-bearing liabilities less cash and equivalents and investments in securities, increased by SEK 496 million during the year from SEK 5,554 million to SEK 6,050 million. Apart from the above exchange rate effects, this was due to the increase in working capital during the year and to the investments in both acquisitions and existing businesses, as these were mainly financed with internally generated cash flows.

Consolidated statement of cash flows

(SEK million)	2018	2017
OPERATING ACTIVITIES		
Operating profit	2,829	2,344
+ depreciation/amortisation & impairment charged to this profit	691	641
+ capital losses/-capital gains	1	- 11
+/- other non-cash items	- 18	- 15
Total	3,503	2,959
Interest received and similar items	179	93
Interest paid and similar items	- 345	- 245
Tax paid	- 685	- 500
Cash flow before change in working capital	2,652	2,307
Change in working capital		
Change in inventories	- 534	- 320
Change in current receivables	- 285	- 193
Change in current liabilities	55	329
Cash flow from operating activities	1,888	2,123
INVESTING ACTIVITIES		
Investment in machinery and equipment	- 372	- 194
Investment in buildings and land	- 60	- 79
Investment in construction in progress	- 146	- 130
Investment in other property, plant and equipment	- 139	- 158
Sale of land and buildings	6	11
Sale of machinery and equipment	7	20
Change in non-current receivables and other securities	- 73	- 6
Investments in existing operations	- 777	- 536
OPERATING CASH FLOW	1,111	1,587
Acquisition of companies ¹⁾	- 1,001	- 822
Cash flow from investing activities	- 1,778	- 1,358
CASH FLOW AFTER INVESTMENTS	110	765
FINANCING ACTIVITIES		
Amortisation of non-current loans	Note 31	- 1,470
New loans raised	Note 31	1,500
Shareholders' dividend		- 530
Cash flow from financing activities		- 500
Cash flow for the year		- 390
Cash and equivalents at start of year		3,422
Exchange difference in cash and equivalents		157
Cash and equivalents at end of year		3,189

¹⁾ For further information about the acquisition of companies, see Note 36.

Comments on the statement of cash flows

Cash flow from operating activities

Consolidated cash flow after changes in working capital amounted to SEK 1,888 million (SEK 2,123 million).

Investments

Investment in Group acquisitions of operations/subsidiaries totalled SEK 1,001 million (SEK 822 million). Other investments totalled SEK 777 million (SEK 536 million) net, allocated as follows:

(SEK million)	2018	2017
Machinery and equipment	365	174
Properties	54	68
Construction in progress	146	130
Other non-current assets	212	164
Total	777	536

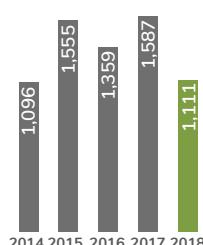
Consequently, cash flow after investment activities was SEK 110 million (SEK 765 million). Operating cash flow – i.e. after investments in existing operations, but excluding acquisitions of operations/subsidiaries – was SEK 1,111 million (SEK 1,587 million).

Consolidated interest-bearing loans

Consolidated interest-bearing liabilities at year-end totalled SEK 9,239 million (SEK 8,976 million). The average interest expense for total interest-bearing liabilities was 1.7% (1.5%). Consolidated net liabilities, which consist of interest-bearing liabilities less cash and equivalents and investments in securities, totalled SEK 6,050 million (SEK 5,554 million).

(SEK million)	2018	2017
Floating rate bank loans	2,518	3,486
Floating rate bond loans	4,850	3,600
Fixed rate bond loans	1,410	1,416
Utilised portion of overdraft facilities with floating interest rate	27	38
Provisions for pensions	417	429
Other interest-bearing liabilities	17	7
Total interest-bearing liabilities	9,239	8,976
Unutilised overdraft facilities	373	381
Other unutilised credit	4,206	4,212
Total credit available	13,818	13,569

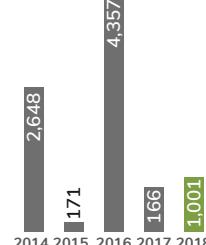
Operating cash flow past five years (SEK m)



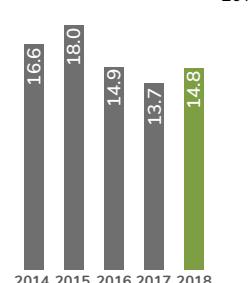
Investments in existing operations past five years (SEK m)



Investments/Acquisitions past five years (SEK m)



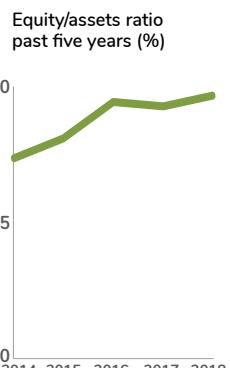
Return on equity past five years (%)



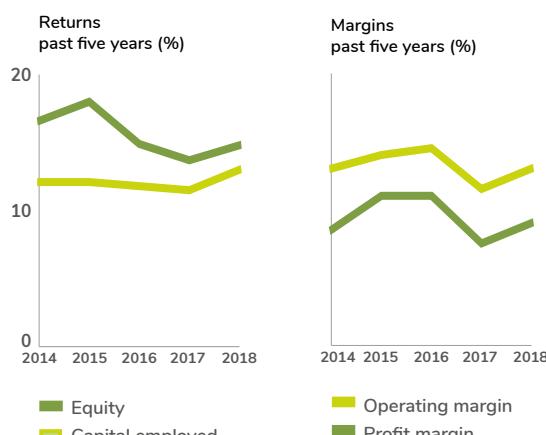
Key ratios

		2018	2017	2016	2015	2014
Net sales	SEK million	22,516	19,009	15,348	13,243	11,033
Growth	%	+ 18.5	+ 23.9	+ 15.9	+ 20.0	+ 12.2
Operating profit	SEK million	2,829	2,344	1,980	1,700	1,385
Profit after net financial items	SEK million	2,667	2,182	1,871	1,614	1,292
EBITDA margin	%	15.6	15.7	16.4	16.5	16.2
Operating margin	%	12.6	12.3	12.9	12.8	12.6
Profit margin	%	11.8	11.5	12.2	12.2	11.7
Net investments in non-current assets*	SEK million	2,479	2,026	5,156	531	3,098
Operating cash flow	SEK million	1,111	1,587	1,359	1,555	1,096
Available cash and equivalents*	SEK million	3,562	3,803	2,926	2,195	2,735
Working capital, excluding cash and bank balances, in relation to net sales*	%	19.6	16.3	19.6	13.0	19.1
Equity	SEK million	15,421	12,807	12,129	7,428	6,560
Return on equity*	%	14.8	13.7	14.9	18.0	16.6
Equity/assets ratio	%	47.7	45.8	46.6	39.9	36.2
Proportion of risk-bearing capital	%	51.1	49.2	50.7	44.5	40.8
Capital employed	SEK million	24,660	21,783	20,665	14,710	14,411
Return on capital employed*	%	13.0	11.5	11.8	12.1	12.1
Return on total capital*	%	10.0	9.0	9.4	9.6	9.6
Capital turnover ratio	times	0.75	0.70	0.69	0.72	0.71
Interest-bearing liabilities/Equity	%	60.0	70.1	70.4	98.0	119.7
Net debt/EBITDA*	times	1.7	1.9	2.4	2.5	3.3
Interest coverage ratio*	times	8.8	9.6	9.6	12.3	7.6
Average number of employees	no.	16,569	14,271	11,869	10,545	9,726

*Key ratios with calculation specified on pages 82-83.



Equity increased by SEK 3,008 million in 2016 due to new share issue.



Definitions – key ratios

Growth

Percentage change in net sales compared with previous year.

EBITDA margin

Operating profit before depreciation as a percentage of net sales.

Operating margin

Operating profit as a percentage of net sales.

Profit margin

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

Operating cash flow

Cash flow after investments but before acquisition of companies/operations.

Equity

Taxed equity plus untaxed reserves less tax.

Return on equity

Profit after net financial items less tax at 22.0% standard rate as a percentage of average equity.

Equity/assets ratio

Equity as a percentage of total assets.

Proportion of risk-bearing capital

Equity, including non-controlling interest and deferred tax liability, as a percentage of total assets.

Capital employed

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

Return on capital employed

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

Return on total capital

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

Capital turnover ratio

Net sales divided by average total assets.

Interest-bearing liabilities/Equity

Interest-bearing liabilities as a percentage of equity.

Net debt/EBITDA

Interest-bearing net debt (financial liabilities less financial assets) divided by profit before depreciation/amortisation.

Interest coverage ratio

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

Alternative performance measures

Alternative performance measures are financial measures that are used by the company's management and by investors to evaluate the Group's profit and financial position using calculations that cannot be directly derived from the financial statements. The alternative performance measures provided in this annual report may be calculated using methods that differ from those used to produce similar measures by other companies.

Net investments in non-current assets

(SEK million)	2018	2017	2016	2015	2014
Acquisition of non-current assets	2,493	2,058	5,185	539	3,136
Disposal of non-current assets	– 14	– 32	– 29	– 8	– 38
Net investments in non-current assets	2,479	2,026	5,156	531	3,098

Cash and equivalents

(SEK million)	2018	2017	2016	2015	2014
Cash and bank balances	3,023	3,332	2,342	1,448	1,827
Investments in securities etc.	166	90	160	347	154
Unutilised overdraft facilities	373	381	424	400	754
Cash and equivalents	3,562	3,803	2,926	2,195	2,735

Working capital, excluding cash and bank balances

(SEK million)	2018	2017	2016	2015	2014
Inventories	4,106	3,247	2,799	2,115	2,109
Current receivables	3,968	3,203	2,798	1,901	1,844
Current liabilities and provisions, non-interest-bearing	– 3,658	– 3,348	– 2,596	– 2,289	– 1,849
Working capital, excluding cash and bank balances	4,416	3,102	3,001	1,727	2,103
Net sales	22,516	19,009	15,348	13,243	11,033
Working capital excluding cash and bank balances relative to net sales, %	19.6	16.3	19.6	13.0	19.1

Return on equity

(SEK million)	2018	2017	2016	2015	2014
Profit after net financial items	2,667	2,182	1,871	1,614	1,292
Standard tax rate, %	22.0	22.0	22.0	22.0	22.0
Profit after net financial items, after tax	2,080	1,702	1,459	1,259	1,008
Equity at start of year	12,807	12,129	7,428	6,560	5,575
Equity at end of year	15,406	12,807	12,129	7,428	6,560
Average equity	14,107	12,468	9,779	6,994	6,068
Return on equity, %	14.8	13.7	14.9	18.0	16.6

Return on capital employed

(SEK million)	2018	2017	2016	2015	2014
Profit after net financial items	2,667	2,182	1,871	1,614	1,292
Financial expenses	341	255	216	143	194
Profit before financial expenses	3,008	2,437	2,087	1,757	1,486
Capital employed at start of year	21,783	20,665	14,710	14,411	10,167
Capital employed at end of year	24,660	21,783	20,665	14,710	14,411
Average capital employed	23,221	21,224	17,687	14,561	12,289
Return on capital employed, %	13.0	11.5	11.8	12.1	12.1

Return on total capital

(SEK million)	2018	2017	2016	2015	2014
Profit after net financial items	2,667	2,182	1,871	1,614	1,292
Financial expenses	341	255	216	143	194
Profit before financial expenses	3,008	2,437	2,087	1,757	1,486
Total assets at start of year	27,990	26,024	18,604	18,110	12,967
Total assets at end of year	32,291	27,990	26,024	18,604	18,110
Average total assets	30,140	27,007	22,314	18,357	15,538
Return on total assets, %	10.0	9.0	9.4	9.6	9.6

Net debt/EBITDA

(SEK million)	2018	2017	2016	2015	2014
Non-current liabilities and provisions, interest-bearing	7,357	6,960	5,858	7,118	7,558
Current liabilities and provisions, interest-bearing	1,882	2,016	2,678	164	294
Cash and bank balances	– 3,023	– 3,332	– 2,342	– 1,448	– 1,827
Investments in securities etc.	– 166	– 90	– 160	– 347	– 154
Net debt	6,050	5,554	6,034	5,487	5,871
Operating profit	2,829	2,344	1,980	1,700	1,385
Depreciation, amortisation and impairment	691	641	542	480	402
EBITDA	3,520	2,985	2,522	2,180	1,787
Net debt/EBITDA, times	1.7	1.9	2.4	2.5	3.3

Interest coverage ratio

(SEK million)	2018	2017	2016	2015	2014
Profit after net financial items	2,667	2,182	1,871	1,614	1,292
Financial expenses	341	255	216	143	194
Interest coverage ratio, times	8.8	9.6	9.6	12.3	7.6

Parent

Income statement

(SEK million)		2018	2017
Net sales	Note 3	14	9
Administrative expenses	Note 5	- 71	- 54
Operating profit	Notes 3-10	- 57	- 45
Profit from financial items			
Profit from participations in Group companies	Note 11	638	391
Profit from participations in associates and joint ventures	Note 23	3	5
Financial income	Note 12	91	61
Financial expenses	Note 13	- 142	- 109
Profit after net financial items		533	303
Appropriations	Note 14	107	90
Tax	Note 15	- 6	-
Net profit		634	393
Net profit attributable to Parent shareholders		634	393
Statement of comprehensive income			
Net profit		634	393
Other comprehensive income		-	-
Total comprehensive income		634	393
Parent shareholders		634	393
Total comprehensive income		634	393

Statement of cash flows

(SEK million)	2018	2017
OPERATING ACTIVITIES		
Operating profit	- 57	- 45
Interest received and similar items	91	65
Interest paid and similar items	- 142	- 99
Tax paid	- 6	- 14
Cash flow before change in working capital	- 114	- 93
Change in working capital		
Change in current receivables	162	309
Change in current liabilities	- 25	- 122
Cash flow from operating activities	23	94
INVESTING ACTIVITIES		
Change in non-current receivables and other securities	- 1,259	- 105
Cash flow from investing activities	- 1,259	- 105
OPERATING CASH FLOW		
Investments in operations	- 182	- 803
Cash flow from investing activities	- 1,441	- 908
CASH FLOW AFTER INVESTMENTS		
	- 1,418	- 814
FINANCING ACTIVITIES		
Profit from participations in Group companies	748	490
Amortisation of non-current loans	Note 31	-
New loans raised	Note 31	1,250
Shareholders' dividend		- 529
Cash flow from financing activities	1,469	814
Cash flow for the year	51	-
Cash and equivalents at start of year		-
Cash and equivalents at end of year	51	-

Changes in equity

(SEK million)	Share capital	Statutory reserve	Share premium reserve	Profit brought forward	Total equity
Equity 31 Dec 2016	79	75	4,751	2,798	7,703
Comprehensive income for the year				393	393
Dividend				- 444	- 444
Equity 31 Dec 2017	79	75	4,751	2,747	7,652
Profit from merger ¹⁾				4	4
Comprehensive income for the year				634	634
Dividend				- 529	- 529
Equity 31 Dec 2018	79	75	4,751	2,856	7,761

1) Profit from merger with the wholly owned subsidiary Nibe Energy Systems WFE AB.

Balance sheet

Assets

(SEK million)		31 Dec 2018	31 Dec 2017
NON-CURRENT ASSETS			
Financial assets			
Shares in subsidiaries	Note 22	10,131	12,643
Participations in associates and jointly controlled entities	Note 23	163	7
Receivables from Group companies		3,907	105
Investments held as non-current assets		8	6
Deferred tax assets	Note 15	2	2
Other non-current receivables	Note 24	13	18
TOTAL NON-CURRENT ASSETS		14,224	12,781
CURRENT ASSETS			
Current receivables			
Receivables from Group companies		130	285
Tax assets		9	12
Other receivables		6	15
Prepaid expenses and accrued income		13	11
Total current receivables		158	323
Cash and equivalents		51	–
TOTAL CURRENT ASSETS		209	323
TOTAL ASSETS		14,433	13,104

Comments on Parent

Operations

Parent activities comprise Group executive management functions and certain shared Group functions.

Operating profit

The parent's sales refer in their entirety to sales to Group companies, and amounted to SEK 14 million (SEK 9 million) for the year. Administrative expenses consist primarily of personnel costs and purchased services such as auditing and expenses linked to the stock exchange listing.

Net financial items

The parent's expenditure on operating expenses, interest, amortisation and dividends to shareholders is financed primarily through dividends and Group contributions from subsidiaries.

Balance sheet

The parent's total assets increased from SEK 13,104 million to SEK 14,433 million during the year. The increase is mostly due to Group investments in the acquisition of operations during the year. Additional bond loans of SEK 1,250 million were raised during the year. The parent's non-current interest-bearing liabilities consist entirely of bond loans. Interest-bearing liabilities at year-end amounted to SEK 6,260 million (SEK 5,016 million), and the average interest rate on these liabilities amounted to 0.8% during the year. At year-end, the parent's interest-bearing liabilities consisted entirely of liabilities in SEK, as set out in Note 7.

Balance sheet

Equity and liabilities

(SEK million)		31 Dec 2018	31 Dec 2017
EQUITY			
Restricted equity			
Share capital		79	79
Statutory reserve		75	75
Total restricted equity		154	154
Non-restricted equity			
Share premium reserve		4,751	4,751
Profit brought forward		2,856	2,747
Total non-restricted equity		7,607	7,498
TOTAL EQUITY		7,761	7,652
NON-CURRENT LIABILITIES AND PROVISIONS			
Provisions for pensions	Note 26	10	9
Other provisions, non-interest-bearing	Note 27	89	61
Bond loans	Note 28	5,360	5,016
Other liabilities, non-interest-bearing	Note 29	219	149
TOTAL NON-CURRENT LIABILITIES AND PROVISIONS		5,678	5,235
CURRENT LIABILITIES AND PROVISIONS			
Bond loans	Note 28	900	–
Accounts payable		6	6
Liabilities to Group companies		2	1
Other liabilities	Note 32	51	184
Accrued expenses and deferred income	Note 33	35	26
TOTAL CURRENT LIABILITIES AND PROVISIONS		994	217
TOTAL EQUITY AND LIABILITIES		14,433	13,104

Risks and risk management

As a global player, NIBE faces both commercial opportunities and risks of various types. Even though NIBE chiefly operates in markets with strong economies, demand for the company's products and services can be influenced negatively by a general downturn in economic activity or a decline in an individual country or individual segment. On top of this, there are risks such as changes in laws and regulations, shocks to the financial system, natural disasters, terrorism and so on. To counteract the effects of the various risks facing the company, NIBE takes a systematic, proactive approach to risk management.

The common framework and tool for risk management is the NIBE Internal Control Standard or NICS. Risk management processes with activities on several levels are implemented under NICS. NICS addresses the risks the Group may face from four different perspectives: business risks, financial risks, IT risks and sustainability risks. In turn, these perspectives are divided into a number of sub-groups, all of which are evaluated annually by the Group's three business areas and all underlying companies in the Group and are finally managed at Board level in summary form, with decisions on priority measures.

For more information on NIBE's processes and systems for risk management and internal control, see both the section on 'Business opportunities and risks' on page 54 and the corporate governance report on page 118.

Business risks

Political and macroeconomic risks

Political uncertainty and macroeconomic conditions may indirectly affect demand for products and expenses. They may have consequences for operations in vulnerable regions in which trade agreements and customs duties may change dramatically. NIBE discusses these issues with decision makers in relevant areas with a focus on the EU and North America. This is coordinated with other organisation such as trade associations.

Political instability or labour disputes can cause production stoppages that, in turn, lead to compensation claims. NIBE continuously checks compliance with legislation by means of policies, procedures and constructive negotiations with employee representatives.

Customer and market dependence

Large economic fluctuations, changes in energy prices, energy taxes, subsidies and energy legislation may affect the Group's growth. This is deemed to be counteracted by the Group's global presence. Growth per country and product group is monitored continuously. Combined with flexible manufacturing, this permits NIBE to take rapid action. All three business areas have a wide range of customers, and no business area is so dependent on any one customer or group of customers that the loss of that customer/group is likely to seriously impair the profitability of the Group. Moreover, the Group's products help make society more sustainable as they are high-tech and sustainable, which guarantees long-term healthy profitability.

Price risks

Expenses for raw materials and components make up a large proportion of the Group's expenses. These largely consist of metals that are priced in US dollars and quoted on the London Metal Exchange, LME. To counter the effects of price fluctuations and avoid overdependence on specific currencies and markets, purchasing procedures have been largely globalised. In 2018, purchases of raw materials such as nickel, copper and aluminium were partially hedged through forward contracts. Other operating expenses follow general price trends in the markets in which the Group operates.

Risks relating to disputes over patents and litigation

Infringement of patents, registered designs and trademarks represents a constant external threat. The Group holds few patents and only for components which form part of its finished products, but there are several registered designs and trademarks. Based on the Group's continuous monitoring of patents, as far as we are aware, we have not infringed any third-party patents nor have any of our patents been infringed.

Acquisitions

Unforeseen events and discoveries in acquired companies, as well as protracted integration processes and slow synergy effects may result in a need for impairment. However, the Group has well-established procedures and due diligence processes for examining potential acquisitions. Integration and synergy are achieved through very close cooperation with the acquired companies. Acquisitions contribute to expansion with greater know-how, a wider product range and greater geographical presence. Acquisitions provide coordination gains and contribute to sector structuring.

Recall of products

There is always a risk that a series fault in one of the Group's product areas could lead to product recalls, through problems with materials or for other reasons. The risks are reduced by means of systematic quality assurance and inspection procedures. Most Group companies are certified in accordance with ISO 9001. Insurance policies have been taken out as additional risk cover for similar events.

Traditional risks with insurance cover

It is our considered opinion that the Group has adequate cover for traditional insurance risks such as fire, theft, liability, etc. via the global insurance policies taken out. The excess on our policies is between SEK 300,000 and SEK 1 million.

Financial risks

Financial risks comprise these material risks: credit risks, currency risks, financing risks and interest rate risks. These are described in Note 7.

IT risks

Hacking of data systems, theft of business-critical data or sabotage of critical data systems by viruses represent a continuous, growing threat. Measures designed to compensate for these risks comprise strict IT policies for user authorisation and software/hardware-related protection mechanisms. The Group's insurance coverage also largely covers the IT area. Good IT security contributes to efficiency and stability.

Sustainability risks

Climate change

Extreme weather conditions in the form of storms, flooding and extreme heat or cold represent a risk of damage to property and entail an increased risk of damage to the environment in the form of spills, unplanned discharges and leakage. They also create a risk of disruption to production and delivery capacity. Damage and loss can be reduced in areas with an identified higher risk by using our risk analyses and preventive measures and by being prepared. NIBE has global insurance cover for major losses caused by natural disasters.

The supply chain

Most of the components in the products marketed by the Group's three business areas are manufactured by several suppliers in Europe and elsewhere in the world. Suppliers may harm NIBE's reputation if they fail to follow internationally agreed principles for human rights, working conditions, environmental protection, ethical business conduct and/or social responsibility, or if they fail to comply with national legislation in these areas. NIBE evaluates suppliers against internationally agreed principles, quality requirements and their delivery capacity. In our opinion, the Group would not suffer serious harm if any individual supplier were unable to meet our stipulated requirements.

Manufacturing

Risk assessments and improvements are implemented continuously at our production facilities, with ongoing maintenance and new investments, to minimise the impact of the Group suffering production stoppages due to external circumstances. The aim is to have sound procedures in the production process in relation to quality, health and safety, the environment and fire protection. We monitor compliance with and the status of policies and certifications in these areas by means of internal and external audits. A high level of continuous improvement benefits the production process and safety. A global presence, combined with a flexible production structure, permits NIBE to relocate manufacturing processes in accordance with continuity plans.

The environment

Handling materials and chemicals in our production plants entails a risk of damage to the environment for which the Group will be held liable. The Group can be held liable for contaminated soil and groundwater in properties caused by previous owners. In our opinion, the risks are minimised by means of systematic environmental work based on ISO 14001 certification and due diligence in conjunction with acquisitions.

Occupational health and safety

Inadequate health and safety in the workplace can lead to accidents

resulting in personal injury and production stoppages. NIBE carries out systematic health and safety work with risk analyses of tasks, machines and materials, and procedures for reporting incidents and investigating fundamental causes. A good, safe working environment promotes productivity and creates more efficient workplaces with better well-being and higher motivation.

Human resource management

NIBE's future success depends largely on its ability to recruit, retain, develop and replace qualified officers and other key individuals. A lack of expertise or leadership leads to poorer product and business development. In our opinion, our strategic HR work to recruit, retain, develop and replace qualified officers and other key individuals counteracts this risk and gives us a head start in terms of our capacity for innovation, business development and growth.

Distribution

Disruption in the distribution stage can have a negative impact on customers, and higher freight volumes mean higher carbon dioxide emissions. The distribution channels are checked regularly. Procedures are in place for following up and taking any required action. In addition, transportation is coordinated and used efficiently to reduce emissions and make it greener.

Corruption

Corruption in a company may entail high costs and litigation, and may generally reduce confidence in the company. All NIBE employees at risk undergo training in anti-corruption. The Group also has a whistleblower function. Business partners sign an anti-corruption clause as part of their contract. Good business principles ensure stable operations and build trust among employees, customers and public authorities. An ethical, reliable image generates competitive advantages.

Human rights

NIBE operates in 29 countries and in environments in which unethical business practices and infringements of human rights may occur. If NIBE is involved in these business practices, the company's reputation in the market may be harmed. NIBE may also have fines and other legal sanctions imposed on it. NIBE works with various business partners such as customers, distributors, partners in jointly owned companies, suppliers and others. Differences in culture and working methods between NIBE and these partners may increase the risks associated primarily with business ethics and human rights. Consequently, Our Values and evaluations of business partners (Code of Conduct) are important to how we prevent these risks.

Sensitivity analysis

The Group is exposed to several risk factors that affect earnings trends. Many of these risks are beyond the company's control. The table below sets out some of these changes and illustrates their effect on consolidated earnings. The changes are calculated based on the 2018 balance sheet and income statement.

	Basis for calculation	Change	Impact
Net sales (margin constant)	22,516 SEK million	+/- 1.0 %	89 SEK million
Operating margin (volume constant)	22,516 SEK million	+/- 1.0 %	225 SEK million
Material costs	9,497 SEK million	+/- 1.0 %	95 SEK million
Personnel costs	5,969 SEK million	+/- 1.0 %	60 SEK million
Interest-bearing liabilities (interest constant)	9,239 SEK million	+/- 10.0 %	16 SEK million
Interest rate % (interest-bearing liability constant)	1.7 %	+/- 1.0 percentage point	92 SEK million

Note 1

GENERAL INFORMATION ABOUT THE BUSINESS

NIBE Industrier AB is an international group in sustainable energy solutions with business operations organised in three separate business areas: NIBE Climate Solutions, NIBE Element and NIBE Stoves.

The Group has nearly 17,000 employees and operates in 29 countries in Europe, North America, Australia and Asia. The legal structure of the Group comprises several subsidiaries that run their operations via their own companies or branch offices.

The parent, NIBE Industrier AB, is registered and domiciled in Sweden. The address of the company's head office is Hannabadsvägen 5, Markaryd. The company is listed on Nasdaq Nordic. Its activities consist of Group-wide functions, such as financing, currency transactions, corporate acquisitions, establishing new operations, financial control and policy matters.

Note 2

ACCOUNTING AND VALUATION POLICIES

The NIBE Group applies International Financial Reporting Standards (IFRS) as endorsed by the EU, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, 'Supplementary accounting rules for Groups'.

New and amended accounting policies

The NIBE Group applied IFRS 15 and IFRS 9 for the first time as from 1 January 2018. Other amendments to IFRS which took effect as from 1 January 2018 had no significant impact on the consolidated accounting.

The transitional measures that the Group decided to apply in the transition to IFRS 15 and 9 mean that comparative information in the financial statements was not restated to reflect the requirements in the new standards.

IFRS 9 Financial instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement as from 1 January 2018. Compared with IAS 39, IFRS 9 provided primarily for changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

Classification and measurement of financial assets

As at 1 January 2018, most (SEK 6,210 million) of the consolidated financial assets consisted of receivables that were classified under IAS 39 as 'Loans and receivables' and measured at amortised cost. These classes of receivables are also measured at amortised cost under IFRS 9 as they are held within the framework of a business model, the aim of which is to obtain the contractual cash flows, while the cash flows from the assets only consist of payments of principal and interest. In addition, the Group had financial assets of SEK 103 million that were measured at fair value via profit or loss and consisted of holdings of interest-bearing unit trusts and endowment policies. The trust units are debt securities seen from the unit trust's perspective and must therefore be measured at fair value under IFRS 9 as well. The endowment policies are also measured at fair value via profit or loss under IFRS 9. The transition to IFRS 9 therefore had no effect on how NIBE classifies and measures financial assets. The Group also had derivative assets of SEK 30 million that were used for hedge accounting. See below under 'Hedge accounting'.

Classification and measurement of liabilities

As at 1 January 2018, NIBE had financial liabilities measured at amortised cost of SEK 11,593 million, contingent considerations of SEK 1,320 million measured at fair value via profit or loss and derivative liabilities of SEK 11 million (see 'Hedge accounting' below). The introduction of IFRS 9 has not affected how the Group classifies financial liabilities as the liabilities that were measured at amortised cost under IAS 39 must be measured in the same way under IFRS 9. Moreover, just like IAS 39, IFRS 9 requires that contingent considerations be recognised at fair value via profit or loss.

Impairment of financial assets

IFRS 9 requires that provisions be made for expected credit losses. This differs from IAS 39, which only required provisions to be made for losses when it was suspected that the counterparty would not be able to meet its obligations. Historically, NIBE has suffered few realised credit losses. Over the past five-year period, realised credit losses have averaged only 0.075% of consolidated net sales. NIBE has evaluated the effects of the new impairment model in IFRS 9 and is of the opinion that the changed impairment model has no significant impact on how the Group makes provisions for credit losses. The transition to IFRS 9 consequently did not result in any increase in the reserve for credit losses as at 1 January 2018.

Hedge accounting

In accordance with the transitional rules for IFRS 9, NIBE has decided to continue to apply the rules for hedge accounting in IAS 39. IFRS 9 has therefore had no impact on the Group's application of hedge accounting.

IFRS 15 Revenue from Contracts with Customers

As from 1 January 2018, IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and associated interpretations. Under IFRS 15, revenue is recognised when the customer gains control over the goods or services.

Sale of goods

Consolidated revenue is derived almost exclusively from the sale of finished goods. Under previous accounting policies, revenue from the sale of goods was recognised when the material risks and benefits accompanying the goods' right of use had been transferred to the buyer of the goods, which meant that revenue was recognised when the goods were made available to the customer in accordance with the terms of delivery. Under IFRS 15, revenue must be recognised when the customer has control over the goods, which is usually when the goods have been made available to the customer under the terms of delivery. The introduction of IFRS 15 has therefore not affected the time at which the Group recognises revenue from the sale of goods.

Service agreements and extended warranties

For certain products in the Climate Solutions business area, NIBE offers customers the opportunity to sign a service contract, under which NIBE undertakes to perform maintenance service and remedy certain defects that are not covered by the warranty provided. Payment for service contracts is normally received annually in advance. Service contracts are separate performance obligations and are met over time in accordance with IFRS 15.35. The amount received is therefore taken up as revenue over the term of the service contract. This was also the Group's policy for recognising service contracts before the introduction of IFRS 15. Climate Solutions' customers are also offered the opportunity to sign a contract for a warranty term that exceeds the standard term. Payment for the warranty is received on delivery of the goods. The extended warranties have terms of up to six years. In NIBE's opinion, the extended warranties are also separate performance obligations that are met over time under IFRS 15.35. The amount received for a warranty is taken up as revenue over the term of the warranty, which was also the Group's policy for recognising revenue from extended warranties under previous accounting policies. The Group is therefore of the opinion that the previous policies for recognising revenue from service contracts and extended warranties are also consistent with the requirements in IFRS 15.

IFRS 16 Leases

The Group will apply IFRS 16 Leases as from 1 January 2019. IFRS 16 introduces a uniform lease recognition model for lessees. A lessee recognises a right-of-use asset that represents a right to use the underlying asset and a lease liability that represents an obligation to make lease payments. There are exemptions for short-term leases and leases for assets of low value. For lessors, recognition resembles the current standard, i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 Leases replaces the existing IFRS related to recognition of leases such as IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The Group will recognise new assets and liabilities for operating leases for warehouse and factory facilities, machinery, vehicles and other assets. The expenses for these leases will change as the Group will recognise amortisation for right-of-use assets and interest expenses for lease liabilities.

The Group previously recognised operating lease expenses on a straight-line basis over the lease term and recognised assets (prepaid lease payments) and liabilities (accrued lease payments) only where there was a difference between actual lease payments and recognised expense. The Group will also no longer recognise provisions for operating leases that are deemed to be onerous contracts. Instead, the Group will include payments under the lease in the lease liability. No significant impact is expected on the Group's finance leases.

Based on the information available, the Group estimates that it will recognise lease liabilities of approximately SEK 839 million, right-of-use assets of approximately SEK 826 million and deferred tax assets of approximately SEK 3 million, reducing equity by a net amount of approximately SEK 10 million as at 1 January 2019. NIBE expects the operating profit for 2019 to increase by approximately SEK 17 million compared with if previous accounting policies had been used. This is because part of the lease cost will be recognised as interest expense. The impact on profit after tax is expected to be insignificant. Cash flow from operating activities is expected to increase, and cash flow from financing activities is expected to decrease by approximately SEK 216 million as the amortisation part of the lease payments will be recognised as a payment in financing activities.

The Group will apply the modified retrospective approach. This means that the accumulated effect of IFRS 16 being introduced will be recognised in the opening balance at 1 January 2019 without restating comparative figures. The right-of-use assets attributable to previous operating leases will mainly be recognised at amortised value from the start of the lease and, to a lesser extent, at the value of the liability at 1 January 2019 plus advance payments recognised in the balance sheet at 31 December 2018. The Group plans to apply the relaxed rule of 'inheriting' the previous definition of leases in connection with the transition. This means that it will apply IFRS 16 to all leases entered before 1 January 2019 that were identified as leases under IAS 17 and IFRIC 4.

Leases of low value (assets worth under approximately SEK 50,000 when new), which primarily consist of computers, printers/copiers and coffee machines, will not be included in the lease liability and will continue to be recognised as expenses on a straight-line basis over the lease term. Leases with a maximum term of 12 months, known as short-term leases, are not deemed to be significant in the Group. Given that lease payments for leases of a low value are included in the present annual report in the disclosures on minimum lease payments for operating leases, the above increase in lease liability totals an amount that is less than the present value of these minimum lease payments by approximately SEK 35 million.

No other new and amended IFRS with future application are expected to have any significant impact on NIBE's financial statements.

The parent applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 'Accounting for legal entities'. Where the parent follows accounting policies which differ from those of the Group, this is specified in the relevant section in this note. The parent has also applied IFRS 9 and IFRS 15 as from 1 January 2018. The parent's accounting policies are otherwise unchanged from those applied in the preceding year.

Classification

Non-current assets and non-current liabilities including any relevant provisions and allocations consist of items that are expected to be recovered or paid more than 12 months after the closing date. Current assets and current liabilities including any relevant provisions and allocations are items that are expected to be recovered or paid within 12 months after the closing date. Any deviations from this principle are explained in the notes to the relevant items.

Consolidated financial statements

The consolidated financial statements cover the parent, NIBE Industrier AB (publ), and subsidiaries in which the parent directly or indirectly holds more than 50% of the votes, or has a controlling influence. An acquisition that does not involve 100% of a subsidiary results in a non-controlling interest. Where the holder of the remaining interest has an option to sell it to NIBE, or NIBE has an obligation to buy, NIBE has decided to employ the Anticipated Acquisition Method (AAM), which means that 100% of the subsidiary is considered to have been acquired at the time of acquisition. This also means that a liability equivalent to the present value of the estimated future purchase price is recognised. Consequently, no non-controlling interest is recognised with this type of acquisition transaction. Companies acquired/sold are included in the consolidated income statement for the period during which they were owned.

The consolidated financial statements have been drawn up in accordance with the acquisition method, with the application of IAS 27 and IFRS 3.

Items included in the financial statements for the different entities in the NIBE Group are valued in the currency of the primary economic environment in which the entity operates (functional currency). In the consolidated financial statements, the parent's functional and presentation currency is used, which is the Swedish krona (SEK). This means that foreign subsidiaries' assets and liabilities are translated at the closing day rate. All income statement items are translated at the average rate for the year. Translation differences are recognised in other comprehensive income. In some cases, long-term monetary dealings arise between a parent and a foreign entity, in which the dealings are of such a type that they are unlikely to be settled. The exchange differences arising in these are recognised in the consolidated financial statements under other comprehensive income.

IFRS 3 states, among other things, that the net assets of the acquiree are assessed based on the fair value of assets and liabilities on the acquisition date. These fair values constitute the Group's acquisition cost. The cost of an acquisition is the fair value of the assets transferred as consideration and the assets arising or assumed on the transfer date. The revaluation of additional considerations is recognised in profit or loss. The difference between the acquisition cost of shares in a subsidiary and the calculated value of the net assets in the acquisition analysis is recognised as consolidated goodwill. If the difference is negative, it is recognised directly in profit or loss. Acquisition-related costs are recognised when they arise.

In the preparation of the consolidated balance sheet, untaxed reserves have been divided into a portion recognised as a deferred tax liability under the heading 'Non-current liabilities and provisions', and a residual portion which is recognised under profit brought forward. Accordingly, appropriations in the consolidated income statement involving changes in untaxed reserves have been omitted. The tax portion of these changes is recognised along with the tax expense for the year in the income statement, while the equity portion is included in profit for the year. The percentage rate used in calculating deferred tax in Swedish subsidiaries is 20.6 (22.0) percent. The rate used for foreign subsidiaries is the appropriate tax rate in each country. The necessary provisions have been made for internal profits.

Transactions with non-controlling interests which do not lead to loss of control are recognised as equity transactions, i.e. transactions with the owners in their capacity as owners. For acquisitions from non-controlling interests, the difference between fair value on the consideration transferred and the actual acquired proportion of the carrying amount of the subsidiary's net assets is recognised in equity. Gains or losses on disposal to non-controlling interests are also recognised in equity.

Associates and joint ventures

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 associates. Investments in associates and joint ventures are recognised in the Group according to the equity method and in the parent according to the cost method. The equity method means that the participation is initially reported at cost at the time of acquisition and subsequently adjusted according to the Group's participation in the associate's earnings.

Parent's reporting of shares in subsidiaries

The parent reports in accordance with the cost method and capitalises costs which are directly attributable to the acquisition. Additional considerations are recognised at probable outcome. Any future adjustments will affect the carrying amount of shares in the subsidiary.

Group contributions and shareholder contributions

Group contributions are recognised in accordance with the alternative rule in RFR2. Under the alternative rule, a group contribution that a parent receives from a subsidiary is recognised as an appropriation in the parent. A group contribution made by the parent is recognised as an appropriation. Shareholder contributions made to a subsidiary are recognised as an increase in shares in the subsidiary. The value is then tested for impairment.

Statement of cash flows

The statement of cash flows is drawn up in accordance with IAS 7. The indirect method was used, which means that net income is adjusted for transactions that have not given rise to receipts or disbursements during the period, as well as for any income and expense attributable to cash flow from investing or financing activities. Cash and equivalents include cash and immediately accessible holdings in banks, as well as investments in securities.

Revenue recognition

Sale of goods

Consolidated revenue is derived almost exclusively from the sale of finished goods. Sales are taken up as revenue when the customer has control over the goods, which is usually when the goods have been made available to the customer under the terms of delivery. Revenue is recognised less discounts, customer bonuses and other similar items.

Service agreements and extended warranties

For certain products in the Climate Solutions business area, NIBE offers customers the opportunity to sign a one-year service contract, under which NIBE undertakes to perform maintenance service and remedy certain defects that are not covered by the warranty provided. Payment for service contracts is received annually in advance. Service contracts are separate performance obligations and are met over time in accordance with IFRS 15.35. The amount received is therefore taken up as revenue over the term of the service contract. Climate Solutions' customers are also offered the opportunity to sign a contract for a warranty term that exceeds the standard term. Payment for the warranty is received on delivery of the goods. The extended warranties have terms of up to six years. The extended warranties are also separate performance obligations that are met over time under IFRS 15.35. Payment received for warranties is taken up as revenue over the term of the warranties.

Interest income and dividends received

Interest income is taken up as revenue with the application of the effective interest method. Dividends received are recognised as revenue when the right to receive the dividend is established.

Segment reporting

Operationally, the Group's activities are divided into product group oriented business areas due to the differences in risks and opportunities associated with the various product groups. Operations are managed by business area boards. The accounting corresponds to the internal reports submitted to Group management. See Note 3.

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. Parent sales refer only to sales to Group companies. During the financial year, products and services worth SEK 2 million (SEK 2 million) were purchased from companies in which Melker Schörling has a significant influence.

Other operating income

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

Accounting of income taxes

IAS 12 is applied to accounting of income taxes.

Recognised income taxes include current tax, adjustments for the previous year's current tax and changes in deferred tax. All tax liabilities and tax assets are measured at the nominal amount in accordance with the tax regulations and tax rates approved or announced, when there is good reason to believe these will be confirmed.

For items recognised in the income statement, the associated tax effects are also recognised in profit or loss. Tax is recognised in other comprehensive income if the tax is attributable to items recognised in other comprehensive income.

Deferred tax is calculated in accordance with the balance sheet method for all material temporary differences that arise between the recognised value and the tax-based value of assets and liabilities. Such temporary differences arise mainly through Group surpluses. Deferred tax assets in respect of loss carryforwards or other future taxable deductions are recognised to the extent that it is probable that the amount can be deducted from future taxable surpluses.

Due to the relationship between accounting and taxation, the deferred tax liability on untaxed reserves is recognised in the parent as a portion of the untaxed reserves.

Leases

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

Goodwill and trademarks

Goodwill and the consolidated surplus value of trademarks have arisen in connection with business acquisitions. Trademarks are measured at fair value on the acquisition date. The period of use of the trademarks cannot be estimated with certainty, since it is dependent on several unknown factors such as technological advances and market trends. NIBE applies IAS 38 Intangible Assets, which means that goodwill and assets with an indeterminate useful life are not amortised. An impairment test is, however, carried out annually, or more frequently if there are indications that an impairment need may exist, in accordance with IAS 36, in which the Group's carrying amounts on these assets are compared with the assets' estimated value in use based on their discounted future cash flows. The assets are valued by segment, i.e. by business area, which involves calculating future cash flows from each segment as a cash-generating unit. When the value in use is less than the carrying amount, the carrying amount is impaired to the level of the value in use. Accordingly, the assets are recognised at cost less accumulated impairment.

The NIBE Group prepares budgets for one year at a time. This means that the cash flows for the first year of the asset's useful life are based on the budget approved by the Board. Cash flows up until the end of the useful life are estimated by extrapolating the cash flow based on the prepared budget and the assumed organic sales growth, working capital requirements and gross profit margins over the useful life.

- The organic sales growth for years 2-5 can be estimated with some degree of caution based on the Group's historical experience. For subsequent years, a lower growth rate has been assumed, equivalent to the estimated long-term growth rate for the sector.
- The requirement for working capital during the useful life is estimated with the aid of the Group's historical experience and the assumed organic sales growth.
- The gross investment margin is based on the adopted budgets for each cash-generating unit.
- The discount rate is calculated by weighting the assessed required return on equity plus the standard tax rate and the estimated long-term interest level on the Group's interest-bearing liabilities.

Other intangible assets and property, plant and equipment

Other intangible assets refers to tenancy rights, patents, development expenditures, licences, computer programs, market positions and similar assets, and the Group considers that these assets have a limited useful life.

Other intangible assets and property, plant and equipment are carried at cost less accumulated amortisation/depreciation and any impairment. Expenditure on improving the performance of the assets, above the original level, increases the carrying amount of the assets. Expenditure on repairs and maintenance is expensed on a current basis.

Amortisation/depreciation according to plan is based on cost, which, after deducting any residual value, is allocated over the asset's estimated useful life. The following percentages have been applied to amortisation/depreciation:

Market positions	7-11%
Other intangible assets	5-33%
Buildings	2-7%
Land improvements	2-10%
Machinery and equipment	10-33%
Fixtures and fittings	4%

Research and development costs

Expenditure on research activities is expensed as it arises.

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

Other development expenditures which do not meet these conditions are recognised as expenses as they arise. Development expenditures which have previously been expensed are not recognised as assets in a subsequent period.

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

Inventories

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

Financial instruments

Financial instruments recognised among assets in the balance sheet include cash and equivalents, accounts receivable, unlisted shares, interest-bearing securities, derivatives and other receivables. Those recognised among liabilities include accounts payable, borrowings, other liabilities, derivatives and liabilities for contingent considerations.

Initial recognition and measurement

Accounts receivable and issued debt securities are recognised when they are issued. Other financial assets and liabilities are recognised when the Group becomes a party to the contractual terms of the instrument. Financial instruments are initially recognised at fair value plus/less transaction expenses, except for instruments that are measured at fair value via profit or loss on a continuing basis, for which transaction costs are expensed when they arise instead. Accounts receivable (without a significant financing component) are initially measured at the transaction price determined under IFRS 15.

Classification and measurement of financial assets

On initial recognition, a financial asset is classified under IFRS 9 as measured at amortised cost, fair value through other comprehensive income (debt securities investment), fair value through other comprehensive income (equity investment) or fair value through profit or loss. A description of how NIBE's various holdings of financial assets have been classified is given below:

Holdings of fixed income funds

The Group has holdings of fixed income funds that are measured at fair value through profit or loss as, from the perspective of the fund, the fund units are liabilities, while the funds not only give rise to payment of principal and interest.

Endowment insurance

The endowment policies are measured at fair value through profit or loss.

Derivative assets

See below under 'Derivatives and hedge accounting'.

Other financial assets

All other financial assets, which make up most of the Group's financial assets, are recognised at amortised cost. This is because they are held within the framework of a business model, the aim of which is to obtain the contractual cash flows, while the cash flows from the assets only consist of payments of principal and interest.

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost or measured at fair value through profit or loss. The financial liabilities that are measured at fair value through profit or loss consist of contingent considerations for business acquisitions. All other financial liabilities are recognised at amortised cost with the application of the effective interest rate method. The liabilities measured at amortised cost also include liabilities that will be paid for minority shareholders' participations in connection with the application of the AAM. Non-current liabilities have an expected term which is longer than one year, while current liabilities have an expected term of a maximum of one year.

Classification and measurement of financial instruments before 1 January 2018

Before the introduction of IFRS 9 at 1 January 2018, the Group's holdings of financial assets were classified in the following measurement categories under IAS 39: 'Financial assets measured at fair value through profit or loss', 'Loans and receivables' (measured at amortised cost) and 'Derivatives used for hedge accounting'. Financial liabilities were classified under IAS 39 as 'Financial liabilities measured at fair value through profit or loss', 'Financial liabilities measured at amortised cost' and 'Derivatives used for hedge accounting'.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset from the balance sheet when the contractual right to the cash flows from the financial asset expires or if the Group transfers the right to receive the contractual cash flows via a transaction that entails the transfer of all substantial risks and benefits of ownership. A financial liability is derecognised from the balance sheet when the obligations specified in the contract are met, cancelled or expire. The Group also derecognises a financial liability when the contractual terms and conditions are modified and the cash flows from the modified liability are substantially different. In this case, a new financial liability is recognised at fair value based on the modified terms and conditions.

Derivatives and hedge accounting

Hedging

Forward contracts are recognised at fair value in the balance sheet, both initially and after subsequent remeasurement. To fulfil the requirements for hedge accounting, there is a clear link between the derivative and the hedged items. In addition, calculations of effectiveness and all hedging conditions are documented in accordance with the requirements set out in IAS 39. In hedging cash flows, changes in the fair value of hedging instruments, to the extent that the hedging is effective, are recognised under Other comprehensive income until the underlying hedged item is recognised in profit or loss. Ineffective portions are taken up as income immediately. For further information on currency derivatives, please see the section on 'Transaction risks' in Note 7 'Financial instruments and risk management'.

Price hedging

Forward contracts used to hedge prices of raw materials are measured at fair value in the balance sheet, both initially and after subsequent remeasurement. To fulfil the requirements for hedge accounting, there is a clear link between the derivative and the hedged items. In addition, calculations of effectiveness and all hedging conditions are documented in accordance with the requirements set out in IAS 39. For price hedging of raw materials flows, changes in the fair value of hedging instruments are recognised, to the extent that the hedging is effective, under Other comprehensive income until the underlying hedged item is recognised in profit or loss. Ineffective portions are taken up as income immediately. For further information on raw materials derivatives, please see the section on 'Hedge accounting' in Note 7 'Financial instruments and risk management'.

Hedging of net investment

Hedging of net investments in foreign operations is recognised similarly to the method used for cash flow hedging. The portion of the gain or loss on a hedging instrument which is assessed as effective hedging is recognised in Other comprehensive income. The portion that is ineffective is recognised immediately in profit or loss. See the section on 'Translation risks' in Note 7 'Financial instruments and risk management'.

To hedge the risk of change in the fair value of a bond issued with a fixed interest rate, NIBE Group has entered an interest swap via which the Group receives fixed-rate interest and pays variable-rate interest. The Group applies hedge accounting to the swap. The swap has thus been identified as a hedging instrument in a fair value hedge. The swap is recognised at fair value in the balance sheet. At the same time, the hedged item (the bond) is remeasured at fair value in relation to the hedged risk. Changes in value of both the interest swap and the hedged item are recognised in net financial items. For further information on interest rate hedging, please see Note 7 'Financial instruments and risk management'.

Fair value of financial instruments

The fair value of financial instruments which are not traded in an active market is determined using valuation techniques. In this process, market information is used as far as possible when this is available, while company-specific information is used as little as possible. If all the significant inputs required to establish the fair value of an instrument are observable, the instrument is classified in level two. If one or more of the significant inputs is not based on observable market data, the instrument is classified in level three.

NIBE recognises currency derivatives, interest rate derivatives, raw material derivatives, contingent considerations attributable to acquisitions made after 1 July 2014, endowment policies and investments of excess liquidity in listed securities at fair value in the annual report.

When the fair value of an asset or liability is determined, the Group uses observable data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on inputs used in the valuation technique as follows:

Level 1: According to prices quoted on an active market for identical instruments

Level 2: Based on directly or indirectly observable market data that is not included in level 1

Level 3: Based on inputs that are not observable on the market

Listed securities are measured according to level 1, while currency derivatives, interest-rate derivatives, raw materials derivatives and endowment policies are measured according to level 2. Contingent considerations concerning acquisitions of participations that resulted in a business combination come under level 3 in the valuation hierarchy.

Impairment of financial assets

A reserve for expected credit losses is calculated and recognised for the financial assets measured at amortised cost. The reserve for credit losses is calculated and recognised initially based on twelve months' expected credit losses. If the credit risk has increased significantly since the financial asset was first recognised, the reserve for credit losses is calculated and recognised based on expected credit losses for the entire remaining term of the asset. A simplified method is applied to accounts receivable that do not contain a significant financing component, and the reserve for credit losses is calculated and recognised based on expected credit losses for the entire remaining term, whether the credit risk has increased significantly or not. The calculation of expected credit losses is based mainly on information about historical losses for similar receivables and counterparties. The historical information is evaluated and adjusted continuously based on the current situation and the Group's expectations of future events.

Impairment of financial assets before 1 January 2018

For the comparative period of 2017, the Group decided at the end of each reporting period whether there was objective evidence of impairment loss for a financial asset or a group of financial assets. A financial asset or group of financial assets was only impaired if there was objective evidence of a need for impairment as a consequence of one or more events having occurred after the asset was first recognised, and if this event was deemed to have an impact on the estimated future cash flows for the financial asset that could be estimated reliably.

Receivables and liabilities in foreign currency

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

Impairment of non-financial assets

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

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

Equity

Transaction costs directly attributable to the issue of new ordinary shares or options are recognised net of deductions for tax in equity as a deduction from the issue proceeds.

Provisions

IAS 37 is applied to the accounting of provisions. Provisions are recognised when the Group has or may be regarded as having an obligation due to events that have occurred and it is probable that payment will be required to settle the obligation. A further requirement is that it is possible to make a reliable estimate of the amount that will have to be paid. Contingent considerations for shares and participations acquired before 1 July 2014 are recognised as provisions. Guarantee risk provisions are recognised on the date of sale of the products to which the guarantee refers, and are estimated based on the cost history of equivalent obligations.

Defined-benefit pension plans

Defined benefit pension plans are post-employment benefit plans other than defined contribution plans.

The Group's net obligations for defined benefit plans are calculated separately for each plan by estimating the future payment earned by the employee in both current and previous periods. This payment is discounted to present value. The discount rate is the interest rate at the end of the period on an investment grade corporate bond, including mortgage bonds, with a term which corresponds to the Group's pension obligations. When there is no active market for this type of corporate bond, the market interest rate for government bonds with an equivalent term is used instead. The calculation is carried out by a qualified actuary using the Projected Unit Credit Method. In addition, the fair value of any plan assets at the end of the reporting period is calculated.

The Group's net obligations consist of the present value of the obligations less the fair value of plan assets adjusted for any asset limitations.

All the components included in the cost for the period for a defined benefit plan are recognised in profit or loss.

The revaluation effects consist of actuarial gains and losses. The revaluation effects are recognised in other comprehensive income.

When the calculation leads to an asset for the Group, the carrying amount of the asset is limited to the lower of the plan surplus and the asset limitation calculated using the discount rate. The asset limitation consists of the present value of the future economic benefits in the form of reduced future contributions or cash repayment. In calculating the present value of future repayments or payments made, any minimum funding requirements are considered.

Changes or reductions in a defined benefit plan are recognised at the earliest when the change in the plan or the reduction comes into force or when the company recognises related restructuring costs and termination benefits. The changes/reductions are recognised immediately in profit or loss.

The special employer's contribution is a component of the actuarial assumptions, so it is recognised as a component of the net obligation/net asset. The component of the special employer's contribution that is calculated based on the Pension Obligations Vesting Act is recognised, for the sake of simplicity, as an accrued cost rather than as a component of the net obligation/net asset.

The yield tax is recognised on a current basis in profit or loss for the period to which the tax relates, so it is not included in the liability calculation. With funded plans, the tax is charged to the return on plan assets and is recognised in other comprehensive income. For unfunded or partially unfunded plans, the tax is charged to profit for the year.

Critical accounting estimates and assumptions

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

Useful life of intangible assets and property, plant and equipment

Group management determines the estimated useful life, and thereby the associated amortisation/depreciation of consolidated intangible assets and property, plant and equipment. These estimates are based on historical knowledge of the useful life of equivalent assets. The useful life and estimated residual value are tested at the end of each reporting period and adjusted as necessary.

Impairment testing for goodwill and consolidated surplus value in trademarks

Every year, the Group tests whether any impairment is required for goodwill and consolidated surplus value in trademarks in accordance with the accounting policy described under 'Impairment'. The estimates which must be made, and the effect of these estimates, are shown under 'Goodwill and brands/trademarks'. Additional information, including a sensitivity analysis, is given in Note 17.

Provisions

Further information on provisions for the year for the guarantee risk reserve is provided in Note 27. Provisions for the present value of pension obligations depend on several factors that are determined based on actuarial assumptions. Every change in these assumptions will affect the carrying amount of the pension obligations. Significant assumptions relating to pension obligations are based partly on prevailing market conditions. Additional information, including a sensitivity analysis, is given in Note 26.

Additional considerations

The carrying amount of additional considerations is normally based on expected financial performance in acquired operations in future years. Additional considerations are both contingent considerations for shares already acquired and considerations for future acquisitions of minority shareholders' shares in connection with the application of the AAM. If the financial performance differs from the expected performance, it will affect the carrying amount of the additional considerations and, thus, NIBE Group's consolidated earnings.

Note 3

INFORMATION ON THE BUSINESS AREAS

(SEK million)	CLIMATE SOLUTIONS		ELEMENT		STOVES		ELIMINATIONS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales										
Total net sales	16,642	14,089	7,605	6,101	2,898	2,742	- 4,629	- 3,923	22,516	19,009
Internal net sales	- 2,387	- 2,069	- 1,256	- 999	- 519	- 506	4,162	3,574	-	-
External net sales	14,255	12,020	6,349	5,102	2,379	2,236	- 467	- 349	22,516	19,009
Sales by geographical region										
Nordic countries	4,742	4,142	1,095	1,006	632	626	- 311	- 250	6,158	5,524
Rest of Europe	5,352	4,400	2,155	1,704	1,148	1,035	- 139	- 88	8,516	7,051
North America	3,993	3,292	2,345	1,851	508	477	- 17	- 9	6,829	5,611
Other countries	168	186	754	541	91	98	-	- 2	1,013	823
External net sales	14,255	12,020	6,349	5,102	2,379	2,236	- 467	- 349	22,516	19,009
Profit										
Profit per business area	1,962	1,595	650	563	265	275	-	-	2,877	2,433
Unallocated costs									- 48	- 89
Operating profit									2,829	2,344
Financial income									179	93
Financial expenses									- 341	- 255
Tax expense for the year									- 595	- 479
Net profit for the year									2,072	1,703
Other information										
Assets	20,637	18,707	7,655	5,916	3,304	2,958	- 10,399	- 12,967	21,197	14,614
Unallocated assets									11,094	13,376
Total assets									32,291	27,990
Liabilities	2,463	2,603	1,177	943	407	364	- 388	- 561	3,659	3,349
Unallocated liabilities									13,211	11,834
Total liabilities									16,870	15,183
Investments	404	322	214	164	80	48				
Amortisation/Depreciation	448	425	166	139	77	77				

SEK 2,960 million (SEK 2,760 million) of consolidated net sales relates to customers in the Swedish market and SEK 6,088 million (SEK 4,998 million) relates to customers in the US. Of consolidated non-current assets, SEK 1,550 million (SEK 1,217 million) is placed in Sweden, SEK 8,536 million (SEK 6,907 million) in the US and Mexico and SEK 5,422 million (SEK 5,093 million) in Germany and Switzerland. Unallocated costs refer primarily to the acquisition expenses and to Group-wide costs in the parent. The parent's sales refer entirely to contractual sales to Group companies. There was no deferred income at either the start or end of the year.

Service contracts

For certain products in Climate Solutions, NIBE offers customers the opportunity to sign one-year service contracts, under which NIBE undertakes to perform maintenance service and remedy certain defects that are not covered by the warranty provided. The scope of defects cannot be reliably predicted, so pricing is based on experience. Payment is received from customers annually in advance, so deferred income will be taken up as income gradually over the coming 12-month period.

Extended warranty period contracts

For certain products in Climate Solutions, NIBE offers customers the opportunity to sign contracts for warranty periods that exceed those provided as standard. Standard warranty periods depend both on the type of product and the market in question. The longest contracts expire within six years. The scope of defects cannot be reliably predicted, so pricing is based on experience. Payment is received from customers in connection with delivery of goods. Deferred income will be taken up as revenue gradually over the coming six-year period.

Deliverables taken up as revenue gradually

	Service contracts	Extended warranties	Total
Prepaid at start of year	2	146	148
Payments received during the year	77	166	243
Taken up as revenue during the year	- 73	- 132	- 205
Translation differences	1	12	13
Prepaid at year-end	7	192	199

Time of accounting for sales

	Deliverables taken up as revenue once	Deliverables taken up as revenue gradually during the year	Total income from contracts with customers
NIBE Climate Solutions	14,050	205	14,255
NIBE Element	6,349	-	6,349
NIBE Stoves	2,379	-	2,379
Eliminations	- 467	-	- 467
Total income	22,311	205	22,516

Note 4

INCOME STATEMENT CLASSIFIED BY TYPE OF COST

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Net sales	22,516	19,009	14	9
Change in inventories	284	65	–	–
Other operating income	252	161	–	–
	23,052	19,235	14	9
Raw materials and consumables	– 9,780	– 7,886	–	–
Other external costs	– 3,783	– 3,322	– 41	– 27
Personnel costs	– 5,969	– 5,043	– 30	– 27
Amortisation/Depreciation	– 691	– 640	–	–
Operating profit	2,829	2,344	– 57	– 45

Note 5

REMUNERATION OF AUDITORS

Group (SEK million)	2018			2017		
	KPMG	Other auditors	Total Group	KPMG	Other auditors	Total Group
Audit engagements	17	3	20	12	2	14
Other audit-related fees	2	1	3	3	1	4
Tax advisory services	1	10	11	1	6	7
Other services	5	4	9	4	5	9
Total	25	18	43	20	14	34

During the year, the parent paid audit expenses of SEK 2 million (SEK 1 million) and expenses for other services of SEK 3 million (SEK 5 million).

Note 6

PERSONNEL COSTS, AVERAGE NUMBER OF EMPLOYEES, NUMBERS OF MEN AND WOMEN IN SENIOR POSITIONS

(SEK million)	Salaries and other remuneration		Board and senior executives		(SEK thousand)	2018 Salaries and other remuneration	2018 Pension expenses	2017 Salaries and other remuneration	2017 Retirement benefit contributions	
	2018	2017	2018	2017						
Parent	20	18								
Subsidiaries	4,853	4,050								
Group total	4,873	4,068								
(SEK million)	2018 Social security contributions	2018 of which pension expenses	2017 Social security contributions	2017 of which pension expenses		Hans Linnarson, Chair	720	–	650	
	10	4	9	3						
Parent	10	4	9	3		Helene Richmond	360	–	325	
Subsidiaries	859	187	767	173		Georg Brunstam	360	–	325	
Group total	869	191	776	176		Eva-Lotta Kraft	–	–	325	
						Anders Pålsson	360	–	325	
						Jenny Sjödahl	360	–	–	
						Gerteric Lindquist, CEO	6,324	–	5,304	
						Other senior executives 4 (4) individuals	16,843	8,461	14,609	
									7,731	
						Group total	25,327	8,461	21,863	7,731

As in the preceding year, none of the parent's pension expenses relate to the CEO. The parent's outstanding pension obligations for the Board of Directors and the CEO amount to SEK 6 million (SEK 6 million). The corresponding amount for the Group is SEK 7 million (SEK 7 million). The Group has no outstanding pension obligations for the previous Board of Directors and CEO (SEK 1 million).

Principles for remuneration and other terms of employment for senior executives

In accordance with the resolution adopted by the Annual General Meeting, the following principles applied during 2018 and the Board proposes that the same principles continue to apply for 2019.

The company shall offer competitive remuneration on market terms to attract and retain personnel.

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

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

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

All senior executives shall have pension benefits corresponding to the ITP occupational pension plan, section 2, up to 30 basic amounts for social security purposes. For portions of salary above this, a premium of a fixed 30% is payable in accordance with the principles in the defined-contribution ITP plan, section 1. There shall be no special agreements for senior executives to retire before reaching the official retirement age while still receiving a certain proportion of their salaries.

As an incentive, senior executives will be entitled to a variable salary component that is payable if set targets are achieved. The variable component shall be restricted to four months' salary. The possibility also exists to receive an additional month's salary on condition that this additional payment plus another monthly salary paid as a variable bonus is used to purchase NIBE shares. A further condition for entitlement to receive this additional month's remuneration is that the shares thus purchased are retained for at least three years. Under normal circumstances, shares acquired in this way shall be purchased on one occasion each year in February/March and the purchase shall be subject to the relevant insider trading regulations. The CEO shall not participate in any incentive programme.

The Board may depart from these guidelines if there are reasons for doing so in an individual case.

Salaries and other remuneration, excluding social security contributions, by country for the Board, CEO, other senior executives and other employees

(SEK million)	2018		2017	
	Board, CEO and senior executives	Other employees	Board, CEO and senior executives	Other employees
Parent	16	6	14	6
Subsidiaries in Sweden	9	671	8	602
Norway ¹⁾ (1 and 1)	–	183	–	159
Finland ¹⁾ (1 and 1)	–	158	–	160
Denmark ¹⁾ (4 and 2)	–	412	–	337
France	–	40	–	24
Germany ¹⁾ (1 and 2)	–	271	–	234
Poland ¹⁾ (0 and 1)	–	247	–	214
Czech Republic ¹⁾ (1 and 1)	–	114	–	92
Italy ¹⁾ (1 and 0)	–	81	–	47
The Netherlands	–	47	–	30
Belgium	–	4	–	4
UK ¹⁾ (0 and 1)	–	156	–	140
Spain	–	23	–	21
Romania	–	28	–	12
Russia	–	13	–	12
Austria	–	46	–	33
Switzerland ¹⁾ (2 and 2)	–	473	–	433
Serbia	–	1	–	–
Turkey	–	2	–	–
China	–	111	–	89
Malaysia	–	2	–	1
Vietnam	–	15	–	–
Thailand	–	9	–	3
Singapore	–	3	–	–
Australia	–	14	–	13
Mexico	–	178	–	150
Canada ¹⁾ (1 and 1)	–	252	–	216
USA ¹⁾ (5 and 7)	–	1,290	–	1,016
Group total	25	4,850	22	4,048

¹⁾ (of which bonus in SEK million)

Agreement on severance pay

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

Pensions

No pension premiums were paid for the CEO in 2018. Other senior executives in the Group have retirement benefits that correspond to the ITP plan, section 2, for that portion of their salary up to 30 income base amounts. For salary amounts above this, a premium of 30% is paid in accordance with the defined contribution ITP plan, section 1. An exception is made in the case of the director of one of the business areas, who, in his capacity as Managing Director, has an individual pension arrangement with premiums that correspond to those of other senior executives. Under the Group's policy, no further pension premium payments are made if employment continues after the age of 65.

Gender distribution in the Group's Board/senior management

	2018		2017	
	Number	Of which men	Number	Of which men
Board of Directors	6	4	6	4
Senior management				
Parent	2	2	2	2
Subsidiaries	3	3	3	3
Group	5	5	5	5

Average number of employees and gender distribution

	2018		2017	
	Number of employees	Of which men	Number of employees	Of which men
Parent	8	4	8	4
Subsidiaries in Sweden	1,707	1,368	1,533	1,247
Norway	306	253	255	210
Finland	433	340	410	322
Denmark	612	413	580	422
France	57	44	44	33
Germany	606	489	551	451
Poland	2,301	1,084	2,216	1,061
Czech Republic	789	440	725	401
Italy	183	105	140	79
The Netherlands	75	62	57	49
Belgium	6	5	5	4
UK	485	391	456	376
Spain	68	49	64	46
Romania	288	80	191	46
Slovakia	3	2	2	1
Russia	145	101	141	98
Austria	71	53	61	46
Switzerland	606	486	575	462
Serbia	17	11	–	–
Turkey	14	11	–	–
China	1,017	574	978	516
Malaysia	17	4	18	6
Vietnam	496	87	6	5
Thailand	172	103	64	37
Singapore	13	9	–	–
Australia	33	17	28	17
Mexico	2,690	1,318	2,282	1,245
Canada	534	420	495	396
USA	2,817	1,892	2,386	1,620
Group total	16,569	10,215	14,271	9,200

Note 7

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Currency risks

Currency risks refer to the risk that exchange rate fluctuations may have a negative effect on the Group's performance and position. NIBE is exposed to currency risks both through regular business transactions in various currencies and because the Group has operations in different currency zones. These risks can be divided into transaction risks and translation risks.

Transaction risks

Transaction risk is the risk of exchange losses from regular business transactions in foreign currencies, for example, an account receivable in a foreign currency falling in value due to fluctuations in the currency's exchange rate. As part of the Group's currency hedging policy, regular sales and purchases made in a foreign currency or linked to changes in a foreign currency, must be hedged under a rolling 12-month plan within the range 60-100% of the estimated flow. The degree of hedging of future flows determines where in the range the figure is to lie. In 2018 the Group's flows in foreign currencies were as shown below. Flow refers to flows in currencies other than local currency. Weakening refers to weakening against other currencies with no consideration given to hedging.

Cur- rency	Group		Parent	
	Net flow in (+)/out (-)	Weakening by 1%	Net flow in (+)/out (-)	Weakening by 1%
CHF	86	- 1	- 1	-
CZK	- 8	-	-	-
DKK	35	-	-	-
EUR	327	- 3	- 3	-
GBP	110	- 1	-	-
NOK	231	- 2	-	-
PLN	- 125	1	-	-
USD	490	- 5	- 4	-
CNY	- 4	-	-	-
HKD	- 11	-	-	-
AUD	27	-	-	-
RUB	10	-	-	-
MXN	- 263	3	-	-
SGD	-1	-	-	-
Total	904		- 8	

Translation risks

Translation risks refer to the risk of exchange losses on the translation of the income statements and balance sheets of foreign subsidiaries to the Swedish krona, the Group's presentation currency. To minimise translation risks, assets are financed, where possible, in the same currency; this means that exchange rate fluctuations on borrowings are recognised in other comprehensive income. At the end of 2018, the Group held net assets in foreign currencies in accordance with the figures given below with allowance for financing. Net assets also include assets other than those classed as financial instruments.

Currency	Net assets	Hedging	2018
AUD	67	-	67
CAD	807	- 122	685
CHF	4,985	- 51	4,934
CZK	606	-	606
DKK	1,060	- 89	971
EUR	2,024	- 176	1,848
GBP	987	- 101	886
HKD	70	-	70
MYR	2	-	2
MXN	67	-	67
NOK	662	- 50	612
PLN	626	-	626
RON	70	-	70
RUB	133	-	133
RSD	70	-	70
SGD	20	-	20
TRY	102	-	102
VND	24	-	24
THB	41	-	41
USD	7,668	-	7,668
Total	20,091	- 589	19,502

If the Swedish krona falls in value by 1% against the named currencies, the Group's equity is strengthened by SEK 195 million (SEK 163 million). If the Swedish krona rises in value by 1% against the named currencies, the reverse applies. Without currency hedging through financing in the same currency, the corresponding amount would have been SEK 201 million (SEK 176 million).

Currency	Net assets	Hedging	2017
AUD	70	-	70
CAD	682	- 122	560
CHF	4,637	- 308	4,329
CZK	533	-	533
DKK	969	- 130	839
EUR	1,953	- 201	1,752
GBP	818	-	818
HKD	52	-	52
MYR	3	-	3
MXN	58	-	58
NOK	563	- 114	449
PLN	583	-	583
RON	61	-	61
RUB	130	-	130
VND	7	-	7
THB	38	-	38
USD	6,480	- 485	5,995
Total	17,637	- 1,360	16,277

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

Currency	Flow	Flow	Flow	Flow	Average	Closing	Unrealised	Unrealised
	Q1	Q2	Q3	Q4	forward rate	day rate	31 Dec 2018	31 Dec 2017
CHF	1	1	1	1	9.31	9.10	–	–
DKK	3	6	1	2	1.41	1.38	–	–1
EUR	8	7	6	7	10.28	10.28	2	1
GBP	1	1	1	1	11.66	11.35	1	–1
NOK	9	12	2	–	1.09	1.02	1	–
USD	4	2	3	8	8.65	8.97	–6	3
AUD	–	2	3	1	6.36	6.32	–	–
HKD	6	9	13	8	1.15	1.15	–	–
MXN	–50	–48	–46	–17	0.45	0.46	1	–1
Total							–1	1
Of which profit recognised at end of period							–6	6
Of which recognised in other comprehensive income at end of period							5	–5

The parent's risk consists of the risk of exchange rate fluctuations on provisions in foreign currencies for the acquisition of foreign subsidiaries. Exchange rate fluctuations on these are recognised in net financial items. At year-end, the parent had provisions in foreign currencies as listed below.

Currency	2018	2017
DKK	89	130
EUR	99	131
NOK	49	114
Total	237	375

If the Swedish krona rises in value by 1% against the named currencies, the parent's equity is strengthened by SEK 2 million (SEK 4 million). If the Swedish krona falls in value by 1% against the named currencies, the reverse applies.

Credit risks

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

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

Overdue receivables

(SEK million)	2018	2017
Receivables, wholly or partly impaired		
– overdue by less than 3 months	33	23
– overdue by more than 3 months	36	40
Receivables which have not been impaired		
– overdue by less than 3 months	656	535
– overdue by more than 3 months	127	83
Total overdue receivables	852	681
Provision for credit losses	–51	–51
Total receivables overdue but not impaired	801	630

Provision for credit losses

(SEK million)	2018	2017
Provisions brought forward	51	39
Provisions in acquired companies	–	10
Established credit losses	–6	–3
Reversed provisions	–10	–11
Provisions for the year	14	16
Translation differences	2	–
Provisions carried forward	51	51

Profit for the year has been charged with SEK 14 million (SEK 10 million) for credit losses which have arisen in the consolidated receivables.

At the end of 2018, the Group had outstanding forward exchange contracts in accordance with the adjacent table. The total value of the contracts (calculated as the net of purchase and selling contracts in each currency) translated to SEK at the closing day rate amounts to SEK 543 million (SEK 482 million).

The difference between the total amounts of the contracts translated to SEK using the contract rate and the total amounts of the contracts translated to SEK using the closing rate at the end of 2018 represents an unrealised exchange loss of SEK 1 million.

Other receivables in the consolidated balance sheet includes derivatives with positive fair values of SEK 17 million (SEK 6 million). Other liabilities includes derivatives with negative fair values of SEK 12 million (SEK 11 million).

Gains and losses on financial instruments

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Exchange gains and losses on currency derivatives used for hedge accounting				
– as other operating income	12	25	–	–
– as cost of goods sold	–24	–5	–	–
– in other comprehensive income	9	–2	–	–
Gains and losses in commodity derivatives used for hedge accounting recognised				
– as cost of goods sold	11	3	–	–
– in other comprehensive income	–8	5	–	–
Exchange gains and losses in other financial assets and liabilities recognised				
– as other operating income	101	66	–	–
– as cost of goods sold	–123	–93	–	–
– as other financial income	157	76	–	1
– as other financial expenses	–181	–121	–12	–
Change in value of bond loans recognised as financial income	6	6	6	6
Change in value of interest swaps recognised as financial income	–5	–3	–5	–3
Credit losses on accounts receivable recognised as selling expenses	–14	–10	–	–
Total	–59	–53	–11	4

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

Fair value of financial instruments

Fair value may deviate from carrying amount, partly due to changes in market interest rates. For consolidated liabilities with a floating rate, fair value is estimated to be the same as the carrying amount. The Group has three fixed-rate bonds. One of these bonds is included as a hedged item in a fair value hedge. The carrying amount of this bond is therefore deemed to be essentially consistent with fair value. For the other bonds, fair value was calculated by discounting future cash flows at current market interest rates. The valuation of these bonds is at level 2 in the valuation hierarchy. Fair value corresponds to the carrying amount for non-interest-bearing assets and liabilities such as accounts receivable and accounts payable. No instruments were offset in the balance sheet. All instruments are recognised at their gross value. For a detailed account of the valuation techniques and inputs, see Note 2. For other financial assets and liabilities in the Group, the carrying amounts represent a reasonable approximation of their fair value.

Assets 31 Dec 2018 (SEK million)	Measured at amortised cost	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Non-finan- cial assets	Total carrying amount	Fair value
Intangible assets	–	–	–	17,029	17,029	
Property, plant and equipment	–	–	–	3,410	3,410	
Participations in associates and joint ventures	–	–	–	181	181	
Investments held as non-current assets	12	8	–	–	20	20
Deferred tax assets	–	–	–	276	276	
Other non-current receivables	99	–	13	–	112	112
Inventories	–	–	–	4,106	4,106	
Accounts receivable	3,313	–	–	–	3,313	3,313
Tax assets	–	–	–	274	274	
Other receivables	148	–	17	–	165	165
Prepaid expenses and accrued income	–	–	–	216	216	
Investments in securities etc.	70	96	–	–	166	166
Cash and equivalents	3,023	–	–	–	3,023	3,023
Total assets	6,665	104	30	25,492	32,291	

Assets 31 Dec 2017 (SEK million)	Loans and receivables	Measured at fair value through profit or loss	Derivatives used for hedge accounting	Non-finan- cial assets	Total carrying amount	Fair value
Intangible assets	–	–	–	14,744	14,744	
Property, plant and equipment	–	–	–	3,043	3,043	
Participations in associates and joint ventures	–	–	–	17	17	
Investments held as non-current assets	–	13	–	–	13	13
Deferred tax assets	–	–	–	258	258	
Other non-current receivables	25	–	18	–	43	43
Inventories	–	–	–	3,247	3,247	
Accounts receivable	2,711	–	–	–	2,711	2,711
Tax assets	–	–	–	158	158	
Other receivables	142	–	12	–	154	154
Prepaid expenses and accrued income	–	–	–	180	180	
Investments in securities etc.	–	90	–	–	90	90
Cash and equivalents	3,332	–	–	–	3,332	3,332
Total assets	6,210	103	30	21,647	27,990	

Equity and liabilities 31 Dec 2018 (SEK million)	Financial liabilities measured at amortised cost	Derivatives used for hedge accounting	Financial liabilities measured at fair value through profit or loss	Non-financial items	Total carrying amount	Fair value
Equity	–	–	–	15,421	15,421	
Provisions	–	–	–	2,348	2,348	
Non-current liabilities*	7,028	–	1,954	–	8,982	8,982
Current interest-bearing liabilities	1,882	–	–	–	1,882	1,882
Accounts payable	1,648	–	–	–	1,648	1,648
Advance payments from customers	36	–	–	–	36	36
Tax liabilities	–	–	–	127	127	
Other liabilities	458	14	55	–	527	527
Accrued expenses and deferred income	1,320	–	–	–	1,320	1,320
Total equity and liabilities	12,372	14	2,009	17,896	32,291	

*Of which SEK 217 million refers to loans in foreign currencies to hedge net investment in foreign operations.

Equity and liabilities 31 Dec 2017 (SEK million)	Financial liabilities measured at amortised cost	Derivatives used for hedge accounting	Financial liabilities measured at fair value through profit or loss	Non-financial items	Total carrying amount	Fair value
Equity	–	–	–	12,807	12,807	
Provisions	–	–	–	2,137	2,137	
Non-current liabilities*	6,581	–	1,101	–	7,682	7,682
Current liabilities to credit institutions	2,016	–	–	–	2,016	2,016
Accounts payable	1,469	–	–	–	1,469	1,469
Advance payments from customers	29	–	–	–	29	29
Tax liabilities	–	–	–	122	122	
Other liabilities	375	11	219	–	605	605
Accrued expenses and deferred income	1,123	–	–	–	1,123	1,123
Total equity and liabilities	11,593	11	1,320	15,066	27,990	

*Of which SEK 957 million refers to loans in foreign currencies to hedge net investment in foreign operations.

Hedge accounting

In 2018, hedge accounting was applied in accordance with IAS 39 in relation to:

- Cash flow hedging through currency derivatives for future receipts and disbursements in foreign currencies. See Note 2 for details.
- Interest on bonds was swapped from fixed to floating. The swap is a fair value hedge and the fair value at the end of the reporting period amounts to SEK 13 million.
- Price hedging of raw materials through raw materials derivatives. See Note 2 for details. At the end of 2018, outstanding contracts maturing in Q1 2019 totalled SEK 17 million, with SEK 2 million in unrealised losses that are recognised among other liabilities.
- Hedge accounting by financing net investments in foreign operations in foreign currency. This means that exchange-rate fluctuations on these loan liabilities are recognised directly in other comprehensive income if there is a net asset in the consolidated balance sheet to hedge.

For information on the amounts recognised in other comprehensive income, see the income statements on pages 74 and 84.

Capital risk

Capital risk refers to the risk that the Group's ability to continue as a going concern may be inhibited due to a shortage of capital. The Group assesses the day-to-day risk based on the equity/assets ratio, calculated as recognised equity as a percentage of total assets. The target is for the equity/assets ratio not to fall below 30%. Over the most recent five-year period, the equity/assets ratio has averaged 44.2%. The Group can counteract any shortage of capital through new issues or reductions in dividends. At NIBE, capital is defined as total equity as recognised in the balance sheet (see pages 78 and 85). The covenants set by the Group's external creditors were met by good margins.

Interest rate risks

Interest rate risk is the risk that changes in market interest rates will have a negative impact on cash flow or the fair value of financial assets and liabilities. Since all borrowing in the NIBE Group apart from three bond loans is at floating interest, the Group is exposed only to cash flow risk from financial borrowing. The interest rate on the Group's only bond has been swapped from fixed to floating, which means that this is also exposed to cash flow risk.

Consolidated interest-bearing liabilities at year-end amounted to SEK 9,239 million. The average interest rate was 1.7%. A change in the interest rate of 1% on constant liabilities would have an impact on Group profit of SEK 92 million.

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

The parent's interest-bearing liabilities at year-end amounted to SEK 6,260 million. A change in the interest rate of 1% on constant liabilities would affect parent profit by SEK 63 million.

Financing risks

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

Consolidated cash flow is good, and is expected to remain so in the future. This is of material significance in enabling necessary investments to be made and other obligations to be fulfilled. The Group also has an aggressive strategy related to acquiring businesses. The target is annual growth of 20%. In the long term, at least half of this growth should be organic.

In individual years, the total capital requirement may exceed internal cash flow. It is anticipated that there will be no difficulty in financing this capital requirement and that this will not give rise to abnormal expense. This can be achieved partly through the traditional banking system and partly through the stock market. The amounts given in the table are the contractual undiscounted cash flows.

Group 31 Dec 2018

(SEK million)	Nominal amount	Total	Due date structure of financial liabilities			
			<1 year	1-2 years	3-4 years	>5 years
Current liabilities to credit institutions	1,564	1,654	–	75	1,579	–
Bond loans	6,260	6,540	908	1,549	2,738	1,345
Other non-current liabilities	101	101	–	99	–	2
Additional considerations	2,009	2,009	55	150	1,581	223
Current liabilities to credit institutions	982	991	991	–	–	–
Accounts payable	1,648	1,648	1,648	–	–	–
Advance payments from customers	36	36	36	–	–	–
Derivatives used for hedge accounting	14	14	14	–	–	–
Other non-current liabilities	455	455	455	–	–	–
Accrued expenses and deferred income	1,320	1,320	1,320	–	–	–
Finance lease liabilities	6	6	3	3	–	–
Total financial liabilities	14,395	14,774	5,430	1,876	5,898	1,570

Group 31 Dec 2017

(SEK million)	Nominal amount	Total	Due date structure of financial liabilities			
			<1 year	1-2 years	3-4 years	>5 years
Current liabilities to credit institutions	1,508	1,604	–	141	–	1,463
Bond loans	5,016	5,252	–	918	2,626	1,708
Other non-current liabilities	53	53	–	51	–	2
Additional considerations	1,320	1,320	219	6	286	809
Current liabilities to credit institutions	2,016	2,031	2,031	–	–	–
Accounts payable	1,469	1,469	1,469	–	–	–
Advance payments from customers	29	29	29	–	–	–
Derivatives used for hedge accounting	11	11	11	–	–	–
Other non-current liabilities	372	372	372	–	–	–
Accrued expenses and deferred income	1,123	1,123	1,123	–	–	–
Finance lease liabilities	7	7	3	2	2	–
Total financial liabilities	12,924	13,271	5,257	1,118	2,914	3,982

Parent 31 Dec 2018

(SEK million)	Nominal amount	Total	Due date structure of financial liabilities			
			<1 year	1-2 years	3-4 years	>5 years
Bond loans	6,260	6,540	908	1,549	2,738	1,345
Additional considerations	268	268	49	99	19	101
Current liabilities to Group companies	2	2	2	–	–	–
Accounts payable	6	6	6	–	–	–
Other non-current liabilities	2	2	2	–	–	–
Accrued expenses and deferred income	35	35	35	–	–	–
Total financial liabilities	6,573	6,853	1,002	1,648	2,757	1,446

Parent 31 Dec 2017

(SEK million)	Nominal amount	Total	Due date structure of financial liabilities			
			<1 year	1-2 years	3-4 years	>5 years
Bond loans	5,016	5,252	–	918	2,626	1,708
Additional considerations	332	332	183	–	149	–
Current liabilities to Group companies	1	1	1	–	–	–
Accounts payable	6	6	6	–	–	–
Other non-current liabilities	1	1	1	–	–	–
Accrued expenses and deferred income	26	26	26	–	–	–
Total financial liabilities	5,382	5,618	217	918	2,775	1,708

Note 8

LEASES

During the year, SEK 4 million (SEK 2 million) in consolidated expenses relating to finance leases was booked. Expensed lease payments for operating leases including rents amounted to SEK 237 million (SEK 155 million) in the Group during the year. The parent has no leases. The value of the Group's contracted future lease payments for leases with remaining terms exceeding one year is distributed as follows:

	Finance leases		Operating leases	
(SEK million)	Payments	Interest	Present value	Nominal amount
Due for payment within 1 year	3	–	3	226
Due for payment within 2-5 years	3	–	3	529
Due for payment in 6 years or more	–	–	–	120
Total	6	–	6	875
Non-current assets held through finance leases				
(SEK million)	Cost	Depreciation	Carrying amount	
Machinery	8	5	3	
Equipment and fittings	3	3	–	
Total	11	8	3	

Note 9

RESEARCH AND DEVELOPMENT COSTS

Research and development costs of SEK 614 million (SEK 502 million) are included in Cost of goods sold.

Note 10

OTHER OPERATING INCOME

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Profit on sale of non-current assets	4	15	–	–
Exchange gains	113	91	–	–
Reduced additional purchase prices	35	–	–	–
Other	100	55	–	–
Total	252	161	–	–

Note 11

PROFIT FROM PARTICIPATIONS IN GROUP COMPANIES

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Dividend	–	–	641	401
Impairment of participations in subsidiaries	–	–	–3	–10
Total	–	–	638	391

Note 12

FINANCIAL INCOME

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Interest income, Group companies	–	–	7	–
Interest income, other	14	12	–	–
Exchange gains	157	76	84	61
Other financial income	2	1	–	–
Total	173	89	91	61

Note 13

FINANCIAL EXPENSES

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Interest expense, Group companies	–	–	1	20
Interest expense, other	155	129	45	30
Exchange losses	181	121	96	59
Other financial expense	5	5	–	–
Total	341	255	142	109

Note 14

APPROPRIATIONS

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Tax allocation reserve	–	–	–	1
Group contributions	–	–	107	89
Total	–	–	107	90

Note 15

TAX

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Current tax for the year	584	510	1	–
Current tax attributable to preceding years	11	3	5	–
Deferred tax	–	–34	–	–
Total	595	479	6	–

Tax on items recognised in other comprehensive income

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Defined-benefit pensions	9	9	–	–
Market valuation of currency forward contracts	2	1	–	–
Market valuation of commodity forward contracts	–1	–	–	–
Current tax attributable to exchange differences	85	–81	–	–
Current tax attributable to net foreign investment	–13	13	–	–
Total	82	–58	–	–

Difference between consolidated tax expense and tax expense based on current tax rate

The applicable tax rate was calculated based on the 22.0% (22.0%) tax rate that applies to the parent. See page 75.

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Pre-tax profit	2,667	2,182	640	392
Tax at current rate	587	480	141	86
Non-deductible expenses	27	15	2	3
Non-taxable earnings	- 2	- 2	-	-
Dividends from subsidiaries	-	-	- 142	- 89
Adjusted tax for preceding years	11	3	5	-
Deficit deductions not carried forward	3	5	-	-
Change in tax rate for deferred tax	- 2	- 57	-	-
Effect of foreign tax rates	- 29	35	-	-
Recognised tax expense	595	479	6	-

Due dates for deficit deductions which have not been brought forward

Accumulated deficit deductions which are not offset by recognised deferred tax assets amounted to SEK 362 million (SEK 322 million) for the Group. The due dates for deficit deductions are within the following intervals:

(SEK million)	Group	
	2018	2017
Due for payment within 1-5 years	79	34
Due for payment within 6-10 years	58	40
Due for payment in 10 years or more	1	32
No due date	224	216
Total	362	322

Temporary differences

Temporary differences arise if there is a difference between the carrying amount and the tax base of the assets and liabilities. Temporary differences in the following items resulted in deferred tax liabilities and deferred tax assets. Deferred tax liabilities regarding temporary differences attributable to investments in subsidiaries are not recognised, since the parent can control the timing of the reversal of the temporary differences.

Deferred tax assets

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Deficit deductions	16	9	-	-
Provisions for pension obligations	70	73	-	-
Provisions for guarantee obligations	75	76	-	-
Other	115	100	2	2
Total	276	258	2	2

(SEK million)	Deficit deduc-	Provisions for pension	Provi-	Other	Total
	tions	obligations	gations	for guarantee obligations	
Amount at start of year	9	73	76	100	258
Acquired companies	-	-	-	3	3
Recognised as income	6	1	- 7	11	11
Recognised in other comprehensive income	-	- 9	-	- 1	- 10
Translation difference	1	5	6	2	14
Amount at end of year	16	70	75	115	276

Deferred tax liabilities

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Untaxed reserves	38	36	-	-
Temporary differences in non-current assets	961	868	-	-
Other	96	61	-	-
Total	1,095	965	-	-

(SEK million)	Untaxed reserves	Temporary differences in non-current assets	Other	Total
	reserves	assets		
Amount at start of year	36	868	61	965
Acquired companies	-	57	-	57
Recognised as income	1	- 20	30	11
Recognised in other comprehensive income	-	-	- 1	- 1
Translation difference	1	56	6	63
Amount at end of year	38	961	96	1,095

Note 16

MARKET POSITIONS

(SEK million)	Group	
	2018	2017
Cost		
Opening cost	2,406	2,436
Investments for the year	90	181
Sales and retirements	-	- 49
Translation differences	171	- 162
Closing accumulated cost	2,667	2,406
Amortisation		
Opening amortisation	714	573
Amortisation for the year	194	180
Translation differences	56	- 39
Closing accumulated amortisation	964	714
Closing carrying amount	1,703	1,692

Market positions refers to the measurement of cash flows from identified customer relationships. Amortisation for the year is recognised as a selling expense in the consolidated income statement.

Note 17

GOODWILL AND TRADEMARKS

Brands and trademarks (SEK million)	Group	
	2018	2017
Cost		
Opening cost	1,858	1,903
Investments for the year	104	91
Sales and retirements	–	– 9
Translation differences	136	– 127
Closing accumulated cost	2,098	1,858
Amortisation		
Opening amortisation	4	2
Amortisation for the year	3	3
Translation differences	–	– 1
Closing accumulated amortisation	7	4
Closing carrying amount	2,091	1,854
Carrying amount per business area		
NIBE Climate Solutions	1,703	1,580
NIBE Element	187	76
NIBE Stoves	201	198
Total	2,091	1,854
Goodwill		
(SEK million)	2018	2017
Cost		
Opening cost	10,881	10,656
Investments for the year	1,216	901
Sales and retirements	–	– 45
Translation differences	742	– 631
Closing accumulated cost	12,839	10,881
Amortisation		
Opening amortisation	87	85
Translation differences	2	2
Closing accumulated amortisation	89	87
Closing carrying amount	12,750	10,794
Carrying amount per business area		
NIBE Climate Solutions	8,650	7,967
NIBE Element	2,828	1,702
NIBE Stoves	1,272	1,125
Total	12,750	10,794

Impairment testing

Impairment testing involves the calculation of value in use. The policies adopted by the Group are set out in Note 2 under the heading 'Goodwill and trademarks'.

Assumptions about the gross profit margins for each cash-generating unit are based on the approved budgets.

Significant assumptions in 2018 (2017)

Assumptions	Cash-generating unit		
	NIBE Climate Solutions	NIBE Element	NIBE Stoves
Growth rate, years 2-5, %	5.0 (5.0)	5.0 (5.0)	5.0 (5.0)
Growth rate year 6 and later, %	2.0 (2.0)	2.0 (2.0)	2.0 (2.0)
Working capital requirement for organic growth, %	13.0 (13.0)	15.0 (15.0)	18.0 (18.0)
Discount rate before tax, %	5.5 (6.9)	6.5 (8.0)	5.9 (7.3)

The assumed organic growth rate is the same for all cash-generating units. Apart from the most recent years, which have been subject to economic turbulence, all units have a history of organic growth well above the assumed growth rate.

As in preceding years, the annual impairment testing did not identify any impairment losses.

Sensitivity analysis

A sensitivity analysis was carried out regarding the significant assumptions applied in the impairment testing. The following assumptions have been used to test sensitivity.

- Organic growth in years 2-5 is two percentage points lower.
- The gross investment margin is two percentage points lower.
- The requirement for working capital is two percentage points higher.
- The discount rate is two percentage points higher.

None of the above assumptions resulted in an impairment loss for any of the Group's cash-generating units.

Note 18

OTHER INTANGIBLE ASSETS

Rights of tenancy, patents, development costs, computer programs, licences, etc.

(SEK million)	Group	
	2018	2017
Cost		
Opening cost	949	842
Cost in acquired companies	1	2
Investments for the year	158	158
Sales and retirements	-8	-8
Reclassifications	5	-6
Translation differences	38	-39
Closing accumulated cost	1,143	949
Amortisation		
Opening amortisation	542	458
Sales and retirements	-6	-8
Amortisation for the year	100	93
Reclassifications	-1	2
Translation differences	19	-3
Closing accumulated amortisation	654	542
Impairment		
Opening impairment	3	3
Translation differences	1	-
Closing accumulated impairment	4	3
Closing carrying amount	485	404

Amortisation and impairment of other intangible assets are recognised within the following functions:

(SEK million)	Group	
	2018	2017
Cost of goods sold	78	73
Selling expenses	6	5
Administrative expenses	16	15
Total	100	93

Other intangible assets consist mainly (SEK 348 million) of capitalised development expenditures. The Group's policies for capitalisation are described in Note 2. Capitalised development expenditures are amortised over their estimated useful lives. In 2018 this was between 4 and 6 years.

Note 19

CONSTRUCTION IN PROGRESS

(SEK million)	Group	
	2018	2017
Cost		
Opening cost	168	125
Costs incurred during the year	146	130
Re-allocations during the year	-94	-90
Translation differences	3	3
Closing accumulated cost	223	168

Note 20

LAND AND BUILDINGS

(SEK million)	Group	
	2018	2017
Cost		
Opening cost	2,474	2,241
Cost in acquired companies	5	184
Investments for the year	60	79
Sales and retirements	-11	-33
Reclassifications	33	8
Translation differences	89	-5
Closing accumulated cost	2,650	2,474
Depreciation		
Opening depreciation	741	658
Depreciation for the year	84	78
Sales and retirements	-4	-8
Translation differences	18	13
Closing accumulated depreciation	839	741
Impairment		
Opening impairment	-	5
Sales and retirements	-	-5
Closing accumulated impairment	-	-
Closing carrying amount	1,811	1,733
of which, land	317	296
Closing carrying amount, land and buildings in Sweden	490	477

Note 21

MACHINERY AND EQUIPMENT

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Cost				
Opening cost	3,489	3,239	1	1
Cost in acquired companies	74	54	-	-
Investments for the year	372	194	-	-
Sales and retirements	-96	-90	-	-
Reclassifications	56	86	-	-
Translation differences	108	6	-	-
Closing accumulated cost	4,003	3,489	1	1
Depreciation				
Opening depreciation	2,342	2,118	1	1
Sales and retirements	-89	-88	-	-
Depreciation for the year	310	283	-	-
Reclassifications	1	-3	-	-
Translation differences	58	32	-	-
Closing accumulated depreciation	2,622	2,342	1	1
Impairment				
Opening impairment	5	4	-	-
Impairment for the year	-	1	-	-
Closing accumulated impairment	5	5	-	-
Closing carrying amount	1,376	1,142	-	-

Note 22

SHARES IN SUBSIDIARIES

Subsidiary	Proportion of equity	Shares	Carrying amount, SEK million	(SEK million)	2018	2017
ABK AS	83%	417	209	Cost		
Air-Site AB	50%	1,000	34	Opening cost	12,771	11,854
Backer AB	100%	37,170	186	Investments for the year	182	953
Backer EHP Inc.	100%	100	217	Reduction through merger	- 2,675	-
Cetetherm AB	100%	50,000	5	Reduced considerations	- 3	- 36
CK Fires Ltd	51%	204	129	Closing accumulated cost	10,275	12,771
Druzstevni z. Drazice - strojírna s.r.o.	100%	7	199	Impairment		
Eltwin A/S	100%	500	169	Opening impairment	128	118
Enertech AB	100%	27,000	216	Injected through merger	13	-
Enertech GmbH	100%	100	21	Impairment for the year	3	10
Enertech Ltd	100%	249,000	48	Closing accumulated impairment	144	128
HT S.p.A.	80%	160,000	569	Closing carrying amount	10,131	12,643
JSC Evan	100%	8,631	131			
Jevi A/S	100%	1	30			
Kaukora Oy	100%	1,100	201			
Lotus Heating Systems A/S	100%	1,076,667	50			
Loval Oy	100%	768	40			
METRO THERM A/S	100%	3,400	181			
NIBE AB	100%	400,000	153			
NIBE Climate Solutions Canada Corp.	100%	6,632,000	132			
NIBE Energy Systems France SAS	100%	100	2			
NIBE Energy Systems Inc.	100%	100	900			
NIBE Stoves Canada Corp.	100%	100	543			
NIBE Treasury AB	100%	15,000	11			
Nordpeis AS	100%	12,100	142			
SAN Electro Heat A/S	100%	13	18			
Schulthess Group AG	100%	10,625,000	4,860			
Springfield Wire de Mexico S.A. de C.V.	100%	10,000	42			
Stovax Heating Group Ltd	100%	198,900	491			
TermaTech A/S	100%	500	62			
Varde Ovne A/S	100%	4,009	11			
Waterfurnace International Hong Kong Ltd.	100%	27,300,000	12			
Waterfurnace Renewable Energy Corp.	100%	14,666,765	96			
Wiegand, S.A. de C.V.	100%	15,845,989	21			
Total			10,131			

Shares owned via subsidiaries	Proportion of capital	Number of shares	Shares owned via subsidiaries	Proportion of capital	Number of shares
ait-austria GmbH	100.00%	1	Gaumer Company Inc	60.00%	
ait-cesko s.r.o	50.10%	100,200	Gazco Ltd	100.00%	30,000
ait-deutschland GmbH	100.00%		Heatpoint B.V.	60.00%	480
ait-slovensko s.r.o	85.00%	1	Heatrod Elements Ltd	100.00%	68,000
ait-värmeknästeknik-sverige AB	100.00%	1,000	Heatron Inc.	100.00%	1,200,000
ait Schweiz AG	100.00%	250	Hemi Heating AB	70.00%	1,500
Askoma AG	100.00%	200,000	Hemi Heating Technology Co Ltd	100.00%	
Askoma SDN BHD	100.00%	500,000	Høiax AS	100.00%	1,000
ATE-Electronics s.r.l.	100.00%		HT Est Division s.r.l	100.00%	100
Backer Alpe S. de R.L. de C.V.	100.00%		HT Heizelemente Deutschland GmbH	100.00%	1
Backer Cellnergy Engineering PTE Ltd	80.00%		Hyper Engineering Pty Ltd	100.00%	
Backer ELC AG	100.00%	34,000	Hyper Technology and Trading Comp.	100.00%	
Backer Elektro CZ a.s.	100.00%		International Environmental Corp.	100.00%	300
Backer Eltop s.r.o.	100.00%		KKT Chillers Inc.	100.00%	1,000
Backer Facsa S.L.	100.00%	34,502	KNV Energietechnik GmbH	100.00%	
Backer Fer s.r.l.	100.00%	1	Koax Corp.	100.00%	50
Backer Grand Heater Co Ltd	100.00%	299,998	KVM-Genvex A/S	100.00%	2,500
Backer Heating Technologies Co. Ltd	100.00%		Lund & Sørensen AB	100.00%	1,000
Backer Heating Technologies France SARL	100.00%	12,429	Lund & Sørensen A/S	100.00%	500
Backer Heating Technologies Inc	100.00%	100	Lund & Sørensen Electric Heating Equipment Accessory Co Ltd	100.00%	
Backer Hotwatt Inc.	100.00%	100	METRO THERM AB	100.00%	1,000
Backer HTV Co. Ltd	100.00%	100	Meyer Vastus AB, Oy	100.00%	20
Backer Marathon Inc.	100.00%	100	Moravská Dopravní Společnost A.S.	100.00%	
Backer OBR Sp. z o.o.	100.00%	10,000	Motron A/S	100.00%	1,000
Backer-Springfield Dongguan Co. Ltd	100.00%		myUpTech AB	100.00%	1,000
Backer-Wilson Elements Pty Ltd	51.00%		Naturenergi IWABO AB	100.00%	1,000
Backer Wolff GmbH	100.00%		NIBE Beteiligungenverwaltungs GmbH	100.00%	
Bentone AB	100.00%	1,000	NIBE-BIAWAR Sp. z o.o.	100.00%	83,962
Biawar Produkcja Sp z.o.o	100.00%	50	NIBE Energietechniek B.V.	100.00%	180
Briskheat Corporation	60.00%	6,754,535	NIBE Energy Systems Ltd	100.00%	100
Briskheat Corporation HK Limited	100.00%	10,000	NIBE Energy Systems Oy	100.00%	15
Briskheat Shenzhen Trading Company Ltd	100.00%		NIBE Foyers France S.A.S.	100.00%	370
Briskheat Vietnam Co Ltd	100.00%		NIBE Systemtechnik GmbH	100.00%	
Cetetherm SAS	100.00%	30,000	Norske Backer AS	100.00%	12,000
Cetetherm LLC	100.00%		Northstar Poland Sp. z o.o.	100.00%	3,134
CGC Group of Companies Inc.	50.00%	320	Omni Control Technology Inc.	100.00%	200,000
ClimaCool Corp.	100.00%	1,000	Osby Parca AB	100.00%	5,000
Climate Control Group Inc.	100.00%	10,000	Pellux GmbH	100.00%	
ClimateCraft Inc.	100.00%	1,000	Renting 959 KB	100.00%	
ClimateMaster Inc.	100.00%	1,000	Schulthess Maschinen AG	100.00%	7,500
CTC AB	100.00%	1,000	Schulthess Maschinen GmbH	100.00%	
CTC Ferrofil AS	100.00%	1,001	Shel NIBE Manufacturing Co Ltd	100.00%	1,000
CTC Giersch AG	100.00%	700	Sinus-Jevi Electric Heating B.V.	100.00%	180
Danootherm Electric A/S	100.00%	1,000	Stovax Ltd	100.00%	190,347
DMD Dis Ticaret Makine Sanayi AS	51.00%	36,720	Stovax D1 Ltd	100.00%	1,000
Electron Etto s.r.o.	50.10%		Stovax Group Ltd	100.00%	397,800
Eltwin Sp. z.o.o.	100.00%	100	Structurgruppen AB	100.00%	1,000
E. Braude (London) Ltd	100.00%	80,000	Tempeff North America Ltd	65.00%	78,000
Emin Teknik Hortum Ve Makine AS	51.00%	161,160	Termorad Spolka Z.o.o.	100.00%	80,000
Enertech Belgium Sprl	100.00%	859,550	ThermaClime Technologies Inc.	100.00%	10,000
Enertech Global LLC	100.00%		TH Qviller AS	100.00%	50
Fireplace Products Australia Pty Ltd	100.00%	1	Turboflame AB	100.00%	3,000
Fireplace Products US Inc.	100.00%	1,000,000	Värmeelement i Osby AB	100.00%	1,000
Flex Academy D.O.O.	100.00%		Vølund Varmeteknik A/S	100.00%	1,000
FPI Fireplace Products International Ltd.	65.00%	901,498	WaterFurnace International Inc.	100.00%	100

Details of subsidiaries	Corporate ID	Registered office	Country
ABK AS	959 651 094	Oslo	Norway
Air-Site AB	556725-5780	Lindome	Sweden
ait-austria GmbH	FN469896z	Neudorf	Austria
ait-cesko s.r.o	28077458	České Budějovice	Czech Republic
ait-deutschland GmbH	HRB 2991	Bayreuth	Germany
ait Schweiz AG	CH-100 3 017 337-2	Altishofen	Switzerland
ait-slovensko s.r.o	48103926	Bratislava	Slovakia
ait-värmeteknik-sverige AB	556936-5033	Helsingborg, Sweden	Sweden
Askoma AG	CHE 101 048 895	Thunstetten	Switzerland
Askoma SDN BHD	489344-W	Johor Bahru	Malaysia
ATE-Electronics s.r.l.	9518750964	Giaveno	Italy
Backer Alpe S. de R.L. de C.V.	BAL0805266BA	Mexico City	Mexico
Backer AB	556053-0569	Hässleholm, Sweden	Sweden
Backer Cellnergy Engineering PTE Ltd	556420-7586	Singapore	Singapore
Backer EHP Inc.	99-0367868	Murfreesboro	USA
Backer ELC AG	CH-400 3 033 814-4	Aarau	Switzerland
Backer Elektro CZ a.s.	60469617	Hlinsko	Czech Republic
Backer Eltop s.r.o.	44795751	Miretice	Czech Republic
Backer Facsa S.L.	B-62.928.361	Aiguafreda	Spain
Backer FER s.r.l.	REA: 173478	Sant'Agostino, (Ferrara)	Italy
Backer Grand Heater Co Ltd	105560004323	Muaeng Samutsakorn	Thailand
Backer Heating Technologies Co. Ltd	440301503227017	Shenzhen	China
Backer Heating Technologies France SARL	91379344781	Lyon	France
Backer Heating Technologies Inc.	36-4044600	Elgin	USA
Backer Hotwatt Inc.	81-4435368	Wilmington	USA
Backer HTV Co. Ltd	1101832398	Tan Kim	Vietnam
Backer Marathon Inc.	47-3075187	Delaware	USA
Backer OBR Sp. z o.o.	8358936	Pyrzyce	Poland
Backer-Springfield Dongguan Co. Ltd	441900400000302	Dongguan City	China
Backer-Wilson Elements Pty Ltd	ACN 100 257 514	Burwood	Australia
Backer Wolff GmbH	HRB 27026	Dortmund	Germany
Bentone AB	556617-3927	Ljungby	Sweden
Biawar Produkcja Sp z.o.o	5423273185	Bialystok	Poland
Briskheat Corporation	31-1271116	Delaware	USA
Briskheat Corporation HK Limited	1511003	Hong Kong	China
Briskheat Vietnam Co Ltd	3216041512	Dong Nai Industrial Zone	Vietnam
Briskheat Shenzhen Trading Company Limited	914403000942785000	Guangdong Province	China
Cetetherm AB	559147-1437	Ronneby	Sweden
Cetetherm LLC	1105010000303	Saint Petersburg	Russia
Cetetherm SAS	352696850	Tarare	France
CGC Group of Companies Inc.	85828 1728 RC0001	Mississauga	Canada
CK Fires Ltd	5524093	Wolverhampton	UK
ClimaCool Corp.	73-1409358	Oklahoma City	USA
Climate Control Group Inc.	73-1415062	Oklahoma City	USA
ClimateCraft Inc.	73-1207959	Oklahoma City	USA
ClimateMaster Inc.	93-0857025	Oklahoma City	USA
CTC AB	556617-3919	Ljungby	Sweden
CTC Ferrofil AS	832538132	Årnes	Norway
CTC Giersch AG	CHE-105970811	Zürich	Switzerland
Danotherm Electric A/S	10 12 60 61	Rødovre	Denmark
DMD Dis Ticaret Makine Sanayi AS	510421	Istanbul	Turkey
DZD Strojírna s.r.o.	45148465	Benátky nad Jizerou	Czech Republic
E. Braude (London) Ltd	585474	Sandhurst	UK
Electron Etto s.r.o.	26906040	Hustopeče nad Bečvou	Czech Republic
Eltwin A/S	13 99 24 44	Risskov	Denmark
Eltwin Sp. z.o.o.	394767	Stargard	Poland
Emin Teknik Hortum Ve Makine AS	469632	Istanbul	Turkey

Details of subsidiaries	Corporate ID	Registered office	Country
Enertech AB	556060-2269	Ljungby	Sweden
Enertech Belgium Sprl	821427672	Couvin	Belgium
Enertech GmbH	HRB 733204	Iserlohn	Germany
Enertech Ltd	299044	Worcestershire	UK
Enertech Global LLC	45-2301710	Greenville	USA
Fireplace Products Australia Pty Ltd	117 303 554	Hallam	Australia
Fireplace Products US Inc.	601374460	Blaine	USA
Flex Academy D.O.O.	21296333	Freeezone bb Priboj	Serbia
FPI Fireplace Products International Ltd.	BC0161829	Richmond	Canada
Gaumer Company Inc	74-1778481	Houston	USA
Gazco Ltd	2228846	Exeter	UK
Heatpoint B.V.	30146922	Bodegraven	The Netherlands
Heatrod Elements Ltd	766 637	London	UK
Heatron Inc.	43-1126014	Leavenworth	USA
Hemi Heating AB	556420-7586	Södertälje	Sweden
Hemi Heating Technology Co Ltd	91520100666994785H	Guiyang Guizhou	China
Høiax AS	936 030 327	Fredrikstad	Norway
HT S.p.A.	TV 195113	Treviso	Italy
HT Est Division s.r.l	J02/1489/2007	Arad	Romania
HT Heizelemente Deutschland GmbH	HRB 41822	Bielefeld	Germany
Hyper Engineering Pty Ltd	ACN 148 010 520	Victoria	Australia
Hyper Technology and Trading Comp.	1939789	Hong Kong	China
International Environmental Corp.	73-0754306	Oklahoma City	USA
JSC Evan	1065260108517	Nizhniy Novgorod	Russia
Jevi A/S	12 85 42 77	Vejle	Denmark
Kaukora Oy	0138194-1	Raisio	Finland
KKT Chillers Inc	83-0486747	Elk Grove	USA
KNV Energietechnik GmbH	78375h	Schörling am Attersee	Austria
Koax Corp.	73-1284158	Oklahoma City	USA
KVM-Genvex A/S	21387649	Haderslev	Denmark
Lotus Heating Systems A/S	26 11 04 75	Langeskov	Denmark
Loval Oy	0640930-9	Lovisa	Finland
Lund & Sørensen AB	556731-8562	Sösdala	Sweden
Lund & Sørensen A/S	25 64 75 99	Vejle	Denmark
Lund & Sørensen Electric Heating Equipment Accessory Co Ltd	120000400007673	Tianjin	China
METRO THERM AB	556554-1603	Kalmar	Sweden
METRO THERM A/S	20 56 71 12	Helsingør	Denmark
Meyer Vastus AB, Oy	0215219-8	Monninkylä	Finland
Moravská Dopravní Společnost A.S.	61974421	Hlinsko	Czech Republic
Motron A/S	26 41 80 97	Risskov	Denmark
myUptech AB	556633-8140	Markaryd, Sweden	Sweden
Naturenergi IWABO AB	556663-0355	Bollnäs, Sweden	Sweden
NIBE AB	556056-4485	Markaryd, Sweden	Sweden
NIBE Beteiligungenverwaltungs GmbH	295717d	Vienna	Austria
NIBE-BIAWAR Sp. z o.o.	50042407	Bialystok	Poland
Nibe Climate Solutions Canada Corp.	BC110 5117	Vancouver	Canada
NIBE Energietechniek B.V.	20111793	Willemstad	The Netherlands
NIBE Energy Systems France SAS	501 594 220	Reyrieux	France
NIBE Energy Systems Inc.	99 03 68 191	Wilmington	USA
NIBE Energy Systems Ltd	5764 775	Sheffield	UK
NIBE Energy Systems Oy	9314276	Helsinki	Finland
NIBE Foyers France S.A.S.	491 434 965	Lyon	France
NIBE Stoves Canada Corp.	BC1093578	Richmond	Canada
NIBE Systemtechnik GmbH	HRB 5879	Celle	Germany
NIBE Treasury AB	556108-0259	Markaryd, Sweden	Sweden
Nordpeis AS	957 329 330	Lierskogen	Norway
Norske Backer AS	919 799 064	Kongsvinger	Norway

Details of subsidiaries	Corporate ID	Registered office	Country
Northstar Poland Sp. z o.o.	570844191	Trzcianka	Poland
Omni Control Technology Inc.	04-3142926	Whitinsville	USA
Osby Parca AB	556049-4980	Osby	Sweden
Pellux GmbH	FN485925	Schörfling am Attersee	Austria
Renting 959 KB	916616-1787	Ljungby	Sweden
SAN Electro Heat A/S	42 16 59 13	Græsted	Denmark
Schulthess Group AG	CH-020 7 000 720-2	Zürich	Switzerland
Schulthess Maschinen AG	CH-020 3 923 223-4	Zürich	Switzerland
Schulthess Maschinen GmbH	FN 125340z	Vienna	Austria
Shel NIBE Manufacturing Co Ltd	866 531	Hong Kong	China
Sinus-Jevi Electric Heating B.V.	37106129	Medemblik	The Netherlands
Springfield Wire de Mexico S.A. de C.V.	SWM710722KW3	Nuevo Laredo	Mexico
Stovax Ltd	1572550	Exeter	UK
Stovax D1 Ltd	4826958	Exeter	UK
Stovax Group Ltd	7127090	Exeter	UK
Stovax Heating Group Ltd	8299613	Exeter	UK
Structurgruppen AB	556627-5870	Kungsbacka	Sweden
TermaTech A/S	27 24 52 77	Hasselager	Denmark
Termorad Spolka z.o.o.	000542990	Radom	Poland
Tempeff North America Ltd	812525954	Winnipeg	Canada
TH Qviller AS	926846043	Oslo	Norway
ThermaClime Technologies Inc.	73-1553910	Oklahoma City	USA
Turboflame AB	556117-5125	Ljungby	Sweden
Varde Ovne A/S	21 55 49 79	Gram	Denmark
Vølund Varmeteknik A/S	32 93 81 08	Videbæk	Denmark
Värmeelement i Osby AB	556705-9919	Ljungby	Sweden
WaterFurnace International Hong Kong Ltd	1775445	Hong Kong	China
WaterFurnace International Inc.	35-18737995	Fort Wayne	USA
WaterFurnace Renewable Energy Corp	BC 100 6504	Toronto	Canada
Wiegand S.A. de C.V.	RFC WIE850624H79	Nuevo Laredo	Mexico

Note 23

PARTICIPATIONS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Parent (SEK million)

Name	Corporate ID	Registered office	Proportion of equity	Number shares	Dividend	Carrying amount
Produktionskonsult Väst AB	556713-5206	Gothenburg	50.0%	600	3	7
Rhoss S.p.A	01142230299	Codroipo, Italy	45.0%	5,409,000	–	156
Total					3	163

Group (SEK million)

Name	Corporate ID	Registered office	Proportion of equity	Number shares	Share in equity	Proportion of capital	Carrying amount
Produktionskonsult Väst AB	556713-5206	Gothenburg	50.0%	600	4	11	11
Shanghai Canature Fireplace Products Ltd.	9131 0115 7721 1410 65H	Shanghai, China	25.0%	–	–	7	7
Rhoss S.p.A	01142230299	Codroipo, Italy	45.0%	5,409,000	2	163	163
Total					6	181	181

The holding in Shanghai Canature Fireplace Products is a joint venture.

Note 23 cont.

(SEK million)	Group	
	2018	2017
Carrying amount at start of year	17	18
Investments for the year	156	–
Dividend received	– 3	– 5
Share in profits for the year	6	4
Translation differences	5	–
Carrying amount at end of year	181	17

Note 24

OTHER NON-CURRENT RECEIVABLES

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Market value, interest swap	13	18	13	18
Other	99	25	–	–
Total	112	43	13	18

Note 25

EQUITY

As at the start of the year, there are 504,016,622 shares with a quota value of SEK 0.15625 per share, divided into 58,532,590 class A shares and 445,484,032 class B shares.

Each class A share entitles the holder to ten votes at the Annual General Meeting and each class B share to one vote. Class A shares, which represent approximately 56% of the votes, have pre-emption rights as per the company's articles of association. All shares carry the same entitlement to dividends. The company has two shareholders who each hold more than 10% of the votes, one of them a group of shareholders consisting of present and former directors and managers with around 47% of the votes, the other Melker Schörling, with around 20% of the votes. At the end of 2018 the company had no outstanding convertible loans or options that could risk diluting the share capital. The situation was the same in the preceding year.

Proposal for appropriation of profits

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

Profit brought forward	SEK 2,222 M
Share premium reserve	SEK 4,751 M
Net profit for the year	SEK 634 M
Total	SEK 7,607 M

The Board of Directors proposes issuing a dividend to shareholders of SEK 1.30 per share, equivalent to a total pay-out of SEK 655 million. A total of SEK 6,952 million will be carried over in the accounts: SEK 4,751 million of this in the share premium reserve and SEK 2,201 million as profit brought forward.

The Board of Directors considers that the proposed dividend is reasonable considering the requirements that the nature, scope and inherent risks of the business operations make on the amount of equity and the company's and the Group's consolidation needs, liquidity and financial position. This must be seen against the background of the information provided in the Annual Report. Before proposing this dividend, the Board has paid due consideration to the investments planned.

Note 26

PROVISIONS FOR PENSIONS

(SEK million)	2018			2017		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Reconciliation of pension obligations						
Present value at start of year	1,027	180	1,207	1,040	110	1,150
Present value in acquired companies	–	2	2	115	66	181
Service charge	35	13	48	43	6	49
Interest on obligations	7	5	12	4	4	8
Contributions from employees	29	–	29	27	–	27
Pensions paid	– 14	– 9	– 23	– 109	– 4	– 113
Actuarial gains (–), losses (+) during the period	– 46	8	– 38	– 25	– 2	– 27
Adjustments	– 12	– 1	– 13	– 11	–	– 11
Translation differences	81	4	85	– 57	–	– 57
Present value at end of year	1,107	202	1,309	1,027	180	1,207
Reconciliation of plan assets						
Fair value at start of year	750	–	750	725	–	725
Fair value in acquired companies	–	–	–	114	–	114
Interest income on plan assets	5	–	5	3	–	3
Actuarial gains (+), losses (–) during period	4	–	4	13	–	13
Contributions paid in	31	–	31	28	–	28
Contributions from employees	29	–	29	27	–	27
Adjustments	– 12	–	– 12	– 11	–	– 11
Pensions paid	– 14	–	– 14	– 109	–	– 109
Translation differences	59	–	59	– 40	–	– 40
Fair value at end of year	852	–	852	750	–	750
Provisions for pensions						
Retirement benefit obligations, present value	1,107	202	1,309	1,027	180	1,207
Plan assets, fair value	– 852	–	– 852	– 750	–	– 750
Provisions for pensions	255	202	457	277	180	457
Pension costs recognised in profit or loss						
Service charge	35	13	48	43	6	49
Interest on obligations	7	5	12	4	4	8
Interest income on plan assets	– 5	–	– 5	– 3	–	– 3
Pension costs, defined-benefit plans	37	18	55	44	10	54
Pension costs, defined-contribution plans			136			122
Total pension costs in profit or loss			191			176
Pension costs recognised in other comprehensive income						
Actuarial gains (–), losses (+) in respect of:						
– changed financial assumptions	– 66	4	– 62	– 23	– 5	– 28
– changed demographic assumptions	–	–	–	–	–	–
– experience-based adjustments	20	4	24	– 2	3	1
– difference between actual yield and yield according to discount rate on plan assets	– 4	–	– 4	– 13	–	– 13
– special employer's contribution	–	2	2	–	– 1	– 1
Pension costs in other comprehensive income	– 50	10	– 40	– 38	– 3	– 41
Reconciliation of provisions for pensions						
Opening balance	277	180	457	315	110	425
Provisions in acquired companies	–	2	2	1	66	67
Pension costs, defined-benefit plans	37	18	55	43	10	53
Actuarial differences	– 50	8	– 42	– 38	– 2	– 40
Pensions paid	–	– 9	– 9	–	– 4	– 4
Contributions paid in	– 31	–	– 31	– 27	–	– 27
Translation differences	22	3	25	– 17	–	– 17
Closing balance	255	202	457	277	180	457
Expected pension costs for defined-benefit plans in 2019	40	10	50	39	8	47
Composition of plan assets						
Shares	87			73		
Interest-bearing securities	528			480		
Property, etc.	237			196		
Total plan assets	852			749		

The parent's recognised pension liabilities amount to SEK 10 million (SEK 9 million) and are calculated in accordance with the Pension Obligations Vesting Act and not IAS19.

ITP occupational pension plan secured via Alecta

The commitments for retirement pensions and survivor pensions for white-collar staff in Sweden are secured through an insurance policy with Alecta. In accordance with a statement from the Swedish Financial Reporting Board, UFR 10, this is a multi-employer defined-benefit plan. For the 2018 financial year the company has not had access to the kind of information that would enable it to recognise this plan in the accounts as a defined-benefit plan. The ITP occupational pension plan secured through an insurance policy with Alecta is, therefore, recognised as a defined-contribution plan.

The contributions for the year for pension insurance policies taken out with Alecta amounted to SEK 18 million (SEK 14 million). Alecta's surplus can be distributed to the policyholders and/or the insured. At year-end 2018 Alecta's surplus in the collective funding ratio was 142% (154%). The collective funding ratio consists of the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's actuarial commitments, which is not in conformity with IAS 19.

Defined-benefit pension plans

The Group has defined-benefit pensions chiefly for its Swiss and Swedish companies. Swiss pension plans are funded, which means that plan assets are held to cover pension commitments. The assets are managed by fund managers which are separate legal entities. For Swedish companies, calculations and payments are handled through PRI Pensionstjänst AB. These are unfunded. Consequently, no plan assets are held for the purpose of securing retirement benefits. As far as other countries are concerned, Norway has defined-benefit pensions which are calculated and paid out by the employer.

The estimated present value of the Group's defined-benefit pension commitments has been based on the actuarial assumptions set out in the table above.

Actuarial assumptions 2018	Switzerland	Sweden
Discount rate on 1 January	0.65%	2.50%
Discount rate on 31 December	1.00%	2.35%
Expected salary increases	1.00%	3.00%
Expected inflation	0.60%	2.00%

Actuarial assumptions 2017	Switzerland	Sweden
Discount rate on 1 January	0.35%	2.25%
Discount rate on 31 December	0.65%	2.50%
Expected salary increases	1.00%	3.00%
Expected inflation	0.60%	2.00%

A sensitivity analysis has been carried out in respect of the significant assumptions applied, and the impact that changed assumptions would have on the Group's pension liabilities is shown in the table below.

Sensitivity analysis

	Impact on pension liabilities (SEK million)	
	of an increase	of a decrease
Discount rate - 0.5 percentage points	– 99	+ 114
Expected salary increases - 0.25 percentage points	+ 8	– 7
Expected inflation - 0.25 percentage points	+ 30	– 5

Defined-contribution plans

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

Note 27

OTHER PROVISIONS

(SEK million)	Guarantee risk reserve	Other	Total Group	Parent
Amount on 31 Dec 2016	623	251	874	208
Provisions in acquired companies	44	29	73	–
Provisions during the year	93	41	134	25
Amount utilised during the year	– 91	– 13	– 104	– 2
Reversals in provisions	– 48	– 5	– 53	–
Reclassifications	–	– 177	– 177	– 177
Translation differences	– 36	4	– 32	7
Amount on 31 Dec 2017	585	130	715	61
Provisions in acquired companies	5	52	57	–
Provisions during the year	109	28	137	19
Amount utilised during the year	– 126	– 10	– 136	–
Reversals in provisions	– 12	– 15	– 27	–
Reclassifications	–	2	2	2
Translation differences	35	13	48	7
Amount on 31 Dec 2018	596	200	796	89

Guarantees are normally provided for one to three years, but longer guarantee periods may be provided in individual cases. The guarantee risk reserve is calculated based on the cost history of these commitments. Other provisions also includes provisions for additional considerations. It is anticipated that these will be largely settled within three years. In certain cases, there is no upper limit to the amount of additional considerations. Most are recognised in the parent's balance sheet.

Note 28

BOND LOANS

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Loan at a variable rate of Stibor + 120 points that falls due in June 2019	900	900	900	900
Loan at a variable rate of Stibor + 130 points that falls due in May 2020	750	750	750	750
Loan of SEK 750 million at a fixed rate of 1.8% that falls due in May 2020	760	766	760	766
Loan of SEK 650 million at a fixed rate of 1.0% that falls due in May 2021	650	650	650	650
Loan at a variable rate of Stibor + 110 points that falls due in June 2021	350	350	350	350
Loan at a variable rate of Stibor + 135 points that falls due in June 2022	1,600	1,600	1,600	1,600
Loan at a variable rate of Stibor + 105 points that falls due in June 2023	1,100	–	1,100	–
Loan of SEK 150 million at a fixed rate of 1.45% that falls due in May 2023	150	–	150	–
Total	6,260	5,016	6,260	5,016

Note 29

OTHER LIABILITIES, NON-INTEREST-BEARING

(SEK million)	Additional considerations	Other	Total Group	Parent
Amount on 31 Dec 2016	772	30	802	40
Liabilities in acquired companies	–	12	12	–
Taken up as liabilities during the year	496	14	510	128
Settled during the year	– 4	– 1	– 5	–
Reversed during the year	– 145	–	– 145	– 21
Translation differences	– 18	– 5	– 23	2
Amount on 31 Dec 2017	1,101	50	1,151	149
Taken up as liabilities during the year	905	29	934	104
Settled during the year	– 12	– 2	– 14	–
Reversed during the year	– 63	–	– 63	– 37
Reclassifications	– 5	–	– 5	–
Translation differences	33	5	38	3
Amount on 31 Dec 2018	1,959	82	2,041	219

The size of the additional considerations is dependent on the future financial performance of the acquired units. The amounts specified are based on expected financial performance. In certain cases, there is no upper limit to the amount of additional considerations. The expected amounts are remeasured regularly. For 2018, these remeasurements had a net positive effect on consolidated earnings of SEK 23 million. Liabilities recognised for the parent refer in full to expected additional considerations.

Note 30

LIABILITIES TO CREDIT INSTITUTIONS

Since one of the Group's credit agreements expires in 2019, the liabilities covered by the agreement were recognised as current liabilities.

Current liabilities to credit institutions also include overdraft facilities. Credit facilities granted in the Group totalled SEK 401 million (SEK 420 million). The Group's overdraft facility was thus reduced during the year by SEK 19 million. The parent has no overdraft facility.

Note 31

CASH FLOW FROM FINANCING ACTIVITIES

Group (SEK million)	Liabilities to credit institutions	Bond loans	Other li- abilities	Total
Amount on 31 Dec 2017	3,524	5,016	1,158	9,698
Changes affecting cash flow				
Amortisation of non-current loans	– 1,455	–	– 15	– 1,470
New loans raised	250	1,250	–	1,500
Total	– 1,205	1,250	– 15	30
Changes not affecting cash flow				
Liabilities in acquired companies	–	–	7	7
Taken up as liabilities during the year	–	–	937	937
Reversed during the year	–	–	– 68	– 68
Change in fair value	–	– 6	–	– 6
Translation differences	227	–	39	266
Total	227	– 6	915	1,136
Amount on 31 Dec 2018	2,546	6,260	2,058	10,864

Parent (SEK million)	Bond loans	Other liabilities, non-interest- bearing	Total
Amount on 31 Dec 2017	5,016	149	5,165
Changes affecting cash flow			
New loans raised	1,250	–	1,250
Total	1,250	–	1,250
Changes not affecting cash flow			
Taken up as liabilities during the year	–	104	104
Reversed during the year	–	– 37	– 37
Change in fair value	– 6	–	– 6
Translation differences	–	3	3
Total	– 6	70	64
Amount on 31 Dec 2018	6,260	219	6,479

Note 32

OTHER LIABILITIES

There are estimated additional considerations of SEK 55 million (SEK 219 million) in the Group that are due for payment within one year. The corresponding figure for the parent is SEK 49 million (SEK 183 million).

Note 33

ACCRUED EXPENSES AND DEFERRED INCOME

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Accrued salaries	400	327	6	6
Accrued payroll overhead	111	109	2	2
Deferred income	199	148	–	–
Other items	610	539	27	18
Amount at end of year	1,320	1,123	35	26

Note 34

PLEDGED ASSETS

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Floating charges	43	153	–	–
Real estate mortgages	20	86	–	–
Receivables	111	125	10	8
Total pledged assets	174	364	10	8

Note 35

CONTINGENT LIABILITIES

(SEK million)	Group		Parent	
	2018	2017	2018	2017
Pension commitments not taken up under liabilities or provisions	3	3	–	–
Contingent liabilities on behalf of other Group companies	–	–	1,328	2,353
Total contingent liabilities	3	3	1,328	2,353

There is contaminated soil at three of the Group's production plants in Denmark and the Czech Republic. No contingent liabilities were recognised for this as it is deemed extremely unlikely that any of this could entail significant costs if the Group were held liable.

The parent's contingent liabilities mainly concern surety to credit institutions for subsidiaries' borrowings.

The considerations consist of the following

(SEK million)	2018	2017
Initial considerations	872	1,029
Additional considerations	831	461
Total consideration	1,703	1,490
Fair value of net assets acquired	493	605
Goodwill	1,210	885
Consideration	1,703	1,490
Cash and equivalents in acquired companies	–31	–212
Additional considerations paid	160	5
Additional considerations not yet paid	–831	–461
Effect on consolidated cash and equivalents	1,001	822

The size of the additional considerations is dependent on the future financial performance of the acquired units. The amounts specified are based on expected financial performance. The expected amounts are remeasured regularly. For 2018, these remeasurements had a net positive effect on consolidated earnings of SEK 23 million.

Goodwill is attributable to the profitability of the operations acquired as well as to the synergy effects, particularly in material supply and distribution, that are anticipated within the Group. Tax-deductible goodwill arising from the purchase of the net assets of a business is not included (SEK 31 million).

Note 36

ACQUISITION OF BUSINESSES

An acquisition that does not involve 100% of a subsidiary results in a non-controlling interest. Where the holder of the remaining interest has an option to sell it to NIBE, or NIBE has an obligation to buy, NIBE has decided to employ the Anticipated Acquisition Method (AAM), which means that 100% of the subsidiary is considered to have been acquired on the acquisition date. Consequently, no non-controlling interest is recognised with this type of acquisition transaction.

Acquisitions

In January, NIBE acquired 60% of the shares in US element company BriskHeat Corporation, which also operates in Vietnam, China, Taiwan and the Netherlands. With 650 employees and annual sales of around SEK 320 million, BriskHeat is the world leader in cloth heating jackets. The company was consolidated into the NIBE Element business area as from January 2018. Agreement has also been reached on the acquisition of the remaining 40% of shares in the company in 2021.

Alfa Laval's business for district heating/cooling systems (Cetetherm) was acquired in March. The business generates sales of approximately SEK 300 million, employs around 60 people in Sweden, France, Russia, the Czech Republic, Finland, the UK and Slovakia, and was consolidated into the NIBE Climate Solutions business area as from June 2018. The acquisition value is still provisional.

At the beginning of July, NIBE acquired 51% of the shares in the UK company CK Fires Ltd, which has a wide range of electric stoves under the brand name Evonic fires. The company, which has sales of approximately SEK 70 million, was consolidated into the NIBE Stoves business area as from July 2018. Agreement has also been reached on the acquisition of the remaining 49% of shares in the company by 2026. The acquisition value is still provisional.

A contract was signed in August to acquire 51% of the shares in the element company EMIN Group, which has operations in Turkey and Serbia. Operations consist partly in the production of fluid coupling systems. Sales are approximately SEK 140 million, with an operating margin of over 10%. After approval by the Turkish competition authority, operations were consolidated into the NIBE Element business area as from December 2018. NIBE has an option to acquire a further 29% of shares in 2025. The acquisition value is still provisional.

(SEK million)	Group	
	Fair values	Acquired carrying amounts
Market positions	90	–
Brands and trademarks	104	–
Other intangible assets	20	1
Property, plant and equipment	84	88
Financial assets	167	167
Current receivables	268	268
Inventories	191	191
Cash and equivalents	31	31
Provisions	–136	–10
Liabilities	–326	–249
Net assets acquired	493	487

Acquired current receivables comprise SEK 268 million, of which the entire amount is expected to be settled.



The Board of Directors' declaration

The Board of Directors and the Managing Director/CEO declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group's financial position and results of operations. The financial statements of the parent have been prepared in accordance with generally accepted accounting principles in Sweden and give a

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

Markaryd, 26 March 2019



Hans Linnarsson
Chairman of the Board



Georg Brunstam
Director



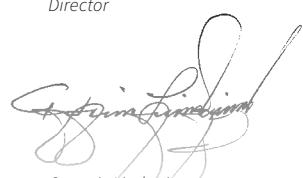
Anders Pålsson
Director



Helene Richmond
Director



Jenny Sjödahl
Director



Gerteric Lindquist
Managing Director and CEO

The Annual Report and the consolidated financial statements were, as shown above, approved for publication by the Board and the Managing Director/CEO on 26 March 2019. The consolidated balance sheet and income statement and the parent's balance sheet and income statement will be presented for approval at the Annual General Meeting on 14 May 2019.

Auditor's report

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

Report on the annual report and consolidated financial statements

Opinions

We have audited the annual accounts and consolidated accounts of NIBE Industrier AB (publ) for the 2018 financial year. The annual report and consolidated financial statements of the company are included in the printed version of this document on pages 69-114.

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and presents fairly, in all material respects, the financial position of the parent as of 31 December 2018 and of its financial performance and its cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and of its financial performance and cash flow in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory Administration Report is consistent with the other parts of the annual report and the consolidated financial statements.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent and the Group. Our opinions in this report on the annual report and the consolidated financial statements are consistent with the content of the supplementary report submitted to the parent's Board in accordance with Article 11 of EU Regulation 537/2014 on statutory audits.

Basis for our opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility under these standards is described in further detail in the 'Auditor's responsibility' section. We are independent of the parent and the Group in accordance with generally accepted auditing standards in Sweden and have fulfilled our ethical responsibility under these standards. This means that, based on our best knowledge and belief, no prohibited services referred to in Article 5 (1) of EU regulation 537/2014 on statutory audits were provided to the audited company or, as the case may be, its parent or its companies under its control within the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual report and consolidated financial statements for the current period. These matters were addressed in the context of our audit of, and our opinion on, the annual report and consolidated financial statements as a whole, but we do not provide a separate opinion on these matters.

Valuation of Goodwill

See Note 17 and the accounting policies on pages 89-90 of the annual report and consolidated financial statements for detailed information and a description of this matter.

Description of the matter

As at 31 December 2018, the Group had goodwill of SEK 12,750 million, representing 40 % of total assets.

Every year, goodwill must be subject to at least one impairment test which contains both complexity and significant features of assessments from the Group management.

Under the existing rules, the test must be performed using a specific technique in which the management makes future assessments of the business's internal and external conditions and plans. Examples of such assessments are future receipts and payments, which require assumptions about future market conditions, among other things, and thus indirectly about how competitors may be expected to act. Another important assumption is the discount rate that should be used to show that future assessed receipts are subject to risk and are thus worth less than cash and equivalents that are directly available to the Group.

Response in the audit

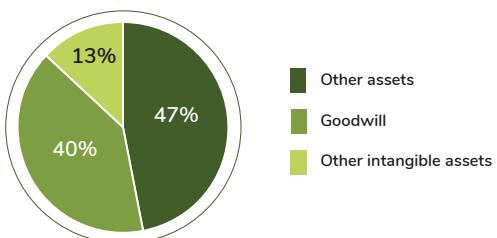
We have studied the company's impairment tests to assess whether they were performed in accordance with the technique prescribed.

We have also assessed the reasonableness of the future receipts and payments and the assumed discount rates by studying and evaluating the management's written documentation and plans. We have also interviewed the management and evaluated previous years' assessments in relation to actual outcomes.

We included our own valuation specialists in the audit team to ensure experience and expertise in this matter, primarily for assumptions linked to external markets and competitors and assessment of the company's assumptions for future receipts and payments. It has also been an important part of our work to evaluate how changes in assumptions may affect the valuation, i.e. a critical evaluation of the Group's sensitivity analysis.

We have also checked the completeness of the information in the annual report and assessed whether the information matches the assumptions applied by the company in its impairment test and whether the information is extensive enough to understand the assessments made by the company management.

Group assets



Acquisition analyses

See Note 36 and the accounting policies on pages 89-90 of the annual report and consolidated financial statements for detailed information and a description of this matter.

Description of the matter

A number of acquisitions were made within the Group during the year. No single acquisition is deemed to be significant.

In connection with business combinations, the new business must be recognised in the consolidated financial statements, which requires the preparation of an acquisition analysis. The preparation of this analysis involves acquired assets and liabilities being identified and having amounts allocated to them that correspond to their fair values on the acquisition date, whether they were previously recognised or not.

Preparation of this analysis also requires access to knowledge of the methods to be used in the analysis and knowledge of the circumstances in the acquired business that give rise to the values to be recognised in the Group. The acquisition analysis requires assessments by the Group management of the assets that are to be recognised in the financial statements (intangible assets can be particularly difficult to assess here) and the values allocated to them in the financial statements. These assessments affect the Group's future earnings, partly dependent on whether depreciable or non-depreciable assets are recognised in the financial statements.

The value that remains after all assets and liabilities have been assessed and valued is recognised as goodwill. This goodwill is not subject to depreciation but it must be subject to impairment testing at least once a year instead.

Response in the audit

We have analysed acquisition analyses in order to assess whether they were prepared using the correct methods. We included valuation specialists in our team who have experience of the methods and valuations used for acquisitions. In our work, we focused in part on the intangible assets and on whether the techniques used by the Group management to allocate values to these assets in the financial statements are compatible with the rules and established valuation techniques.

Other important parts of our work involved assessing whether the assets included in the acquisition analysis exist and whether all assets, especially intangible assets, were included. This assessment was based in part on inspection of contracts made and reports prepared by the external consultants engaged by the Group in order to prepare basic data and calculations for the acquisition analyses.

We have also checked the completeness of the information in the annual report and assessed whether the information matches the information used by the Group in its acquisition analysis and whether the information is extensive enough to understand the assessments made by the company management.

Information other than the annual report and consolidated financial statements

This document also contains information other than the annual report and consolidated financial statements and can be found on pages 1-61 and 118-135. The Board and the Managing Director are responsible for this other information.

Our opinion concerning the annual report and consolidated financial statements does not include this information and we do not give an assured opinion on this other information.

In connection with our audit of the annual report and consolidated financial statements, it is our responsibility to read the information identified above and consider whether the information is materially inconsistent with the annual report and consolidated financial statements. In this review, we also take into account the knowledge we have obtained during the audit and assess whether the information appears to contain material misstatements in other respects.

If, based on the work performed concerning this information, we conclude that the other information contains a material misstatement, we are liable to report this. We have nothing to report in this respect.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this annual report in accordance with the Annual Accounts Act and of the consolidated financial statements in accordance with IFRS, as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of an annual report and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual report and consolidated financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's and the Group's ability to continue as a going concern. Where appropriate, they disclose circumstances that may affect the ability to continue business operations and to apply a going concern assumption. However, a going concern assumption is not applied if the Board of Directors and the Managing Director intend to liquidate the company or cease business operations or have no realistic alternative to doing one of these.

Auditor's responsibility

Our objective is to obtain reasonable assurance that the annual report and consolidated financial statements do not contain any material misstatement, whether due to fraud or error, and to submit an auditor's report that contains our opinions. Reasonable assurance is a high level of assurance, but is no guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always detect material misstatement if such exists. Misstatements may arise due to fraud or error and are regarded as material if, individually or together, they may reasonably be expected to affect the financial decisions that users make based on the annual report and consolidated financial statements.

As part of an audit in accordance with ISA, we employ our professional judgement and assume a professionally sceptical attitude throughout the audit. In addition:

- we identify and assess the risks of material misstatements in the annual report and consolidated financial statements, whether they are due to fraud or error, design and perform audit procedures in part

based on these risks and obtain audit evidence that is adequate and appropriate as a basis for our opinions. The risk of not identifying a material misstatement as a consequence of fraud is higher than the risk of not identifying a material misstatement due to error as fraud may involve agency in collusion, forgery, intentional omissions, incorrect information or disregard for internal controls.

- we gain an understanding of the part of the company's internal control that is of importance to our audit to design audit procedures that are appropriate to the circumstances but not to supply an opinion on the effectiveness of the internal control.
- we evaluate the suitability of the accounting policies applied and the reasonableness of the Board of Directors' and the Managing Director's estimates in the financial statements and associated information.
- we draw a conclusion about the suitability of the Board of Directors and the Managing Director applying a going concern assumption in the preparation of the annual report and consolidated financial statements. We also draw a conclusion, based on the audit evidence

obtained, about whether there is any material uncertainty factor relating to events or circumstances that may lead to significant doubt about the company's and the Group's ability to continue their business operations. If we draw the conclusion that there is a material uncertainty factor, we must draw attention, in the auditor's report, to the information in the annual report and consolidated financial statements about the material uncertainty factor or, if such information is inadequate, we must modify our opinion about the annual report and consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or circumstances may mean that a company and a Group are no longer able to continue to their business operations.

- we evaluate the overall presentation, structure and content of the annual report and consolidated financial statements, including any disclosures, and whether the annual report and consolidated financial statements present the underlying transactions and events in such a way that they present a fair view.
- we obtain adequate, appropriate audit evidence relating to the financial information for the entities or business activities within

the Group to supply an opinion on the consolidated financial statements. We are responsible for the management, monitoring and performance of the consolidated audit. We bear sole responsibility for our opinions.

We must inform the Board of Directors about matters include the planned scope, focus and date of the audit. We must also provide information about significant observations during the audit, including any significant deficiencies in the internal control we have identified.

We must also provide the Board of Directors with a statement to the effect that we have met relevant ethical requirements regarding independence and mention all relationships and other circumstances that may reasonably affect our independence and, where appropriate, take remedial action.

Of the matters communicated to the Board of Directors, we determine which of them were the most important to the audit of the annual report and consolidated financial statements, including the risks of material misstatements considered to be the most significant, and which therefore represent the key audit matters. We describe these matters in the auditor's report unless laws or other statutes prevent disclosure of the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual report and consolidated financial statements, we have examined the administration by the Board of Directors and the Managing Director of NIBE Industrier AB (publ) for the 2018 financial year and the proposed appropriation of the company's profit or loss.

We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the Directors' Report, and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for our opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibility under these standards is described in further detail in the 'Auditor's responsibility' section. We are independent of the parent and the Group in accordance with generally accepted auditing standards in Sweden and have fulfilled our ethical responsibility under these standards.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. Proposing a dividend involves, among other things, an assessment of whether the dividend is reasonable with regard to the requirements that the nature, scope and inherent risks of the business operations of the company and the Group make of the size of the equity, consolidation needs, liquidity and financial position as a whole of the company and the Group.

The Board of Directors is responsible for the organisation of the company and management of the company's affairs. Among other

things, this involves continuously assessing the company's and the Group's financial situation and ensuring that the company's organisation is such that the company's accounts, asset management and other financial affairs are subject to adequate control.

The Managing Director is responsible for ongoing management in accordance with the guidelines and instructions issued by the Board of Directors and for taking the measures necessary to ensure that the company's accounts are completed in accordance with the law and the company's assets are managed adequately.

Auditor's responsibility

Our objective with regard to our audit of the management of the company, and thus our opinion on discharge from liability, is to obtain audit evidence to be able to assess, with a reasonable level of assurance, whether any Board member or the Managing Director has, in any material respect:

- taken any action or been guilty of any negligence that may lead to the company being liable for damages, or
- in any other way acted in breach of the Swedish Companies Act, the Swedish Annual Accounts Act or the company's Articles of Association.

Our objective in our audit of the proposed appropriation of the company's profit or loss, and thus our opinion on this, is to assess with reasonable assurance whether the proposal is consistent with the Swedish Companies Act.

Reasonable assurance is a high level of assurance, but is no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always identify actions or negligence that may result in liability for damages to the company, or identify that a proposal for appropriation of the company's profit or loss is not consistent with the Swedish Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we employ our professional judgement and assume a professionally sceptical attitude throughout the audit. Our

examination of the company's management and the proposed appropriation of the company's profit or loss is based primarily on our audit of the accounts. Any additional audit procedures performed are based on our professional judgement with reference to risk and materiality. This means that we focus the examination on actions, matters and conditions that are material to the business operations and where departures and non-compliance would be of particular importance to the company's situation. We review and test decisions made, decision data, actions taken and other matters that are relevant to our opinion on discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriation of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

KPMG AB was appointed auditor of NIBE Industrier AB (publ) by the annual general meeting on 16 May 2018. KPMG AB or auditors working at KPMG AB have been the company's auditor since 2013.

Markaryd, 26 March 2019

KPMG AB



Dan Kjellqvist

Authorised Public Accountant

Corporate governance report

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

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

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

Ownership

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

NIBE class B shares have also had a secondary listing on the SIX Swiss Exchange since August 2011. On 28 December 2018, NIBE had 44,422 registered shareholders, excluding previous shareholders in Schulthess Group AG who have become shareholders in NIBE. As the Swiss authorities do not report any details relating to individual shareholders in Switzerland to NIBE, it is not possible to determine the total number of shareholders.

The ten largest shareholders comprise the constellation of 'current and former board members and senior executives' with a total of 21% of the capital and 47% of voting rights, followed by Melker Schörling who holds 11% of the capital and 20% of the voting rights, and eight institutional investors with a total of 22% of capital and 11% of voting rights, one of whom represents the previous owners of the Schulthess Group AG. Together these ten constellations of investors hold a total of 54% of the capital in the company and 78% of the votes.

Annual General Meeting

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

The most recent AGM, held on 16 May 2018 in Markaryd, was attended by 601 shareholders. Those present represented 51% of the shares and 72% of the total number of votes in the company. The AGM was attended by the Board of Directors, the MD/CEO and the company's auditors. The minutes of the AGM and the company's articles of association are available on the company's website.

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

The 2018 AGM gave the Board of Directors a mandate to issue new class B shares in the company, on one or more occasions and with or without regard for the shareholders' preferential rights, to be used to finance the acquisition of companies or businesses. This mandate is valid until the 2019 AGM and is restricted to a maximum of 10% of the number of shares issued at the time of the AGM.

Communication with the stock market

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

Earnings and a summary of the Group's financial position are presented quarterly and, like the annual report, are issued in printed form to all shareholders who so wish. All takeovers and other information that may have an effect on the company's share price are announced via press releases. All financial information is also available on the website, www.nibe.com. Press releases and reports are posted there at the same time as they are made public.

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

Board procedures

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

The Board of Directors in 2018 comprised Hans Linnarson (Chair), Georg Brunstam, Anders Pålsson, Helene Richmond, Jenny Sjödahl and Gerteric Lindquist (CEO of the NIBE Group). With the exception of the CEO, none of the directors of the company is employed by the company or has any operational responsibilities in the company.

NIBE's Board of Directors assesses that all directors are independent of the company apart from the CEO and Georg Brunstam, due to his position in Melker Schörling AB, which is owned by one of the principal shareholders. Please see page 136 for a brief presentation of the directors of the company.

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

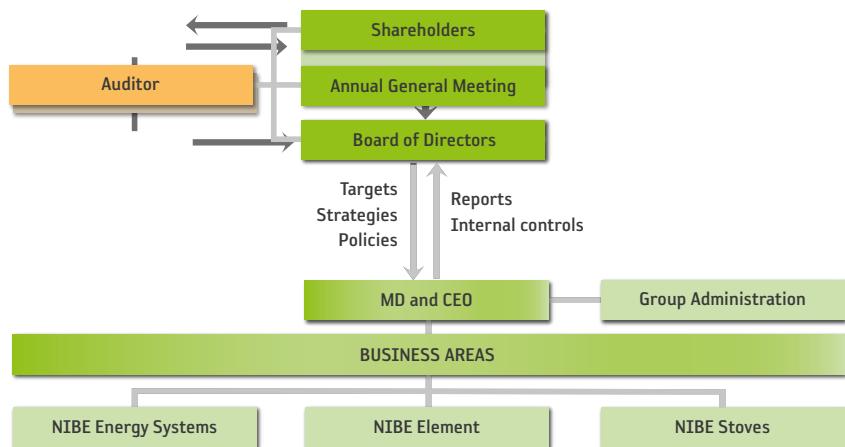
The Board of Directors oversees the work of the MD/CEO and is responsible for ensuring that the organisation, management and administrative guidelines for the company's funds are suitable for the purpose. The Board is also responsible for developing and monitoring the company's strategies through plans and objectives, decisions on acquisitions, major investments, appointments to managerial positions and the continual supervision of operations during the year. In addition, the Board sets the budget and is responsible for the annual report.

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

The Board of Directors evaluates its work every year. The evaluation is carried out by means of a survey of the directors. The results of the survey are then presented to the full Board, which uses them to make specific proposals on how its work can be developed, improved and made more efficient, where necessary. The Board survey for 2018 revealed an open, constructive climate with well-functioning control and decision-making processes. The areas covered by the evaluation included the composition, working methods, communication and internal control of the Board, the Board's evaluation of the MD and other company management, and the need for committees.



Hans Linnarson
Chairman of the Board



Decision-making process

The NIBE Board deals with all matters of significance.

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

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

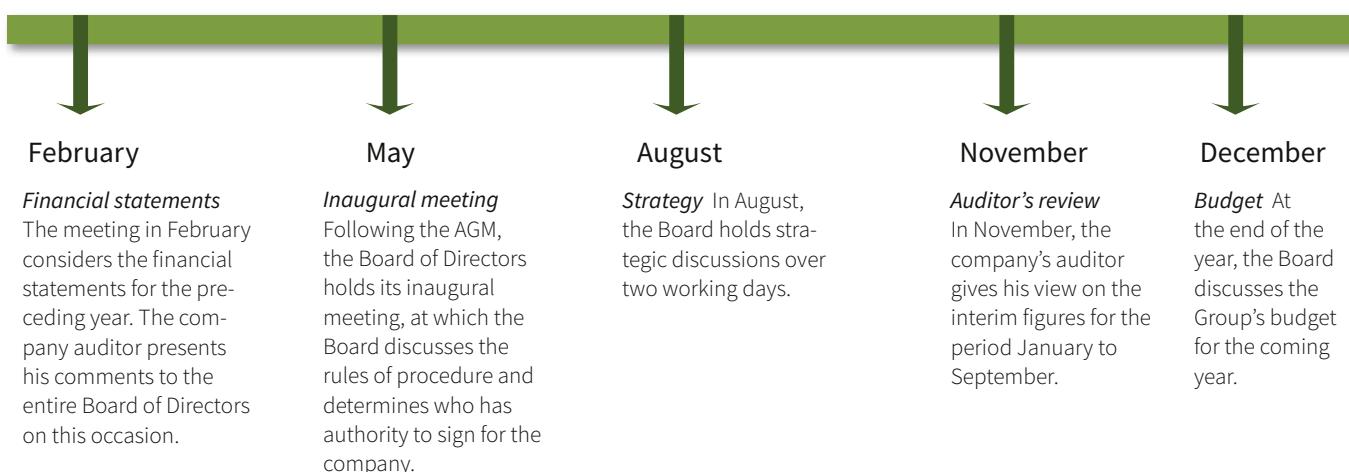
The company does not have a Nomination Committee (Section III, item 2.1, of the Code), a Remuneration Committee (Section III, item 9.1, of the

Code) or an Audit Committee (Section III, item 7.2, of the Code). NIBE does not comply with the Code in respect of nominations because of the clear ownership structure with two principal shareholder constellations, which together control 67% of the company's votes, and which also enjoy mutually cordial relations. The Board of Directors is not too large to carry out the audit and remuneration tasks in a manner consistent with the Swedish Companies Act and the Code.

The work of the Board in 2018

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

Every ordinary board meeting focuses on one principal topic of discussion



Group management

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

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

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

Governance of business areas

NIBE consists of three business areas.

Each business area has its own operational management with profit responsibility. Each business area has a Business Area Board chaired by the Group's CEO. These Business Area Boards also include external members with expertise within the respective areas.

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

Management of the Group's sustainability work

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

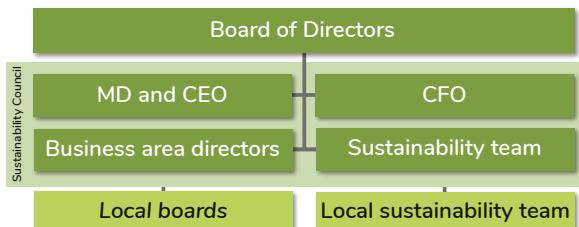
Much of the work is regulated in national legislation, such as environmental laws and labour law, but we are also obliged to comply with regional and international law and voluntary commitments such as the UN Global Compact.

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

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

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

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



Code of conduct

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

The Code of Conduct is reflected in NIBE's documents on business principles, values and working methods and the content of these is based on a long tradition of honest and sincere business practices. The information can be found on page 43.

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

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

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

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

Diversity policy

NIBE has adopted a diversity policy for the Board.

NIBE's Board of Directors must have overall expertise and experience that is appropriate to its work and the business that is conducted, as well as to be able to identify and analyse opportunities for and risks to the Group. When new directors are nominated and elected, it is necessary to consider each director's suitability to obtain a Board of Directors with the overall expertise required for appropriate governance of the Group. The composition of the Board of Directors must be characterised by versatility and breadth in terms of the expertise, experience, gender, age, education and professional background of the directors elected. The objective of the policy is to achieve an appropriate composition of the Board as regards the company's operations and relationships in general. In 2018, the composition of the Board was evaluated within the framework of the Board's own annual evaluation (presented above under 'Board procedures').

Remuneration, 2018

The 2018 AGM resolved that the fees to the Board of Directors and the fees to the auditors should be paid in accordance with approved accounts.

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

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

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

Incentive programme

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

The variable bonus is limited to a maximum of four months' salary. It is also possible for an additional month's salary to be paid on condition that this additional payment plus another monthly salary paid as a variable bonus or part of a variable bonus is used to purchase NIBE shares on the stock market. A further condition for entitlement to receive this additional month's remuneration is that the NIBE shares purchased are retained for at least three years. Under normal circumstances, shares acquired in this way by members of staff shall be purchased on one occasion each year in February/March and the purchase shall be subject to the relevant market abuse regulations. No incentive programme is offered to the MD. Certain key individuals in the foreign companies acquired during recent years have incentive programmes that, in certain respects, deviate from the principles for remuneration that are otherwise applied in the NIBE Group. Further information about the principles that apply for senior executives can be found in Note 6 to the annual report.

Severance pay

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

The period of notice for the MD/CEO is six months in the event that the company gives notice. In addition to salary during the period of notice, the MD/CEO is entitled to severance pay equal to 12 months' salary. Other senior executives are entitled to receive their salaries during a period of notice which varies between 6 and 12 months.

Pensions

The Chairman of the Board and the directors of the company receive no retirement benefits for their work on the Board.

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

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

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

Internal controls of financial reporting in 2018

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

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

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

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

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

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

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

In 2018, the project aimed at reinforcing internal control continued. It is our opinion that this review increases insight and awareness, provides explicit instructions and proposes a clear organisation as regards internal control. It is therefore the opinion of the Board that, because of the implementation of this review, there is no need for any separate internal control (internal audit) (item 7.3 in the Code).

External auditors

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

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

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

The company's auditor in charge reports his observations from the audit and his assessment of the company's internal control to the Board as a whole.

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

The auditor's statement on the corporate governance report

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

Organisation and division of responsibilities

The Board of Directors is responsible for the corporate governance report for 2018 on pages 118-121, and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Focus and scope of the review

Our review was conducted in accordance with FAR's statement RevU 16 The Auditor's Review of the Corporate Governance Report. This means that our review of the corporate governance report has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices in Sweden. We consider that this review provides an adequate basis for our opinions.

Opinion

A corporate governance report has been prepared. Disclosures in compliance with Chapter 6, section 6, paragraph 2, clauses 2-6 of the Annual Accounts Act and Chapter 7, section 31, paragraph 2 of the same act are consistent with the annual accounts and the consolidated accounts and comply with the Annual Accounts Act.

Markaryd, 26 March 2019



KPMG AB
Dan Kjellqvist
Authorised Public Accountant

Auditor's statement on the statutory sustainability report

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

Organisation and division of responsibilities

The Board of Directors is responsible for the sustainability report for 2018 on pages 123-135, and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Focus and scope of the review

Our review was conducted in accordance with FAR's recommendation RevR 12, The Auditor's Opinion on the Statutory Sustainability Report. This means that our statutory review of the sustainability report has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices in Sweden. We consider that this review provides an adequate basis for our opinion.

Opinion

A sustainability report has been prepared.

Markaryd, 26 March 2019



KPMG AB
Dan Kjellqvist
Authorised Public Accountant

Sustainability reporting

This year's sustainability report is the eighth one prepared by the NIBE Group. It covers the companies that NIBE has operational control over, that is, where we have majority ownership, but not the operations acquired in 2018.

The primary audience for the report is investors. Other stakeholders such as customers, suppliers, employees and the general public should also be able to have their most important questions answered here.

The 2018 accounts are in line with the GRI Standards. To ensure that the sustainability report covers all material areas, the company has, prior to this year's report, updated the materiality analysis. The transition to the GRI Standards and the new materiality analysis has led to changes in the number of indicators. To give a comprehensive view of NIBE's impact, strategies and approaches in the area of sustainability, the parts most relevant to the company and its stakeholders were included in the report.

No external audit of the sustainability report was conducted. NIBE Industrier's Board has the ultimate responsibility for ensuring that risks are managed and that sustainability initiatives comply with the requirements of authorities, shareholders and other stakeholders. For more detailed information on sustainability control, see page 120.

Policies that support our values

NIBE Group policies implemented in the companies and used as a basis for sustainability visits.

	Our values	Supporting policies	Communication
	Respect for human rights	IT policy (GDPR) Stance against modern slavery and human trafficking	Internal Internal/External
	Good working conditions	Health and safety policy Diversity and equal treatment policy	Internal Internal
	Reduced environmental impact	Environmental policy	External/Internal
	Product liability	Quality policy	External/Internal
	Sound business ethics	Gift policy Whistleblower policy	Internal External/Internal
	Transparency	Communication policy	Internal
	Responsible purchasing	Supplier code of conduct Diversity and equal treatment policy Stance against modern slavery and human trafficking	External/Internal External/Internal External/Internal
	Corporate citizenship	Conflict minerals policy Stance against modern slavery and human trafficking	External External

GRI Index

Sustainability reporting

NIBE's sustainability report was prepared in accordance with the Global Reporting Initiative (GRI) Guidelines for Sustainability Reporting, Core Option. The sustainability report also complies with the statutory sustainability reporting requirements of Chapter 6, section 11 of the Annual Accounts Act. All collection of GRI sustainability data is done via two IT systems, financial and sustainability reporting.

GRI Index			
General disclosures			
1.	Organizational Profile	Page/URL/Exception	Comments
102-1	Name of the organisation	NIBE Industrier AB	
102-2	Activities, brands, products and services	Pages 2,14,15,22-23,30-31,50-53,58,76 www.nibe.com	
102-3	Location of headquarters	Page 88 (Note 1)	
102-4	Location of operations	Pages 54,106-108	
102-5	Ownership and legal form	Pages 2,10-11,71,88 (Note 1)	
102-6	Markets served	Pages 3,18-19,27,32,34	
102-7	Scale of the organisation	Pages 3,88 (Note 1)135	
102-8	Information on employees and other workers	Pages 94,88 (Note 1)105-108,134-135	Sustainability reporting is based on data reported for 2018 in a common IT system. No significant work is performed by non-employed personnel. Increase is due to acquisition of companies.
102-9	Supply chain	Pages 48-49,54,133	Focus is on suppliers of direct materials. Main categories are metals and electronics.
102-10	Significant changes to the organisation and its supply chain.	Page 70	
102-11	Precautionary Principle or approach.	Pages 16,24,31,60	
102-12	External initiatives	Pages 57,58,64,65	NIBE Group has signed the UN Global Compact, but otherwise it is up to each local business to decide on initiatives.
102-13	Membership of associations.	Page 57 Information missing for local companies	NIBE Group has signed the UN Global Compact, but otherwise it is up to each local business to decide on memberships.
2.	Strategy		
102-14	Statement from senior decision-maker.	Pages 6-7	
102-15	Key impacts, risks and opportunities.	Pages 54-55,86-87,77,95-98 (Note 7)	
3.	Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour.	Pages 42,43,120,123 www.nibe.com, https://one.nibe.net	
102-17	Mechanisms for advice and concerns about ethics.	Pages 59,120,123	
4.	Governance		
102-18	Governance structure	Pages 118-121,136-137	
102-19	Delegating authority	Pages 118-121	
102-20	Executive-level responsibility for economic, environmental and social topics.	Pages 118-120	
102-21	Consulting stakeholders on economic, environmental and social topics.	Page 118	
102-22	Composition of the highest governance body and its committees.	Pages 118,120,136-137	
102-23	Chair of the highest governance body.	Page 118	
102-24	Nominating and selecting the highest governance body.	Page 119	
102-25	Conflicts of interest.	Page 118	
102-26	Role of highest governance body in setting purpose, values and strategy.	Pages 118-119	

	Organizational Profile	Page/URL/Exception	Comments
102-27	Collective knowledge of highest governance body.	Pages 118,136	
102-28	Evaluating the highest governance body's performance.	Pages 118,121-122	
102-29	Identifying and managing economic, environmental and social impacts.	Pages 44-47,86-87	
102-30	Effectiveness of risk management processes.	Page 54	
102-31	Review of economic, environmental and social topics.	Page 54	
102-32	Highest governance body's role in sustainability reporting.	Pages 120,123	
102-33	Communicating critical concerns.	Page 120	
102-34	Nature and total number of critical concerns.	None reported	
102-35	Remuneration policies.	Pages 93-94 (Note 6), 120-121	
102-36	Process for determining remuneration.	Pages 93-94 (Note 6), 121	
102-37	Stakeholders' involvement in remuneration.	Pages 70,121	
102-38	Annual total compensation ratio.	Pages 93-94 (Note 6)	
102-39	Percentage increase in annual total compensation ratio.	Page 94 Exception: Confidentiality limitations	Company policy not to disclose wages.
5.	Stakeholder engagement		
102-40	List of stakeholder groups.	Page 66	
102-41	Collective bargaining agreements.	Page 135	
102-42	Identifying and selecting stakeholders.	Page 66	Method used is Mitchel et al 1997.
102-43	Approach to stakeholder engagement.	Page 66	
102-44	Key topics and concerns raised.	Page 66	
6.	Reporting practice		
102-45	Entities included in the consolidated financial statements.	Page 88	
102-46	Defining report content and topic Boundaries.	Page 123	
102-47	List of material topics.	Page 66 (Material topics)	
102-48	Restatements of information.	Page 40* Energy reduction Page 41* Safe workplace	Miscalculation
102-49	Changes in reporting.	Companies acquired in 2017 now included in sustainability reporting: Backer Grand Heater Co Ltd, CGC Group of Companies, HT SPA, Heatpoint B.V., Tempeff North America Ltd, Enertech Group. Companies acquired in 2018 first report in 2019, page 70	
102-50	Reporting period.	20180101-20181231	
102-51	Date of most recent report.	Annual report 2017 and GRI 20180416	
102-52	Reporting cycle.	Annually. This report is also used as the supporting document for the UN Global Compact's progress report.	
102-53	Contact point for questions regarding the report.	sustainability@nibe.se	
102-54	Claims of reporting in accordance with the GRI Standards.	This report was created in line with GRI Standards: Core option	
102-55	GRI content index.	Pages 124-129	
102-56	External assurance.	No external assurance of sustainability reporting has been conducted.	
Management approach			
103-1	Explanation of the material topic and its Boundary.	Pages 58-65	

	Organizational Profile	Page/URL/Exception	Comments
103-2	The management approach and its components.	Management's position on importance, measurement and monitoring was combined for the materiality topics and is available as an introduction to each area. Business responsibility, page 58, Environmental responsibility, page 60, Employee responsibility, page 62, Social responsibility, page 64.	
103-3	Evaluation of the management approach.	Follow-up visits are reported to the Sustainability Council and, if necessary, further measures are taken. Page 67	
Topic-specific disclosures			
Economic performance			
201-1	Direct economic value generated and distributed.	Pages 3,70-114	
201-2	Financial implications and other risks and opportunities due to climate change.	Pages 54-55,86-87	
201-3	Defined benefit plan obligations and other retirement plans.	Page 93 (Note 6) Exception: Information not available.	
201-4	Financial assistance received from government.	Exception: Confidentiality limitations.	Company policy not to disclose other financial information.
Market presence			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage.	Exception: Confidentiality limitations.	Company policy not to disclose wages. Data is available internally to ensure compliance with laws and regulations.
202-2	Proportion of senior management hired from the local community.	Exception: Data not available.	NIBE's policy is to retain and promote local management in their operations.
Procurement practices			
204-1	Proportion of spending on local suppliers.	Page 133 We do not define our operations as significant, rather we include all our production units that are covered in the sustainability reporting. NIBE defines local suppliers as those within the local municipality.	
Anti-corruption			
205-1	Operations assessed for risks related to corruption.	A total of 66 production companies have been assessed and visited. This corresponds to about 85% of the production companies. The sales companies were assessed for corruption risks via NICS. NIBE's risk areas for corruption are sales, procurement and B2B.	
205-2	Communication and training about anti-corruption policies and procedures.	Exception: Data not available.	Complete data is only available for certain categories of employees. Access to additional data will be implemented.
205-3	Confirmed incidents of corruption and actions taken.	No confirmed incidents.	
Anti-competitive behaviour			
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices.	No legal actions.	
Materials			
301-1	Materials used by weight or volume.	Page 130 Custom indicator.	
Energy			
302-1	Energy consumption within the organisation.	Page 132 Emission factors and GWP factors are retrieved from the Swedish Environmental Protection Agency. https://www.naturvardsverket.se/upload/stod-i-miljoarbetet/vagledning/Luft-klimat/emissionsfaktorer-och-varmevarden-2019.xlsx .	
302-2	Energy consumption outside the organisation.	Exception: Data not available.	Identify which categories we should include.
302-3	Energy intensity.	Page 132	

	Organizational Profile	Page/URL/Exception	Comments
302-4	Reduction of energy consumption.	Page 40	
Water and effluents			
303-3	Water withdrawal	Page 130 Exception: Data is not available for part C of the standard.	Update process to include undissolved particulates in fresh water and other water.
303-4	Water discharge	Custom indicator, page 130 Exception: Information not available.	Update process to include undissolved particulates in fresh water and other water.
303-5	Water consumption.	Page 130	
Emissions			
305-1	Direct (Scope 1) GHG emissions.	Page 132 Gas included is CO2 and emission factors and GWP factors are from the Swedish Environmental Protection Agency. https://www.naturvardsverket.se/upload/stod-i-miljoarbetet/vagledning/Luft-klimat/emissionsfaktorer-och-varmevarden-2019.xlsx . Consolidated figures from local operations via IT systems.	
305-2	Energy indirect (Scope 2) GHG emissions.	Exception: Data not available.	We have everything reported in Scope 1 and need to separate the scopes.
305-3	Other indirect (Scope 3) GHG emissions.	Exception: Data not available.	We have everything reported in Scope 1 and need to separate the scopes.
305-4	GHG emissions intensity.	Page 132	Scope 1 and Scope 2.
305-5	Reduction of GHG emissions.	Page 40	
305-6	Emissions of ozone-depleting substances (ODS).	No reported substances.	
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions.	Page 130 Exception: Data not available. No emission factor available, only weight. Calculated on locally reported figures via IT systems.	Process to report HAP and POP will be implemented.
Effluents and waste			
306-1	Water discharge by quality and destination.	Custom indicator, page 130 Exception: Information not available.	Process needs to be reviewed and possibly updated in terms of water quality.
306-2	Waste by type and disposal method.	Page 131 Disposal method for waste is business-specific and includes, for example, directly generated waste information with weight from waste companies and self-measurement.	
306-3	Significant spills.	Page 61	
Environmental compliance			
307-1	Non-compliance with environmental laws and regulations.	Page 61	
Supplier environmental assessment			
308-1	New suppliers that were screened using environmental criteria.	Page 133	
Employment			
401-1	New employee hires and employee turnover.	Pages 134-135 Exception: Data not available on age groups.	Review data and update.
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	Exception: Confidentiality limitations.	Company policy not to disclose wages. Data is available internally to ensure compliance with laws and regulations.
401-3	Parental leave.	Exception: Data not available.	Update process to also include parental leave.
Labour/Management relations			
402-1	Minimum notice periods regarding operational changes.	No policy but obey the local laws of each operations' country.	
Occupational health and safety			
403-1	Occupational health and safety management system.	NIBE has an updated work environment policy where we request that all businesses have a management system for health and safety. Risk assessment is part of NIBE's internal control process (NICS).	Update process and data to meet GRI Standard 403 rev 2018.

	Organizational Profile	Page/URL/Exception	Comments
403-2	Hazard identification, risk assessment and incident investigation.	NIBE's internal control standard includes risk assessments for health and safety. Implementation of the updated health and safety policy is ongoing and followed up at visits. Activities that have an LTI over 10 must submit an action plan. Exception: Information not available at Group level.	Update process and data to meet GRI Standard 403 rev 2018.
403-3	Occupational health services.	Agreements for occupational health and safety services are defined locally. Exception: Data not available.	Update process and data to meet GRI Standard 403 rev 2018.
403-4	Worker participation, consultation and communication on occupational health and safety.	Processes for participation and consultation in health and safety are defined locally for each business. Data not available at Group level.	Update process and data to meet GRI Standard 403 rev 2018.
403-5	Worker training on occupational health and safety.	Training for employees in occupational health and safety is defined locally. Data not available at Group level.	Included in general training hours. Divide training hours into different areas.
403-8	Workers covered by an occupational health and safety management system.	100%. NIBE's work environment policy does not distinguish between different types of employment. All workers are included from all NIBE-owned workplaces.	
403-9	Work-related injuries.	Pages 41,135 Data not available at Group level.	Update process and data to meet GRI Standard 403 rev 2018.
403-10	Work-related ill health.	Exception: Data not available.	Update process and data to meet GRI Standard 403 rev 2018.
Training and education			
404-1	Average hours of training per year per employee.	Page 135	
404-3	Percentage of employees receiving regular performance and career development reviews.	Page 135	
Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees.	Page 134	
405-2	Ratio of basic salary and remuneration of women to men.	Exception: Confidentiality limitations.	Company policy not to disclose wages. Data is available internally.
Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken.	Two cases concerning alleged age discrimination. Investigation is underway at the Equal Employment Opportunity Commission (EEOC).	
Freedom of association and collective bargaining			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	No risk identified in our own operations. One risk identified with a supplier; the supplier will be audited before any contracts are signed.	
Child labour			
408-1	Operations and suppliers at significant risk for incidents of child labour.	No risk identified in our own operations. No risk identified with suppliers.	
Forced or compulsory labour			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour.	No risk identified in our own operations. No risk identified with suppliers.	
Security practices			
410-1	Security personnel trained in human rights policies or procedures.	Exception: Data not available.	Included in general training. Divide training into different categories.
Rights of indigenous peoples			
411-1	Incidents of violations involving rights of indigenous peoples.	No incidents reported.	
Human rights assessment			
412-1	Operations that have been subject to human rights reviews or impact assessments.	Human rights were evaluated at 66 production facilities acquired before 2018. CA 3, DK 7, UK 3, FI 3, NL 1, IT 3, CN 3, MY 1, MX 3, N 3, PL 5, RO 2, RU 1, CH 3, ES 1, SWE 7, CZ 3, D 1, US 12, AT 1.	

	Organizational Profile	Page/URL/Exception	Comments
412-2	Employee training on human rights policies or procedures.	Page 135	
Supplier social assessment			
414-1	New suppliers that were screened using social criteria.	Page 133	
414-2	Negative social impacts in the supply chain and actions taken.	Exception: Data not available.	The process is specific to each business; will update the process to clarify 414-2.
Public policy			
415-1	Political contributions.	SEK 0	
Customer health and safety			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services.	Four cases regarding overheating in products due to electrical faults. No fines and corrective measures were taken.	
Marketing and labelling			
417-1	Requirements for product and service information and labelling.	Every product manufactured within NIBE Group meets the requirements for product and service information in the country in which it is sold.	
417-2	Incidents of non-compliance concerning product and service information and labelling.	Five cases of missing information that was to be provided under the EU directive. No fines and corrective measures were taken.	
417-3	Incidents of non-compliance concerning marketing communications.	No cases received.	
Customer privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	No complaints received.	
Socio-economic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area.	No cases received.	

Environmental data

	Unit	2018	2017	2016	Comments
Materials used					
Metals	tonnes	108,689	101,016	62,441	
Components purchased	tonnes	73,239	57,872	-	
Composites and minerals	tonnes	15,430	16,001	-	
Packaging materials	tonnes	17,382	16,496	9,580	
Plastic	tonnes	5,387	4,435	2,595	
Paint, glue etc.	tonnes	758	752	422	
Chemicals	tonnes	555	849	760	Some chemicals are reported under acids from 2018
Acids	tonnes	647	-	-	
Gases	tonnes	3,894	-	-	
Refrigerants	tonnes	469	369	139	Increase is due to volume growth and acquisitions
Air emissions					
SOx	tonnes	15.0	18.4	19.0	
VOC	tonnes	82	49	51	Increase is due to acquisitions
NOx	tonnes	188	218	236	
Particulate matter	tonnes	8.6	8.7	9.0	
POP	tonnes	-	-	-	No reliable data
HAP	tonnes	-	-	-	No reliable data
Water withdrawal					
Municipal water	m3	284,979	277,734	257,910	
Rainwater collected	m3	0	0	0	
Recycled and reused water from another organisation	m3	3	0	-	
Recycled and reused water from own organisation	m3	51,734	49,630	-	
Surface water	m3	1,617	1,548	482	
Groundwater	m3	34,376	23,571	24,274	
Seawater	m3	0	0	0	
Produced water	m3	0	0	0	
Third-party water	m3	0	0	0	
Water discharge					
Municipal water treatment plant	m3	329,891	230,930	121,436	
Adjacent body of water	m3	10,290	54,095	-	
External water treatment	m3	532	1,767	-	
Other organisation for reuse	m3	0	0	-	
Surface water	m3	0	0	-	
Groundwater	m3	0	0	-	
Seawater	m3	0	0	-	
Third-party water	m3	0	0	-	
Total water discharge (metals)	kg	17.6	8.9	5.5	
Total water discharge (organic materials)	tonnes	36	19	36	
Water consumption					
Total water consumption	m3	372,709	357,300	275,968	
Total water consumption in areas with water stress	m3	-	-	-	No reliable data
Total change in water storage	m3	-	-	-	No reliable data

	Unit	2018	2017	2016	Comments	
Non-hazardous waste						
Reuse	tonnes	225	212	216		
Recycling	tonnes	17,864	22,110	12,250		
Composting	tonnes	1	-	-		
Recovery	tonnes	245	281	-		
Energy recovery	tonnes	2,268	1,923	1,560		
Incineration	tonnes	171	358	543	Reduction due to changed waste destinations	
Deep well injection	tonnes	0	-	-		
Landfill	tonnes	3,420	2,660	1,219	Increase due to acquisition in North America	
On-site storage	tonnes	73	23	238		
Other	tonnes	371	203	-		
Recovery						
Reuse	tonnes	6	-	-		
Recycling	tonnes	348	273	284		
Composting	tonnes	0	-	-		
Recovery	tonnes	12	12	-		
Energy recovery	tonnes	94	51	71		
Incineration	tonnes	463	546	228		
Deep well injection	tonnes	0	-	-		
Landfill	tonnes	202	127	142		
On-site storage	tonnes	10	3.6	-		
Other	tonnes	479	433	-		
For 2018 divided by region (tonnes)		Nordic countries	Europe	North America	Asia	Other countries
Waste						
Reuse		17	25	182	0.05	1
Recycling		6,631	5,026	6,142	67	1
Composting		0	0.5	0	0.5	0
Recovery		7.6	236	0.3	0	1
Energy recovery		1,681	474	93	20	0
Incineration		59	112	0	0	0
Deep well injection		0	0	0	0	0
Landfill		169	1,168	1,929	30	124
On-site storage		0.2	4.8	68	0	0
Other		44	320	1	6	0
Hazardous waste						
Reuse		0.9	2.1	0	3	0
Recycling		318	10	20	0	0
Composting		0	0	0	0	0
Recovery		1.5	10.5	0	0	0
Energy recovery		42	9	43	0	0
Incineration		27	43	383	10	0
Deep well injection		0	0	0	0	0
Landfill		5.6	184	12.4	0	0
On-site storage		2	0	2	6	0
Other		221	213	43.5	1.5	0

	Unit	2018	2017	2016	Comments
Energy consumption – Scope 1					
Non-renewable sources					
Petrol	MWh	2,369	2,034	3,200	
Diesel	MWh	21,210	19,703	20,300	
CNG	MWh	18	0	140	
LPG	MWh	35,753	28,871	14,410	
Light fuel	MWh	2,973	3,092	-	
Heavy fuel	MWh	172	172	-	
Natural gas	MWh	68,329	59,209	38,510	
Renewable sources					
Pellets	MWh	1.2	1.4	3.1	
Biogas	MWh	0	0	-	
Biodiesel	MWh	67	0	-	
Bioethanol	MWh	0	0	-	
Total self-produced energy	MWh	74	33	-	
Total self-produced heating	MWh	2,356	2,701	-	
Total self-produced cooling	MWh	190	172	-	
Energy consumption – Scope 2					
Total electricity consumption	GWh	142	136	104	
Total heating consumption	GWh	10.6	7.9	-	District heating
Total cooling consumption	GWh	0	0	-	
Total steam consumption	GWh	0	0	-	
Total energy consumption	GWh	263	219	167	
GHG emissions					
Greenhouse gas emissions, CO2e	tonnes	31,200	25,500	20,000	Filling losses of refrigerants included in 2018
of which emissions from own vehicles, CO2e	tonnes	4,535	5,300	5,800	
of which emissions from own operations, CO2e (Scope 1)	tonnes	23,502	18,535	11,577	
of which indirect emissions, CO2e (Scope 2)	tonnes	2,165	1,614	2,600	100% GoO for purchased electricity. CO2 is from district heating
of which emissions from filling losses of refrigerants, CO2e	tonnes	998	-	-	New calculation from 2018
Carbon dioxide/sales (CO2/SEK m)		1.38	1.34	1.30	

Business data

	Unit	2018	2017	2016	Comments
Purchased value	SEK m	13,467	9,192	9	
Local	%	8	7	-	
Europe	SEK m	8,676	5,468	-	
North America	SEK m	3,331	2,319	-	
Asia	SEK m	1,332	1,327	-	
Other countries	SEK m	128	77	-	
Suppliers of direct materials	Number	9,200	6,000	3,500	
New suppliers of direct materials	Number	578	600	483	
- screened using social criteria	Number	140	348	44	
- screened using environmental criteria	Number	168	348	70	
- screened on quality	Number	248	348	180	

Employee data

	Unit	2018	2017	2016	Comments
Number of employees	Number	15,100	14,271	11,869	Employees in company included in sustainability report (Scope)
Nordic countries	%	20	-	-	
Europe	%	36	56	61	2017/2016 older breakdown/region
North America	%	36	37	31	
Asia	%	7.9	7	8	
Other countries	%	0.1	-	-	
<age 30	%	25	20	20	
age 30-50	%	50	55	55	
>age 50	%	25	25	25	
Average age	Age	39	39	39	
Permanent employees	Number	14,133	11,809	-	
of whom women	%	38	38	-	
Nordic countries	%	20	17	-	
Europe	%	35	35	-	
North America	%	37	40	-	
Asia	%	7.9	8	-	
Other countries	%	0.1	0	-	
Full-time employees, men	%	57	-	-	
Full-time employees, women	%	37	-	-	
Part-time employees, men	%	3	-	-	
Part-time employees, women	%	3	-	-	
Temporary employees	Number	967	727	-	
of whom women	%	33	37	-	
Nordic countries	%	11	4	-	
Europe	%	42	58	-	
North America	%	36	38	-	
Asia	%	10.5	-	-	No reliable data for 2017
Other countries	%	0.5	0	-	
Other workers	%	5	12	-	
Board members	Number	296	294	-	
of whom women	%	6.4	6.1	-	
<age 30	%	0.7	0	-	
30-50	%	32	29	-	
> 50	%	67.3	71	-	
Management team	Number	728	522	-	
of whom women	%	20	20	-	
<age 30	%	5	3	-	
30-50	%	49	49	-	
> 50	%	46	48	-	
New Employees	Number	6,887	4,877	4,100	
of whom women	%	37	39	48	
Nordic countries	%	14	7	9	
Europe	%	18	26	26	
North America	%	57	56	57	
Asia	%	10.9	10.9	8	
Other countries	%	0.1	0.1	0	

	Unit	2018	2017	2016	Comments
Employee turnover	%	26	6.7	6.6	2018: Mexico and Asia included
of whom women	%	29	-	-	
Nordic countries	%	9	-	-	
Europe	%	11	-	-	
North America – excluding Mexico	%	15	-	-	
Mexico	%	94	-	-	
Asia	%	16	-	-	
Other countries	%	6	-	-	
Average length of employment	years	7.6	7.9	8.0	
Work-related injuries					
Fatalities	Number	0	0	0	
High-consequence work-related injuries	Number	4	6	-	
Recorded injuries	Number	316	314	209	The most common types of injuries are caused by manual handling, lifting, moving, pushing or pulling.
Accident rate per million hours worked	Number	10.2	11.0	11.2	With sick leave day after accident (LTIF). 2016 corrected from 10.1 to 11.2.
Number of hours worked	Number (h)	24,254	23,572	18,623	
Work-related injuries – Other workers					
Fatalities	Number	0	0	0	
High-consequence work-related injuries	Number	13	0	-	
Recorded injuries	Number	15	10	-	The most common types of injury are caused by manual handling, lifting, moving, pushing or pulling.
Number of hours worked	Number (h)	2,919	3,050	-	
Training and education					
Training hours, male production employees	Number	138,587	100,940	101,522	
Training hours, female production employees	Number	112,247	96,662	96,852	
Training hours, male administrative employees	Number	47,051	37,738	39,628	
Training hours, female administrative employees	Number	23,421	14,273	14,723	
Training hours per employee	Number	21	18	16	
Employees who received training in human rights	%	36	35	-	
Training hours in human rights	Number	18,110	11,059	-	
Performance and career development review					
Performance and career development review, male production employees	%	74	70	80	
Performance and career development review, female production employees	%	42	68	66	
Performance and career development review, male administrative employees	%	89	86	75	
Performance and career development review, female administrative employees	%	88	84	78	
Sickness absence	%	4.1	3.6	3.8	
Number of university graduates	%	13	12	14	
Covered by safety committee	%	84	87	87	
Covered by collective bargaining agreement	%	55	55	49	

Group management

CEO and CFO



GERTERIC LINDQUIST
born 1951

Year employed

Training and education

Position

Shareholding

1988

M.Sc. in Engineering and M.Sc. in Business & Economics

CEO and MD of NIBE Industrier AB and NIBE AB

6,877,988 A shares and 16,290,011 B shares



HANS BACKMAN
born 1966

2011

M.Sc. in Business & Economics and MBA

CFO, NIBE Industrier AB.

23,770 B shares.

Group management

Business Area Directors



KLAS DAHLBERG
born 1964

Year employed

Training and education

Position

Shareholding

2016

M.Sc. in Engineering

Business Area Director for NIBE Climate Solutions

9,050 B shares



CHRISTER FREDRIKSSON
born 1955

1992

M.Sc. in Engineering

Business Area Director for NIBE Element and MD for Backer AB.

1,718,125 A shares and 2,867,840 B shares



NIKLAS GUNNARSSON
born 1965

1987

Engineer

Business Area Director for NIBE Stoves

509,542 B shares.

Auditor

DAN KJELLQVIST
born 1954

Elected

Training and education

Position

Accounting firm

2017

Authorised Public Accountant

Auditor in charge

KPMG AB

NIBE

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The complete annual report and AGM notice are sent to all shareholders unless they have informed the company that they do not wish to receive any written information. The annual report is also published on our website www.nibe.com.