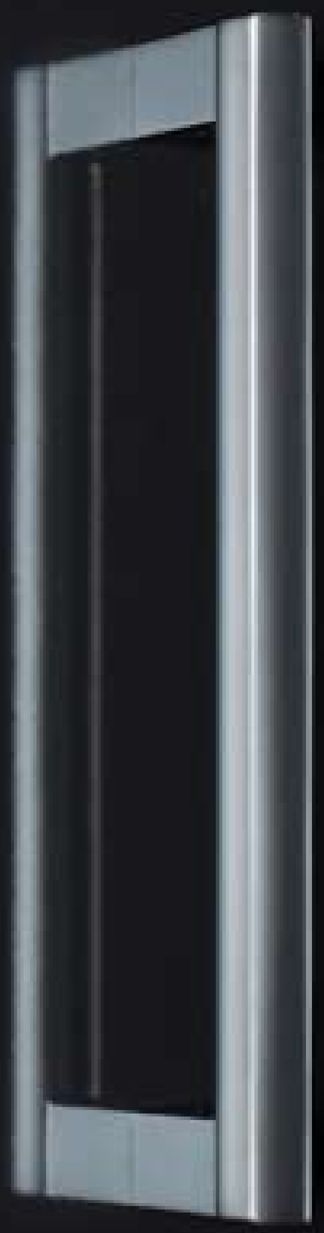
nobia

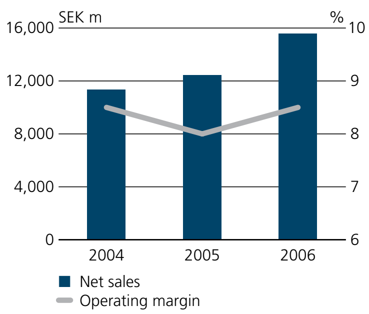


ANNUAL REPORT 2006

# This is Nobia

Nobia is Europe's leading kitchen company. The Group works with strong brands in many European countries. Sales are generated mainly through specialised kitchen studios, both wholly owned and franchised. Nobia is leading the consolidation of the European kitchen industry and creates profitable growth by enhancing efficiency and making acquisitions. The Group has net sales of approximately SEK 16 billion and about 8,000 employees. Nobia is found in the Consumer Discretionary sector of the Large Cap segment of the Nordic List. More information is available from www.nobia.com.

**Net sales and operating margin**

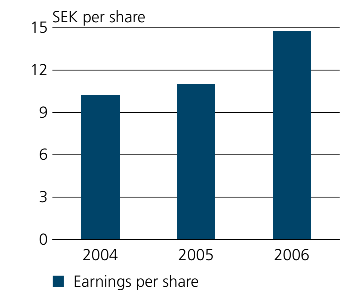



Net sales increased in 2006 by 25 per cent and amounted to SEK 15,590 million.

**Profitability trend**

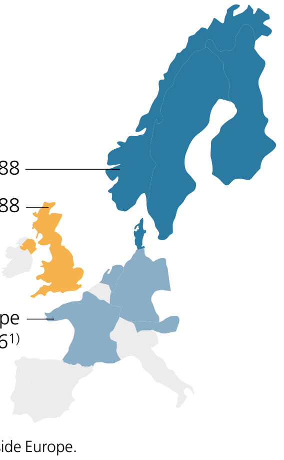

Return on capital employed amounted to 20.9 per cent.

**Earnings per share**




Earnings per share after dilution rose by 34 per cent and amounted to SEK 14.78.

**Number of Nobia kitchen studios per region**




[1] Of which 8 stores outside Europe.

| Key figures | 2006 | 2005 | Change |
|---|---|---|---|
| Net sales, SEK m | 15,590 | 12,442 | 25% |
| Operating profit before depreciation, SEK m (EBITDA) | 1,745 | 1,302 | 34% |
| Operating profit, SEK m (EBIT) | 1,327 | 993 | 34% |
| Operating margin, % | 8.5 | 8.0 | |
| Profit after financial items, SEK m | 1,210 | 885 | 37% |
| Net profit for the year, SEK m | 865 | 641 | 35% |
| Earnings per share after dilution, SEK | 14.78 | 11.01 | 34% |
| Dividend per share, SEK[1] | 6.00 | 3.50 | 71% |
| Operating cash flow , SEK m | 881 | 708 | 24% |
| Return on capital employed, % | 20.9 | 18.6 | |
| Return on shareholders' equity, % | 25.4 | 22.6 | |

[1] According to Board proposal.

# The year in summary

- French retail chain Hygena with its 138 stores was acquired in February. The new business unit is currently being integrated and has already made a positive contribution to earnings per share for the year.
- Structural measures were implemented in all three regions in order to enhance integration and strengthen competitiveness.
- The development and modernisation of the store network continued. The number of stores at year-end amounted to 647.
- All kitchen manufacturing is now order-based since the Magnet plant in Darlington, UK, reorganised its production during the year.
- A number of product categories have been identified for harmonisation or standardisation in the product offering to attain low product costs.
- Culinoma was founded in February 2007 as a 50/50 joint venture together with Dutch company DeMandemakersGroep Holding BV, with the aim of developing a leading retail position in Germany. Culinoma signed an agreement for the acquisition of Plana Küchenland Lizenz & Marketing GmbH with its 38 kitchen studios mainly in southern Germany. Plana Küchenland is Culinoma's first step into the kitchen retail trade in Germany.
- Earnings per share after dilution increased by 34 per cent to SEK 14.78 (11.01).
- Profit after tax rose by 35 per cent to SEK 865 million (641).
- Profit after financial items increased by 37 per cent to SEK 1,210 million (885).
- Net sales rose by 25 per cent to SEK 15,590 million (12,442).
- Organic growth was 11 per cent.
- Operating profit amounted to SEK 1,327 million (954).

# Continued strong development in sales and profit

Fiscal 2006 was a strong year for Nobia, with favourable sales trends and improved profitability in all regions. Organic growth amounted to 11 per cent and the acquisition of Hygena at the beginning of the year resulted in further growth in sales and profit, and also created a strategic entry into the French market.

Organic growth is a consequence of the consistent development of our customer offering and our showrooms. We are successively strengthening our market positions in Europe.

Earnings per share is our primary financial target. This year, we can report an increase in earnings per share of 34 per cent to SEK 14.78. As a result, we have achieved an average increase in profit of 19 per cent between 2001 and 2006, which can be compared with our financial target figure of 12 per cent.

**Focus in 2006**

In 2006, priority was given to three areas of focus. The first area is what we call low product costs. This area encompasses everything from the standardisation of components to specialisation of our own plants and the co-ordination of purchasing. Nobia adopts a target-oriented approach to improving internal productivity. We want to be able to offer our customers more kitchen for their money. In 2006, the central product supply organisation was established and initiated its methodical work category by category. We also implemented a number of structural measures to strengthen our competitiveness such as by relocating and thereby concentrating production in the UK and the Nordic region. We also streamlined parts of our product programme in Continental Europe and we reorganised manufacturing in Darlington, UK from inventory-based to customer order-based production.

The second focus area is the integration of recently acquired Hygena, with its 140 stores and 28 delivery depots. Hygena's product supply is being gradually integrated into Nobia with deliveries from Nobia's component plants and Group-wide suppliers. Since an extensive flow of goods is involved, the integration requires careful and precise planning to avoid the risk of a lower level of delivery service.

The third focus area was the development of our network of stores. The battle for customers takes place in the showrooms. Therefore, the Group's business units have continued to develop their network of stores to reach new and existing customer groups through an attractive product range. Since competition in the trade channel is increasing, we have to continuously develop our channel strategies so that we reach customers with the right product range in the right channel.

**Decentralised business model**

The basis of our business model is the business units and their brands. The business units' exclusive responsibility for the entire value chain is a cornerstone of our strategy. Our units work close to their customer segments and carefully follow trends and demand in the market, which in turn governs how we act.

Perhaps the most important trend in recent years is that the kitchen has become the obvious centre of the home and is a place for spending time together. The design and content of the kitchen has become more important, which can be seen in consumers spending an increasingly large amount of their disposable income on their kitchens. Accordingly, more rigorous demands are being imposed on high levels of service and turnkey kitchen solutions displayed in inspiring showroom environments.

**Nobia's value-added chain**

Nobia's business units meet customers either in their own showrooms or through a specialised sales force that focuses on multiple retail organisations, the contracts market or independent retailers. Our primary focus is on the market segments in which we are able to exercise a high degree of influence in the customer offering and thereby attain competitive advantages. Our own stores and controlled franchises create scope to yield such influence and, at the end of 2006, Nobia had 647 stores of this nature.

Since kitchen purchasers tend to choose channels before they choose brands, we endeavour to be represented with the right products and the right service concept in all the relevant channels – both for private and professional customers.

Our assembly plants are found in the middle of the value-added chain. These units also serve as logistics centres to which all of the accessories and appliances belonging to the kitchen are delivered for collective transport with the rest of the kitchen out to the customer. Considering the large flow of components, the efficiency and specialisation per customer category of the assembly plants is crucial to the total quality perceived by the customer. All assembly in the Group is based on customer orders.

Prior to the assembly units in the value-added chain is the large flow of components, which is the Group's largest cost item. When a product range is created, a decision is also made on which components are to be manufactured in the company's own component plants and which are to be purchased from subcontractors. The standardisation of components in Nobia's entire product range is pivotal to the supply efficiency of its components. Standardisation generates more competitive advantages than the business units could produce themselves, yet does not necessarily mean that the customer offering will be any less varied. The end product shall always enable each brand to profile its unique characteristics.

**Continued growth**

The year 2006 was the tenth fiscal year in Nobia's history. When I look back, I feel both gratified and proud of Nobia's development. Today, we are Europe's leading kitchen company with around 650 stores, SEK 16 billion in net sales and 8,000 employees. Nobia shall continue to grow through a combination of solid organic growth through retail ventures, and acquisitions of market shares in our prioritised market areas. The European market for kitchens, bathrooms and storage remains fragmented and we are keen to pursue continued developments following the strategies that have proven to be successful. We attach great importance to extracting synergies in product supply from acquisitions.

We have focused heavily on the showrooms in recent years. This is an expression for kitchens having become a consumer product from previously being part of construction. The acquisition of Hygena is a clear example of how we have focused on stores, combined with the possibility of increasing economies of scale in product supply.

A new and exciting development for Nobia is the creation of a 50/50 joint venture with the Dutch company DeMandemakers-Groep Holding BV (DMG) in February 2007, with the aim of attaining a leading retail position in Germany. DMG is the largest kitchen distributor in the Netherlands and has successfully developed its chain of stores into a leading market position. The jointly owned company, Culinoma, has signed an agreement for the acquisition of Plana Küchenland with 38 stores, mainly in southern Germany. We see both potential and a reasonable level of risk in this joint venture. Plana Küchenland is Culinoma's first step into the kitchen retail trade in Germany.

The consolidated focus on lower product costs will continue during the year. An industrious focus on our product costs will strengthen our competitiveness. Developing and harmonising the product range, standardising components, specialising plants and co-ordinating purchasing will successively lead to low costs and a varied product offering.

I would also like to take this opportunity to express my sincere gratitude to all of our employees for their hard work, which laid the foundation of the positive developments in the Group in 2006.

Stockholm, March 2007

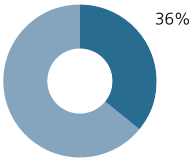
Fredrik Cappelen

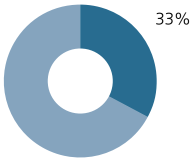
# Business overview

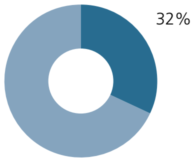
## UK region

Group share

| Net sales | Operating profit[1)] | Average number of employees |
|---|---|---|

Net sales



Operating profit[1)]


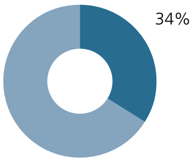

Average number of employees


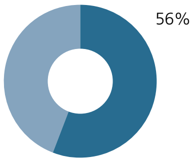

**Operating profit, SEK m**

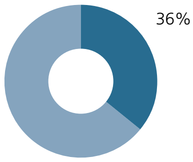
**439**

## Nordic region

Group share

Net sales



Operating profit[1)]


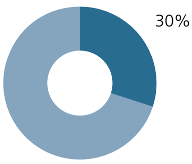

Average number of employees


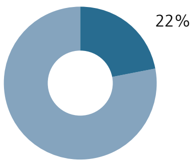

**Operating profit, SEK m**

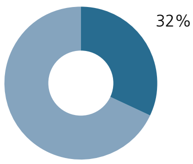
**742**

## Continental Europe region

Group share

Net sales



Operating profit[1)]



Average number of employees



**Operating profit, SEK m**

**290**

Group total

| Sales | Average number of employees |
|---|---|
| 15,590 SEK m | 7,968 |

**Operating profit, SEK m[1)]**

**1,327**

[1)] The Group total includes other operations that are not included in the three regions.

The UK region comprises two business units. Magnet manufactures interiors for kitchens and bathrooms for the intermediate price segment. Products are sold through Magnet's own store network or through Magnet Trade for small local builders, where joinery products are also distributed. Magnet also conducts bathroom retail operations through the C.P. Hart chain. The Gower business unit is the UK's leading supplier of flat-pack kitchens to multiple retailers.

Read more about the UK region on pages 24-25.

**Brands**

The Nordic region consists of seven business units: HTH and Invita in Denmark; Novart with the brands A la Carte, Parma, Petra and Nettokeittiöt in Finland; Norema and Sigdal in Norway and Marbodal and Myresjökök in Sweden. HTH also sells kitchens under the Uno form and Gør Det Selv HTH brands. Products offered are rigid and flat-pack kitchens, bathrooms and storage, and are sold both to the consumer market and construction companies.

Read more about the Nordic region on pages 26-27.

**Brands**

The Continental Europe region consists of the Poggenpohl, Pronorm, and Optifit business units in Germany, EWE-FM in Austria and Hygena in France. Poggenpohl operates exclusively in the upper price segment, while Pronorm is found in the intermediate price segment. Optifit focuses on flat-pack products, mainly kitchens and bathrooms, but also sells rigid bathroom interiors under the Marlin brand. The EWE-FM business unit manufactures rigid kitchens for the intermediate price segment. The French retail chain Hygena is positioned in the economy price segment.

Read more about the Continental Europe region on pages 28-29.

**Brands**

# Creating value for customers and owners

### Business concept

Nobia develops, manufactures and markets interior solutions for kitchens, bathrooms and storage. Wide market coverage is achieved through distinct brands and a multi-channel strategy. Economies of scale are utilised in production, purchasing and logistics to create value for customers and owners.

### Nobia's objectives

Nobia shall lead the consolidation of the European kitchen industry and strive to achieve both financial returns and sustainable development.

*Profit growth*

Earnings per share shall increase on average by 12 per cent per year. Nobia will achieve this by:

- attaining organic growth that is 2-3 per cent higher than market growth
- continuing to grow through acquisitions
- improving margins so that the operating margin (EBIT) amounts to at least 10 per cent over a business cycle.

*Financial strength*

The debt/equity ratio shall not exceed 100 per cent. A temporary elevation of the debt/equity ratio is acceptable in conjunction with acquisitions. A long-term significantly lower debt/equity ratio shall be adjusted by an extra dividend or the buy-back of shares.

*Dividends*

Dividends to shareholders shall on average comprise at least 30 per cent of profit after tax. Decisions regarding the amount of the dividend will be made in relation to the company's capital structure at the time.

### Profitable growth and margin improvements[1]

The growth target for earnings per share will be achieved by consistently following established strategies, through organic earnings growth and via corporate acquisitions, and by raising the operating margin in the operations that are not meeting the Group's targets. These aims can be summarised as a clearly defined target for increasing earnings per share over time. The earnings per share measurement has been selected as the Group's main target since it summarises the effects of growth, the operating margin, capital effectiveness and the price of acquired units and chosen financing methods. An additional advantage of this measurement is that it is easy to derive from the financial statement records and can be followed quarterly.

The table below shows Nobia's earnings per share trend since 2001. For the period 2001-2006, the average rate of increase was 19 per cent, compared with the target of 12 per cent. In 2006, growth amounted to 34 per cent.

*Earnings per share after dilution, 2002-2006*

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Earnings per share, SEK | 8.69[1] | 6.88[1] | 10.23 | 11.01 | 14.78 |
| Annual change, % | 41 | -21 | 49 | 8 | 34 |
| *Average annual growth[2]* | *41* | *6* | *18* | *16* | *19* |

[1] Earnings per share before amortisation of goodwill, 2002-2003.
[2] Base year 2001.

Nobia's growth strategy is conditional on investments in both corporate acquisitions and in existing businesses. Nobia evaluates and assesses investments based on the cash-related repayment period and the return on invested capital.

Return on invested capital is a decisive factor for the evaluation of an acquisition. The required return on investments in corporate acquisitions is determined according to Nobia's weighted cost of capital. This cost of capital is comprised partly of the capital market's required return for investment in the Nobia shares and partly by the interest on Nobia's loan financing.

Sales growth, divided between organic and acquired growth between 2001 and 2006, is shown in the table below. The average sales growth during the period was 14 percent.

*Sales growth %, 2002-2006*

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Organic change, % | -2 | 3 | 11 | 3 | 11 |
| Acquisitions, disposals and exchange-rate effects, % | 18 | -6 | 11 | 7 | 14 |
| **Total growth, %** | **16** | **-3** | **22** | **10** | **25** |
| *Average annual growth[1]* | *16* | *6* | *11* | *11* | *14* |

[1] Base year 2001.

*Margin improvements*

Operating margin trends (EBIT) per region are presented in the table below.

*EBIT margin per region %, 2002-2006*

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| UK | 9.7 | 7.7 | 7.3 | 5.8 | 7.9 |
| Nordic | 12.1 | 11.8 | 13.4 | 14.1 | 13.7 |
| Continental Europe | 3.3 | 4.3 | 6.5 | 5.4 | 6.1 |
| **Group** | **8.2[1]** | **6.7[1]** | **8.5** | **8.0** | **8.5** |

[1] Operating margin before amortisation of goodwill 2002-2003.

It is reasonable for Nobia to achieve an EBIT margin of 10 per cent at Group level. Many of the business units in which Nobia has conducted operations over a long period of time have already attained or exceeded this level. As seen in the table above, the Nordic operations, for example, well exceed this level.

[1] Comparative figures have been restated due to the change in the classification of pensions. For more information refer to Note 2 Accounting principles on page 39.


Nobia observes extreme caution when implementing its target for the operating margin in order to take advantage of business opportunities in operations with a high capital turnover rate and return on capital, but with a relatively lower profit margin. The business units are governed by targets for net sales, operating profit, operating margin and tied-up capital. The target figures are based on past outcomes, comparative data from benchmarking and with consideration taken of external factors, such as the economic climate. The margin targets for some business operations can be lowered without adversely affecting the Group's return on capital. This applies, for example, to certain sales of accessories with low value-added and a high rate of capital turnover.

*Return on equity and capital employed, % 2004-2006*

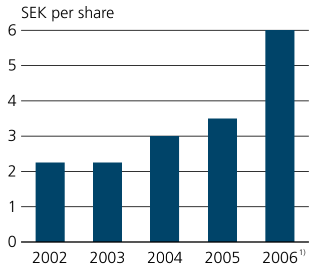
| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Return on capital employed | 19.8 | 18.6 | 20.9 |
| Return on shareholders' equity | 25.7 | 22.6 | 25.4 |

As stated above, return on invested capital is a decisive factor in decisions on corporate acquisitions, meaning that operations with a lower operating margin than the Group's target may be acquired.

*Debt/equity ratio, % 2002-2006*

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Debt/equity ratio | 42 | 66 | 80 | 65 | 66 |

**Dividend**




[1] According to the Board's proposal.

# The Nobia strategy – Four cornerstones

# 1. Decentralised responsibility for profitability

Nobia organises its operations on the basis of decentralised responsibility for each brand and its entire value chain. There are a number of national brands in the kitchen market in Europe that are exposed to customers through various sales channels. Selling kitchens is mainly a local business. Success in this market is based on proximity to customers. Nobia's organisation, which is structured according to brand and decentralised, provides the conditions to successfully implement a multi-channel strategy, in addition to achieving efficient business control.

Nobia's sales are underpinned by strong, local brands that are marketed either in the Group's own stores, in co-operation with distributors or franchise holders or through other sales channels. The organisation must create proximity to the local markets and strengthen relations with end customers. Therefore, Nobia's operations are conducted through decentralised business units, with each unit independent in its decision-making and having full responsibility for its own organisation and results.

**Close to customers and the market**

Independence in decisions and total profit responsibility are key principles. Many of the brands have their own manufacturing and/or assembly operations and the business units are responsible for effectively utilising fixed-asset and working capital. The business units themselves are responsible for their own vertical value chain – from material procurement to the customer. All kitchen solutions vary, for example in terms of composition, measurement and accessories, making most of the value-adding stages highly complex. The ability to handle this complexity in a cost-effective manner is a crucial factor for the competitiveness of the units. Another key factor for competitiveness is the ability of the business units to exert influence in specialised kitchen stores to affect the offerings in the various customer segments and sales channels. Co-operation between Group management and the business units is based on a clear division of responsibility. In brief, this means that Group management is responsible for the overall business concepts, breadth of product lines, strategies and long-term financial targets. Within this framework, the business units have considerable scope to develop their brands.

**Leadership and control**

Group management is responsible for business development and synergy issues between the business units and for facilitating internal comparisons and exchanges of knowledge. The shared information system developed by Nobia is very important in this context. This system enables comprehensive analysis by making available key figures for each business unit. Individual targets are established in co-operation with the business units and Group management. Opportunities to compare performance encourage healthy competition between the units. Targets are based on historical profitability, Group-wide targets and the improvement potential identified via internal comparisons.

**Three regions**

In 2006, Nobia strengthened its organisation by grouping its business units into three regions, with each region headed by a member of Group management. The aim of the change was to increase the implementation of both growth and co-ordination.

The responsibilities of the VP Operations for each region includes monitoring and ensuring that the business units meet established targets and taking advantage of synergies in production and distribution on a regional level.

**Internal benchmarking**

The exchange of knowledge and experience between business units is an important success factor. Based on guidelines from Group management, these exchanges result in synergies and efficiency enhancements, for example in production and purchasing. This is clearly evident from the cost reductions that have been achieved based on increased co-ordination in recent years. Knowledge exchange is also linked to benchmarking. Benchmarking focuses on financial information and on key performance indicators (KPI), relating, for example, to the amount of time and the cost spent per unit on production, delivery reliability or stock-turnover rate.

- **Decentralised organisation – close to customer and market**
- **Leadership and control**
- **Internal benchmarking – development of best practice**

# 2. Multi-brand and multi-channel strategy

Nobia shall reach its customers with a variety of brands through various sales channels, thereby attaining broad market coverage. Nobia's sales are primarily generated through 650 specialised kitchen studios, which are operated by the Group or by franchise holders.

Through its showrooms, Nobia obtains significant influence in one of the most important sales channels. Specifically, this means that the Group can influence parts of the sales process and expand the products in its offering to end customers.

**Strong brands**

The company's strong brands give the business units' products a clear profile and identity. The Group's total brand portfolio includes national and regional kitchen brands in addition to one global brand. Poggenpohl is one of the best-known kitchen brands worldwide. HTH is a regional brand, while Magnet, Marbodal, Hygena and Sigdal are examples of national kitchen brands. Most of Nobia's brands are currently ranked one or two in their markets. These positions are the result of consistent, long-term efforts in which the various concepts and brands are integrated in the sales channels. In addition to maintaining strong brands, a presence in the different sales channels is essential to reach the various customer segments, especially as customers often choose a sales channel before selecting a certain brand. In addition to specialised kitchen studios, builder's merchants and DIY chains are the most important channels for Nobia's business units. Direct sales to construction companies are also a significant factor for certain units.

**Broader offering, increased order value**

Through its presence in different sales channels, Nobia is able to influence its offering to the end customer, for example in terms of content, design and exposure of the kitchen concept. Experience has shown that the ability to exercise this type of influence is highly significant to sales. At the end of 2006, around 70 per cent of Nobia's sales were through channels in which Nobia had a strong influential position. Sales channels include the approximately 650 specialised kitchen studios operated by Nobia or franchise holders and sales of kitchens direct from factories. In addition, around 1,000 retailers and numerous strategic partners have exclusive agreements with Nobia. The business units also work actively in other sales channels to improve service content and their co-operation with retailers. An overall objective is to gradually expand the offering to the end customers. Order values increase by offering an increasingly broader range of products, which promotes growth and profitability in Nobia.

**Strategic sales partnerships**

The business units that work with larger chains also apply the concept of category management. In these strategic partnerships, the units assume total responsibility for the store's or the chain's kitchen and bathroom offering. This form of concept management may encompass assistance in marketing, showroom displays and far-reaching support in sales and service. Category management is currently used mainly for large customers in the DIY channel and for direct sales to the building trade.

**• Strong brands in the most important sales channels**
**• Increased order value via broader product and service offering**
**• Strategic co-operation in sales**

# 3. Low product costs

Nobia endeavours to continuously reduce product costs. This means that co-ordination successively increases in production and purchasing, and that economies of scale are utilised optimally in these areas. The aims of these efforts include the increased harmonisation of the product range and more production-efficient designs. These efficiency enhancements shall be achieved while simultaneously maintaining the breadth and diversity of Nobia's offering to its customers.

Product costs correspond to slightly less than two thirds of Nobia's sales. Reducing these costs is an important target and a continuous process. This work has resulted in an increasing amount of purchasing being handled via central agreements and the development of common purchasing procedures for various product categories. A purchaser is assigned responsibility to each category and concludes agreements on behalf of the Group. All categories are regularly reviewed.

**Component standardisation**

The standardisation of carcasses and the harmonisation of the worktop product range have also been developed in the Group. Furthermore, the co-ordination of component manufacturing between business units has improved. Combined, these efforts have contributed to reduced product costs. In order to reduce its purchasing costs, Nobia is expanding its purchasing activities to new geographic markets, primarily in Asia and Eastern Europe. The aim is also to gather large, global volumes in selected product categories. By utilising these economies of scale, purchasing costs can be reduced even further.

**In-house manufacturing or purchasing**

The components used are always subject to a make or buy analysis. This is an overall assessment that ascertains the most cost-effective alternative: purchasing components from an external supplier or manufacturing them internally. If the decision is to manufacture, it is concentrated as far as possible to a single plant to generate economies of scale. Examples of such concentration include HTH subsidiary Implast, which manufactures laminated worktops for most of Nobia's business units, and Marbodal, which supplies cabinet doors and carcasses to several of the Group's business units in the Nordic region.

**Co-ordinated purchasing**

Focusing on large-scale production and economies of scale in purchasing and production is a priority. At the same time, the offering to customers from the business units must consistently be characterised by both breadth and diversity. Systematic reviews of product categories are performed to maintain the correct balance. These reviews shall result in clear strategies for reducing costs.

**Specialised units**

Kitchen manufacturing is largely a logistical flow. The majority of Nobia's business units are order-based assembly units, with assembly being the governing stage of the logistics chain through to delivery to the customer. At this stage, economies of scale and capital intensity are relatively low. Component production is, however, capital-intensive and economies of scale are large. This is the reason why Nobia is intent on increasingly concentrating its component production to specialised units. A growing number of these units employ lean manufacturing techniques, with systematic flow and process improvements designed to boost efficiency. The Group-wide standard for carcasses, K 20, is fundamental to the process of enhancing efficiency and co-ordinating production. The greatest benefit of a common standard is lower costs for product supply. This is possible since a common standard enables larger volumes of products with the same dimensions to be produced for Nobia. To date, this standard has been introduced in business units in the Nordic region and Germany. Co-ordination has been gradually developed, resulting in a larger percentage of the Group's purchased components now being managed centrally. Increased standardisation offers great potential for Nobia. The aim, therefore, is to use even more Group-wide product platforms and standardised modules in production.

- **Component standardisation**
- **In-house manufacturing or purchasing**
- **Increased specialisation of manufacturing units**
- **Co-ordinated purchasing**

Kitchen components on their way to a customer's home.

# 4. Profitable growth

Nobia generates growth through a combination of organic growth and acquisitions. The European kitchen market is fragmented and most players are small and operate mainly in their own local markets. This creates opportunities for Nobia to continue to lead the consolidation of the European kitchen market.

**Organic growth**

Nobia shall achieve organic growth through:

- continually developing and strengthening brands and distribution channels
- continually refurbishing and adapting the store network in line with new trends and purchasing behaviour
- developing and co-ordinating the product range
- new partnerships and co-operation in distribution and sales
- raising the average order value through increased sales of accessories and services.

**Growth through acquisitions**

Growth shall also be achieved through acquisitions. There are many attractive acquisition prospects in the European kitchen market due to its highly fragmented structure. Several factors show that Nobia can, credibly, lead the consolidation of this market:

- relative size and financial strength
- experience in managing and integrating international operations
- earnings and profitability improvements achieved in acquired companies.

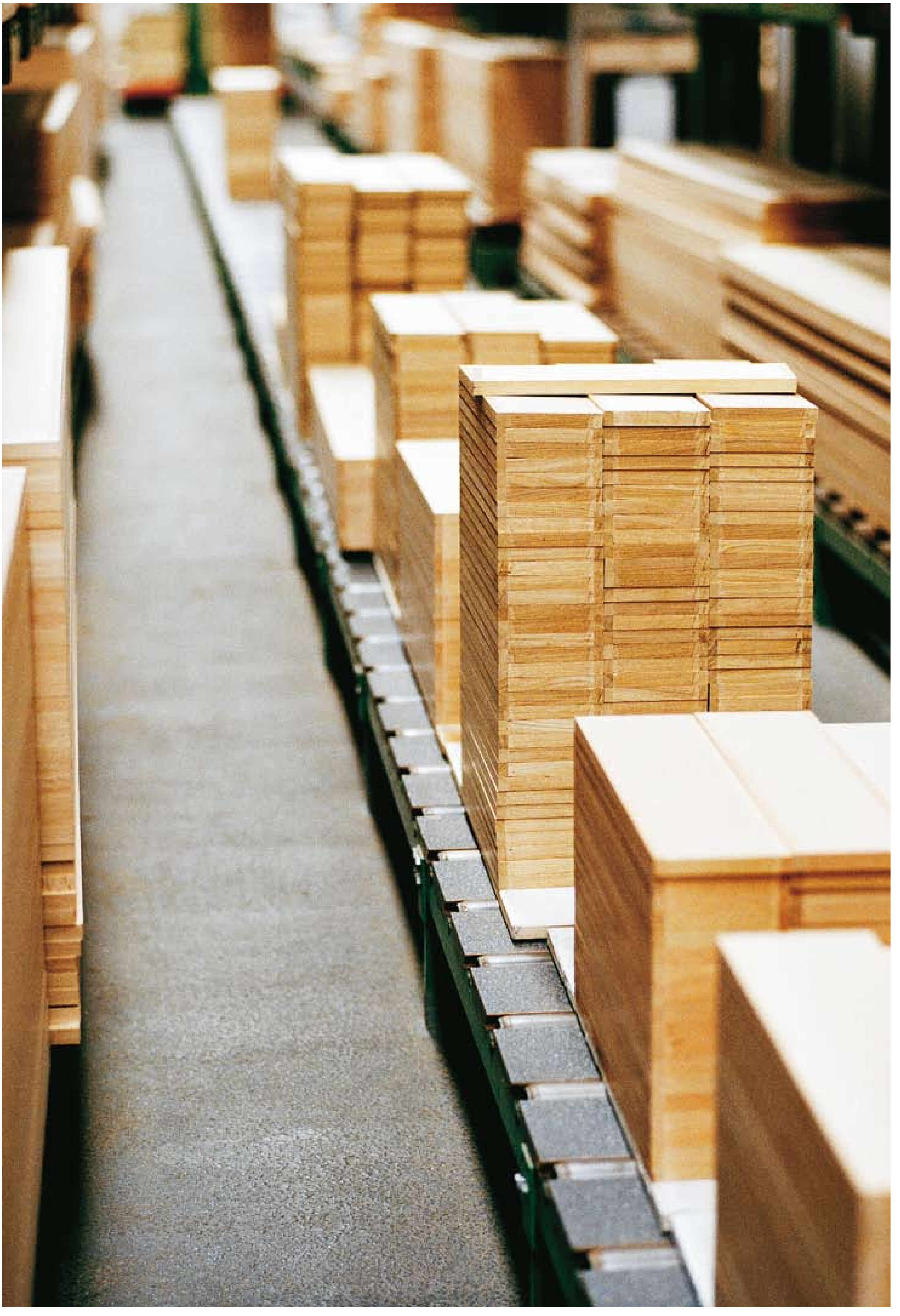
**Acquisition criteria**

The acquisition strategy involves Nobia strengthening its positions in existing markets, in addition to establishing a presence in other new markets in Europe. An acquisition prospect will:

- be well integrated in a distribution chain all the way to end consumers
- provide potential synergies
- have a strong brand
- have a leading position in its market segment and/or within its geographical market
- have a stable and well-functioning management
- generate a satisfactory return on capital employed.

**• Organic growth**
**• Growth through acquisitions**
**• Acquisition criteria**

Drawer fronts ready for assembly.



# Sustainability – a clear competitive factor

Nobia's operations shall be based on sustainable solutions that reduce the company's impact on the environment and shall also include the company assuming a social and ethical responsibility in its business network. Working in a more environmentally friendly and responsible manner is a natural approach toward the Group achieving heightened competitiveness and continued successful financial development.

The focus on sustainable solutions is directed toward two primary areas: environmental activities and social and ethical responsibility. Nobia's operations are based on decentralised responsibility through 14 business units. This responsibility includes the day-to-day management of environmental, social and ethical issues. On a central level, Nobia has formulated common, overall guidelines which the business units are to follow. A general description of these guidelines is presented below.

Sustainable solution requirements also encompass Nobia's suppliers, which are regulated in the partnership agreements the Group signs.

**Nobia's social and ethical responsibility**

Nobia has a fundamental responsibility for developing and maintaining a financially healthy and successful business. This responsibility is also assumed by employees and business partners. To meet this responsibility, Nobia's business units shall:

- follow local laws and regulations in the countries in which they operate
- respect the UN Universal Declaration of Human Rights and assume responsibility for applying this declaration to employees in the locations where Nobia is present
- conduct business operations that are characterised by high integrity and sound ethical practice
- adopt an open attitude to those affected by Nobia's operations. Respond to inquiries from external interested parties and communicate with affected parties in a swift and efficient manner.

Products that are purchased shall be manufactured under socially and environmentally responsible conditions. To ensure that such responsibility is upheld, the Group has prepared specific guidelines which are based on the core labour standards of the International Labour Organisation, comprising four different areas:

- freedom of association
- forced labour
- discrimination
- child labour

**Employee relations**

Maintaining strong and stable employee relations, based on mutual understanding and respect, is paramount to Nobia. Employees shall be offered conditions that as a minimum fulfil national statutory requirements and the ILO conventions.

- Nobia does not use forced labour, slave labour or any other inflicted form of labour in its operations. Nobia does not accept any measures that may limit free movement in the labour market.
- Nobia does not employ anyone below the age of 15 or – in countries in which statutory requirements are stricter – anyone who has not reached the established minimum age limit.
- Nobia offers the same conditions to its employees, regardless of race, skin colour, gender, nationality, religion, ethnic background or other distinguishable characteristics. Nobia does not accept discrimination or harassment in the workplace.
- Nobia recognises the right of employees to form trade unions in line with laws, regulations and principles in each country.

**Business ethics**

Corruption, bribery and other types of unfair competition distort market conditions and hamper economic, social and democratic developments. Nobia actively distances itself from this type of behaviour.

- Nobia does not contravene applicable competition legislation.
- Nobia does not offer or pay inappropriate remuneration or any other type of compensation to a person or company for such parties – contrary to the established commitments – to act in such a manner as to benefit Nobia's commercial operations.
- Nobia's employees shall neither mediate nor themselves receive inappropriate remuneration or any other type of compensation, intended to persuade employees to act in contravention of Nobia's established commitments.

**Work environment**

No employee shall have to suffer physical or mental ill health due to their work. Activities in the area of work environment shall primarily be preventive. Consequences for work environments shall be analysed as soon as organisational changes are implemented. Preventive measures shall be taken to reduce the risk of work-related injuries and to reduce absence due to illness. Managers, project managers and safety representatives shall have the necessary competencies with which to manage work-environment issues.

- Nobia's employees shall not be subjected to discrimination, sexual harassment or bullying.
- Employees shall not be under the influence of alcohol or drugs during working hours.

THE HUNGER PROJECT

Nobia provided financial support to the United Nation's Hunger Project Sweden in 2006. This is a non-profit, non-political and non-religious organisation that conducts projects in Africa, South America, India and Bangladesh. The purpose of the project is to end hunger by investing in people's own power of initiative and productivity.

# Active personnel development

The management of personnel development is decentralised between Nobia's 14 business units. Areas include recruitment, diversity, skills development, health care and work environment.

Centralised personnel development shall contribute to linking the correct competencies to the Group's various operations and contribute to the job satisfaction and development of employees in the Nobia Group. Activities are based on a central unit that supports the business units with know-how, guidelines and values. Involvement, dialogue, work environment and personal development are values that are particularly emphasised. Human resources activities are also based on such values as trust, responsibility, a results-oriented approach and instilling a sense of involvement among and appreciation of employees.

**Skills development and integration**

Skills development of business-unit management and for centrally employed persons is administered at Group level. By actively controlling the recruitment of new employees and further training, the rate of skills development among senior managers can be increased, consequently strengthening the Group's competitiveness. Co-ordination also contributes to ensuring a more coherent Group, which will benefit efficiency and create synergies. Other areas of priority are leadership, the supply of managers and remuneration; work that is based on the rapid growth and increased internationalisation of Nobia.

Nobia carries out regular surveys of the Group's senior managers to ensure an internal supply of competencies, both in the long and short term. The purpose is to identify the most able, experienced and motivated managers. In 2006, the survey encompassed approximately 150 senior executives. Evaluations are made jointly with the managers of the business units and include strategic thinking, results-oriented approach and communication skills. The evaluations lead to action plans, which the company can use in its manager and skills supply, and in individual plans that assist employees in their personnel development.

**Leadership development adapted to the operations**

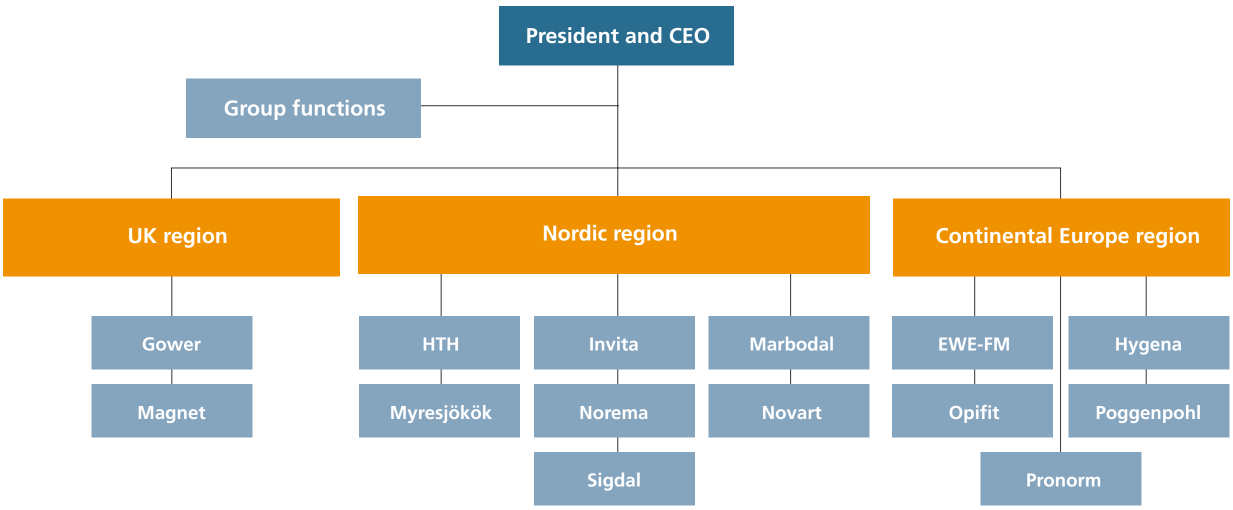
Further training is seen as part of the Company's commercial development, meaning that activities are heavily anchored in the day-to-day operations. The Nobia Management Programme (NMP) is directed toward middle managers. In recent years, almost 100 employees – approximately 25 employees per year – from the various business units have participated in the NMP. This is a one-year programme and focuses on such areas as leadership, finance and business strategy. A large part of the work takes place in project groups, in which participants solve specific, operations-based problems.

An internal management conference is also held each year for the 150 most senior managers. The conference addresses the current business situation and prioritised issues to Nobia's future development.

**Employee share option scheme**

To strengthen commitment to and focus on the Group's results, the 150 most senior managers were offered the opportunity to participate in an employee share option scheme. Programmes have been established for 2005 and 2006, and each scheme is valid for three years. The outcome of the scheme is linked with the Nobia share trend and with the Group's earnings trend. A new share option scheme will be proposed to the 2007 Annual General Meeting.

**Nobia's organisation**



# Nobia's environmental work

Each of Nobia's business units is responsible for its own environmental work. However, the Group has also prepared a common policy to which each unit must adhere. Reviews of the consumption of materials and energy in the manufacturing process are also performed. The key figures from these reviews are used in both internal and external comparisons.

The largest environmental impact generated by Nobia's operations is associated with the Group's manufacture, assembly and distribution of kitchens. The following areas in the 18 production plants are prioritised in environmental activities:

- Emissions
- Surface treatment
- Waste
- Packaging
- Transportation
- Choice of materials

The most common materials in assembly and production are fibreboard and solid wood. Around 80 per cent of the materials used within the Group are renewable. The wood waste generated from manufacturing is used for heating Nobia's production plants or is sold for stable and pet bedding.

**88-per cent plant certification**

Nobia's plants fulfil the environmental conditions established in each country. The environmental permits required regulate emissions of organic solvents from surface-treatment processes, emissions of sawdust, wood shavings and noise from wood processing and emissions of fumes and dust from heating plants. Applications for permits must be submitted and considered for the operations causing the types of environmental impact described above in countries in which Nobia has manufacturing plants.

Acquiring environmental certification ensures that consideration for the environment is incorporated into all of the Group's manufacturing and business processes, while simultaneously improving the environmental performance. At the end of 2006, 15 of the Group's 18 production units had obtained ISO 14001:2004 certification and/or were registered according to the EU's Eco-Management and Audit Scheme (EMAS).

**Reducing emissions**

The main environmental impact caused by the Group is considered to be from the exhausts of lorries and cars, and from emissions of organic solvents in surface treatments. The Group endeavours to continuously improve the planning and co-ordination of its product transportation to reduce this impact. A Group-wide video conferencing system is used to minimise employees' use of transport for meetings and conferences. All business units are linked to this system.

The amount of water-based and UV-tempered paint and lacquer for surface treatments is constantly increasing. These products give off zero or minimal emissions of organic solvents. For 2006, approximately 70 per cent of all surface treatments are estimated to have been based on such products. Gradual developments are taking place based on EU demands for reductions in emissions of organic solvents. The processing and surface treatments of wooden materials dominate the environmental impact in production.

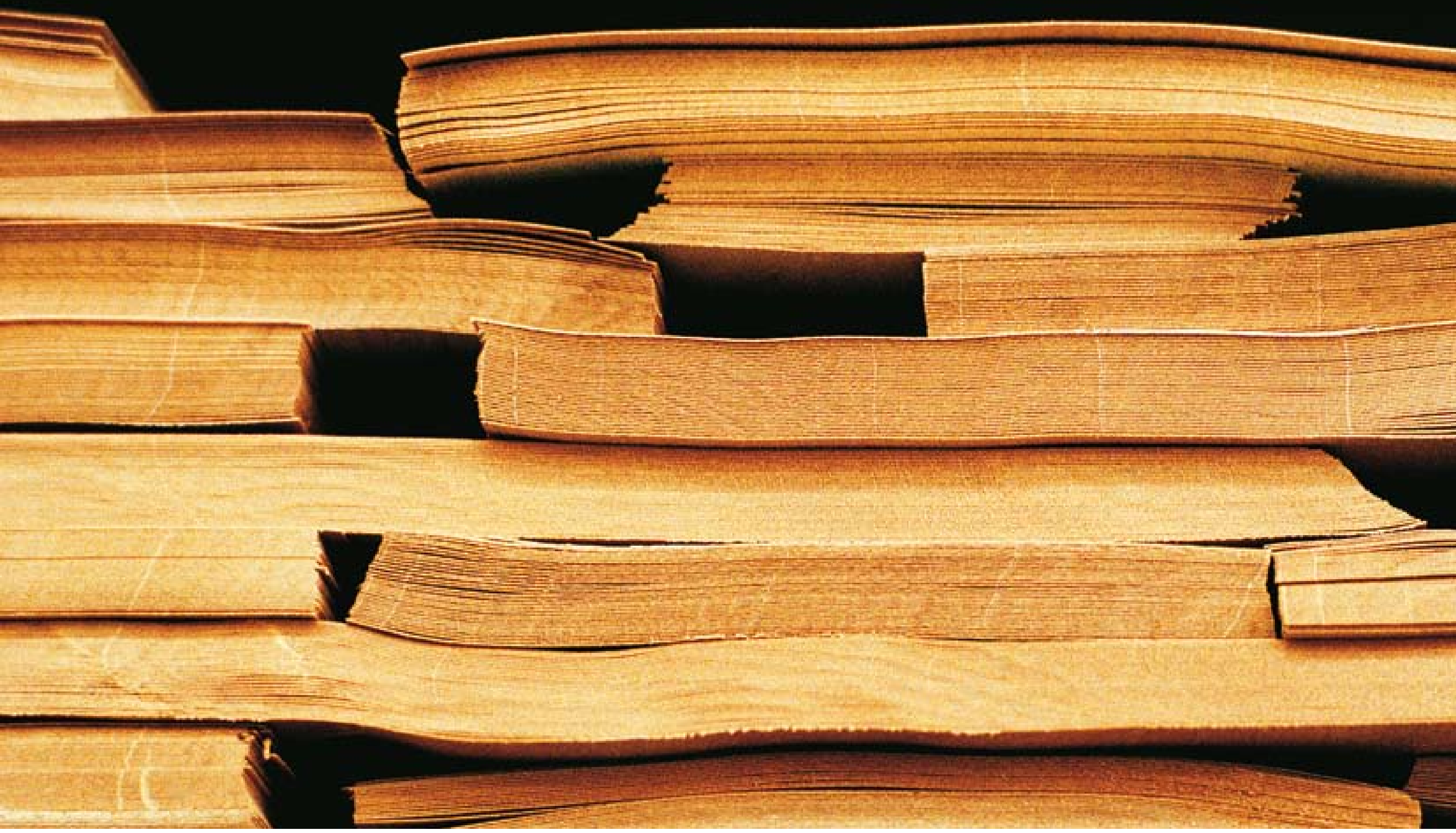
**Reporting environmental impact**

All production units prepare energy and materials balance indicators, which detail the use of environmentally harmful substances, amounts of waste and emissions and the consumption of raw materials. Based on these figures, key figures can be compiled for the consumption of materials and energy in manufacturing. These key figures are used in internal and external comparisons and also form the basis of many of the quantifiable environmental targets. The business units determine their own individual environmental targets and strategies based on the guidelines stipulated in the Nobia Group's environmental policy.

| Key figures | 2006 | 2005 | Change, % |
|---|---|---|---|
| **Environmental management systems** | | | |
| Operations with certified environmental management systems, % of Group sales [1] | 87 | 85 | 2 |
| **Greenhouse gases** | | | |
| Greenhouse-gas emissions from transportation of products and personnel, Kg/cabinet | 2.12 | 2.19 | -3 |
| Greenhouse-gas emissions from heating and manufacturing, Kg/cabinet | 6.58 | 6.72 | -2 |
| **Volatile organic compounds** | | | |
| VOC emissions, kg/100 lacquered fronts | 7.81 | 8.47 | -8 |
| **Energy** | | | |
| Electricity, KWh/cabinet | 8.73 | 9.59 | -9 |
| **Packaging material** | | | |
| Material use, kg/cabinet | 1.25 | 1.26 | 0 |
| Percentage of renewable packaging material, % | 84 | 73 | 15 |

[1] Manufacturing prices

# Marbodal's environment profile



Emissions of solvents and energy consumption are prioritised areas in Marbodal's environmental activities. These activities are co-ordinated via an environmental council which is broadly anchored in the operations. In order to further strengthen its environment profile, many of Marbodal's products have Swan labelling – the official Nordic eco-label.

Environmental activities have long been integrated in Marbodal's operations. Ten years ago a decision was made to become the industry leader in environmental thinking. Today, issues are handled by an environmental council that meets every month. The council is well anchored and has representatives from the technology and production departments and purchasing, in addition to the Head of Environmental Issues. The council meets with company management several times a year at which environmental targets, implemented efforts and achieved results are discussed. Three areas are currently prioritised:

- Reduction in emissions of solvents
- Lower consumption of electrical energy
- Lower consumption of thermal energy.

**ISO environmental management**

Specific action plans are in place for all areas. The product department and manufacturing are working on a gradual transition from solvents-based to UV-tempered paint and lacquer. The consumption of solvents is reviewed at every consumption location and has the highest priority. There is a project catalogue for energy consumption in which measures for making savings are listed. Practical tools also include an environment management system, which is based on the ISO 14001:2004 Environment Management Standard and ensures that documentation and follow-ups of environmental efforts function well. Results that have been achieved to date include a reduction in heat consumption per manufactured unit from 24.3 to 18.8 kWh in two years. At the same time, energy consumption per unit has declined from 23.9 to 20.5 kWh. In 2006, investments were made to the effect that the majority of coloured paint was to be water-based, which will provide significantly lower emissions of solvents in 2007.

**The Swan strengthens the environmental profile**

As the first – and only – Swedish kitchen manufacturer, Marbodal has chosen to work toward attaining a Swan eco-label, which has required investments in both machinery and development resources. The Swan is the official Nordic eco-label and shows that a product is a sound environmental choice. The Swan label strengthens the company's environmental profile, which is particularly important among customers in the project market. This eco-label will also be an increasingly important competitive factor in the consumer market. As a result, the Swan eco-label is now an integral part of the company's marketing.

# Board of Directors' report

## Nobia AB, Corporate Registration Number 556528-2752

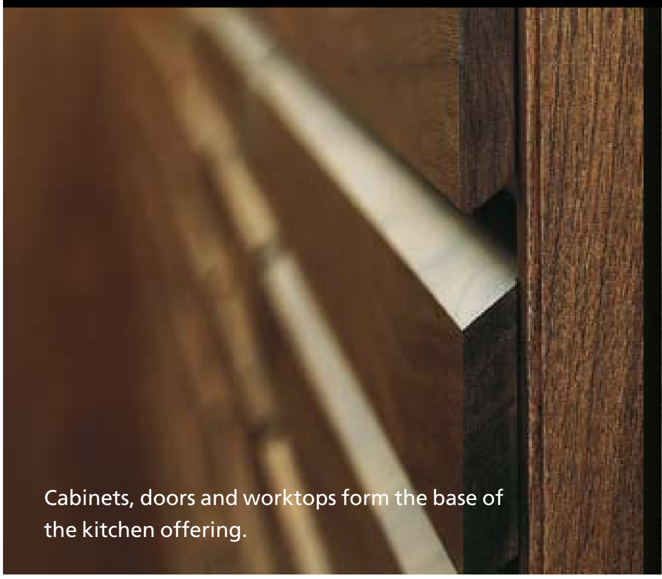
**The Group in 2006**

Nobia is Europe's leading kitchen company. The Group works with more than 20 strong brands in many European countries. Sales are generated mainly through specialised kitchen studios that are wholly owned, franchised or operated by independent retailers. Sales are also made to professional purchasers such as construction companies and DIY stores. Nobia is organised in three regions – UK, Nordic and Continental Europe. The Group has about 8,000 employees and net sales of approximately SEK 16 billion. Nobia is found in the Consumer Discretionary sector of the Nordic Large Cap segment of the Stockholm Stock Exchange.

**Net sales and earnings**

Net sales rose by 25 per cent to SEK 15,590 million (12,442). This increase was due to both organic growth and growth through acquisitions. Growth for comparable units and adjusted for exchange-rate effects, that is organic growth, amounted to 11 per cent and was a consequence of both increases in volume and sales of accessories. In the UK region, organic growth amounted to 11 per cent. The growth rate was particularly high in the Trade segment. In the Nordic region, organic growth totalled 14 per cent. Growth was attributable to all of the Nordic countries and segments. The greatest growth was reported in Sweden which had high activities in both new constructions and renovations. In the Continental Europe region, organic growth was 7 per cent and was primarily attributable to exports to countries outside this region. French business unit Hygena contributed SEK 1,788 million to the increase in net sales. The integration of Hygena, which involves transferring part of its product supply to Optifit, is progressing according to plan.

The kitchen offering has successively been expanded and today comprises not only cabinets and worktops but also white goods, other accessories and various types of additional services. The increasingly broadened kitchen offering contributes to raising Nobia's average order value and generates organic growth for the Group.



Cabinets, doors and worktops form the base of the kitchen offering.

White goods comprise an increasingly large part of the offering. Examples of such goods are ovens, hobs, dishwashers, refrigerators, freezers and ice and coffee machines.

### Market definition

Nobia strives to attain a high level of influence in its various sales channels to further enhance its ability to influence the offering to end customers. By exerting such influence, the company increases its ability to expand the overall customer offering. The combination of a broad product portfolio – and integration at a later stage in the value chain toward the customers – complicates the definition of Nobia's market.

In addition to this definition problem, access to comparable and reliable information regarding markets in other countries is limited. Compiling information is also hampered by the fact that the structure of the market is so fragmented and that many players do not publish any information. The descriptions and estimates in the Board of Directors' report have, as far as possible, been based on independent market analyses, but also on Nobia's own assessments and assumptions.

**Broader kitchen offering provides a broader market definition**

The traditional market definition – and what continues to comprise the primary section of the market – relates to kitchen furniture, that is cabinets, doors and work-

Growth in the store network continued during the year with 94 stores being refurbished or relocated. The total number of stores increased by 147, of which 138 relate to the acquisition of Hygena. Nobia had a total of 647 stores (500), either wholly owned or franchises, at the end of the year.

Operating profit amounted to SEK 1,327 million (993), an increase of 34 per cent. The improvement in operating profit was a result of increased sales in all regions due to high levels of demand, continued market ventures and the acquisition of French company Hygena. Operating profit includes nonrecurring revenue of SEK 27 million (0) and nonrecurring expenses of SEK 32 million (30). Nonrecurring items refer to structural measures for enhancing integration and the Group's competitiveness.

The operating margin amounted to 8.5 per cent (8.0). Excluding nonrecurring items, the operating margin was 8.5 per cent (8.2). The Group's operating margin was strengthened primarily by improved margins in the UK and Continental Europe regions.

Financial items amounted to an expense of SEK 117 million (expense: 108). The deterioration in the financial net is explained by higher net debt compared with the year-earlier period, as a result of the acquisition of Hygena. Net financial expense also includes the net of returns and interest on pension assets/liabilities corresponding to a negative amount of SEK 40 million (neg: 39). Profit after financial items improved by 37 per cent and amounted to SEK 1,210 million (885).

Tax expenses for the period amounted to SEK 345 million (244), corresponding to a tax rate of 28.5 per cent (27.6).

Profit after tax rose to 865 million (641), corresponding to earnings per share of SEK 14.78 (11.01) after dilution. The acquisition of Hygena had a positive impact on earnings per share.


Other accessories are taps, lighting and handles. This part of the offering is growing in significance in line with the kitchen becoming more of an interior design product.


Services encompass everything from design to delivery and assistance with financing. The service offering also includes installation services that further expand Nobia's market.

tops installed in a kitchen. By expanding the offering, the average order value will increase and organic growth will be generated. Accordingly, a significant portion of the current product portfolio comprises built-in white goods – such as ovens, hobs, dishwashers, refrigerators, freezers, ice machines and coffee machines – but also taps, sinks and fittings for kitchen furniture. This expansion of both the product portfolio and the market also includes other types of services sold together with a kitchen. Home delivery is common for purchases of rigid kitchens, but is also offered for flat-pack kitchens. The service offering also includes installation, which further expands Nobia's market. The descriptions of the regions in the Board of Directors' report defines Nobia's markets in producer prices for kitchen furniture with built-in white goods and other accessories that are sold via kitchen retailers.

### Factors affecting demand

Demand trends in the kitchen market are mainly controlled by consumers' present and expected future purchasing power, which in turn is affected by changes in interest rates, disposable income, consumer confidence and the trends in the housing market.

**The Group's cash flow and financial position**

The operating cash flow, that is the cash flow after investments and adjustments for investments in corporate acquisitions and financial investments, improved and amounted to SEK 881 million (708). The improvement in cash flow is primarily attributable to the operations in the UK. In addition, Hygena has had a positive impact on the cash flow since it was consolidated. Reduced tied-up working capital during the year improved cash flow by SEK 36 million.

Investments in fixed assets amounted to SEK 532 million (472), of which a significant portion was investments in the store network.

The Group's capital employed amounted to SEK 6,464 million compared with SEK 5,528 million at the beginning of the year. This increase was primarily attributable to the acquisition of Hygena.

Net debt at year-end amounted to SEK 2,460 million compared with SEK 2,058 million at the beginning of the year. The largest items in the change in net debt comprise corporate acquisitions, SEK 1,084 million; paid dividends, SEK 202 million and a positive operating cash flow of 881 million.

Provisions for pensions, which are included in net debt, amounted to SEK 899 million (915) at the end of the period. This decrease is mainly a result of exchange-rate effects. Unrecognised actuarial gains at year-end amounted to a total of SEK 161 million (loss: 120).

Shareholders' equity at year-end amounted to SEK 3,734 million, compared with SEK 3,184 million at year-end 2005. During the year, SEK 202 million was paid in dividends to the company's shareholders.

Based on the strong cash flow and the favourable earnings trend, the Group's financial position improved relatively swiftly after the acquisition of Hygena. The equity/assets ratio amounted to 39 per cent at year-end, while the debt/equity ratio amounted to 66 per cent, as compared with 40 per cent and 65 per cent, respectively, at the beginning of the year.

During the year, the Group refinanced its credit facilities. The company's credit framework amounts to SEK 6 billion, of which SEK 4.6 billion was unutilised at 31 December 2006. The new credit agreement expires in 2011.

**Personnel**

The average number of employees amounted to 7,968, compared with 6,573 in the preceding year. The total increase in the Group and in the Continental Europe region is primarily attributable to the acquisition of Hygena. Refer to the "Sustainability"section on pages 16-17 for more information on personnel issues.

**Environment**

In Sweden, the Group conducts operations in Marbodal AB and Myresjökök AB that require a permit in accordance with the Swedish Environmental Code. These operations impact the external environment mainly through noise and emissions to air from surface treating wood details. Nobia's environmental work is presented in more detail in the "Sustainability" section on pages 18-19.

**Research and product development**

The Group does not carry out research and development in the actual sense of the concept or to any significant extent. Product development within the Group is mainly in the form of design development and is conducted continuously to adapt to current style trends.

**Parent Company**

The Parent Company is a limited liability company with its registered office in Sweden. The address of the head office is: Klarabergsviadukten 70, Stockholm. The Parent Company is listed on the Stockholm Stock Exchange. Information regarding the Nobia share and shareholders is found on pages 54-55.

The Parent Company's operations comprise Group-wide functions and the ownership of subsidiaries. Profit after net financial items amounted to SEK 291 million (206) and primarily comprised dividends from subsidiaries. Net profit for the year totalled SEK 308 million (214).

**Significant risks and uncertainty**

A description of the financial risks that affect Nobia, such as currency risk and interest-rate risk, is presented in Note 1 Financial risks.

**Future prospects**

Demand for kitchen products usually follows the same business cycle as other consumer discretionary products. A large sector of the market comprises consumer purchases for renovations and a project market for professional new construction and renovation. Growth in demand comprises volume growth and value growth in the form of increased product content. The trend toward increased product content in Nobia has been discernible for the past five-year period and Nobia believes that developments will continue in this direction. The European kitchen market is characterised by a high degree of fragmentation, which offers attractive opportunities to generate economies of scale through acquisitions.

**The work of the Board of Directors in 2006**

The work of the Board of Directors is described on pages 57-59.

**The Board's proposed guidelines for salaries and remuneration to management**

The Board of Directors of Nobia AB proposes that the 2007 Annual General Meeting decide on the following proposal pertaining to guidelines for determining compensation and employment conditions for the President and other members of Group management. Group management currently comprises seven individuals.

The Board's proposal corresponds with the remuneration principles applied in the preceding year and is essentially based on contracts signed with each senior executive.

Nobia's salary policy stipulates that total remuneration shall correspond to market levels. A continuous International Position Evaluation is performed to ascertain current market levels in each country.

Members of Group management receive both a fixed and a variable salary portion. The fundamental principle is that the variable salary portion may amount to a maximum of 30 per cent of fixed annual salary. Exceptions to this principle are the President and members of Group management employed in the UK whose variable salary portion may amount to a maximum of 50 per cent of fixed annual salary.

The variable salary portion is normally divided between two or three targets: 1) The Group's earnings, for example earnings per share; 2) Earnings in the business unit for which the manager is responsible; and 3) Individual/qualitative targets. The fundamental principle is that 50 per cent of the maximum variable salary portion for each quantitative target is paid when the budgeted profit level is attained, with a subsequent rising scale of up to 100 per cent. No variable salary portion is paid if these targets are not met. Individual/qualitative targets may amount to a maximum of 50 per cent of the total variable salary portion.

The variable salary portion is based on a period of service of one year. The targets for the President are determined by the Board. The targets for other senior executives are determined by the President following recommendations from the Board's Remuneration Committee.

In the event of a maximum outcome, which presupposes that all bonus-related targets are fulfilled, the costs for Group management's variable salary may be expected to amount to approximately SEK 7,780,000 (excluding social security contributions). The calculation is based on the current composition of Group management.

Members of Group management are entitled to a pension under the ITP system or equivalent. The age of retirement is 65 with the exception of the President who may retire at the age of 60. In addition to the ITP plan, members of Group management are entitled to an increased occupational pension premium on salary portions amounting to more than 30 basic amounts.

Employment contracts for Group management include provisions regulating remuneration and termination of employment. In accordance with these agreements, employment may usually be terminated at the request of the employee with a period of notice of six months and at the request of the company with a period of notice of 12 months. In addition, the President may receive severance pay amounting to 12 months' salary in the event of termination of employment at the request of the company. Severance pay shall be deducted against any salary received from a new employer.

The Group has had an annual employee share option scheme since 2005. The purpose is to further strengthen the commitment of senior executives to and ownership in the company, and to attract, motivate and retain key employees in the Group. The allotment of employee share options is free of charge, but the allotment is conditional on a rising scale based on the average increase in earnings per share during the vesting period, which is three years. Accordingly, the earnings trend determines the number of employee share options that may be exercised of the total number of allotted employee share options. The 2006 employee share option scheme encompasses a total of 156 senior executives, including Group management. Employee share options may lead to costs for the Nobia Group in the form of social security contributions in conjunction with exercise and accounting costs as stipulated in IFRS 2, in accordance with the figures reported at the 2005 and 2006 Annual General Meetings. The final payment of social security contributions that may be made has been estimated at approximately SEK 115,000 for each increase of SEK 1 in the share price above the exercise price, as previously reported. For both the 2005 and 2006 programme, the earnings trend determines the number of employee share options that may be exercised of the total number of allotted employee share options.

The Board is entitled to deviate from the guidelines described above if the Board finds there to be reasonable grounds in a particular case.

**The Board's proposal regarding the appropriation of profits[1)]**

| | |
|---|---|
| The following profits in the Parent Company are at the disposition of the Annual General Meeting: | |
| Share premium reserve | 13,726,250 |
| Unappropriated profit brought forward | 257,925,133 |
| Net profit for the year | 307,887,995 |
| Total SEK | 579,539,378 |
| The Board of Directors and President propose that profits be appropriated as follows: | |
| Dividend to shareholders of SEK 6 per share | 347,263,320 |
| To be carried forward | 232,276,058 |
| Total SEK | 579,539,378 |

The Board proposes that the dividend for fiscal year 2006 be set at SEK 6.00 per share (3.50). The proposed dividend corresponds to approximately 40 per cent of net profit for the year (attributable to the Parent Company's shareholders) in the Group.

Tuesday, 3 April 2007 is proposed as the record day for the right to receive dividends. If the Annual General Meeting decides in favour of the proposal, dividends are expected to be paid via VPC (Swedish Securities Register Centre) on Tuesday, 10 April 2007.

**Board's statement on the proposed distribution of profits**

After the proposed dividend to shareholders, the Parent Company's equity/assets ratio will be 79 per cent and the Group's equity/assets ratio 37 per cent. The equity/assets ratio has been deemed satisfactory in view of the profitability in the Parent Company and the Group.

In making this decision, the Board considers all known circumstances that may be significant to the financial position of the Parent Company and the Group.

[1)] Based on the number of ordinary shares as at 31 December 2006. This number may be subject to change during the period up to the record day, since there are outstanding share options. The maximum effect if all share options are exercised prior to record day will amount to SEK 3.4 million.

# UK region

The UK kitchen market is estimated to amount to approximately SEK 25 billion. Demand trends in 2006 were slightly positive. The most important events in Nobia concerned production changes at the Magnet plant in Darlington and continued store investments, including investments in the Trade segment.

In rigid kitchens, Nobia is the market leader in the intermediate price segment through Magnet. Magnet has showrooms that target private customers and also has Trade stores focusing on small local builders. These stores are often found in the same building.

Nobia is also the UK's leading market supplier of flat-pack kitchens to multiple retailers through the Gower business unit and through Magnet's partnership with its fellow German subsidiary Optifit. The largest competitors are Galiform (Howdens), MFI and Symphony, although the market is fragmented with a large number of smaller players. Kitchen studios, furniture trade and multiple retailers are the most important distribution channels in the UK.

**Demand for full service**

Nobia's net sales in the region rose in 2006 by 11 per cent to SEK 5,572 million (5,037). Organic growth strengthened during the year and amounted to 11 per cent. Highest growth was seen in rigid kitchens in the Trade segment, in which customers primarily comprise small, local construction companies. The increase in sales was due to a broader base of professional customers, which in turn is a result of the reinforcement made to the company's own sales force. The Trade segment grew more rapidly than the consumer segment in the UK. Magnet Trade offers local construction firms readily available joinery products and rigid kitchens.

To enhance capital efficiency, the range of joinery products was rationalised. During the autumn, Magnet discontinued its sales of bedroom interiors and as a result, Magnet's operations are now basically concentrated to kitchens.

**More rational production**

Operating profit increased by 51 per cent and amounted to SEK 439 million (291). The operating margin rose to 7.9 per cent (5.8). At the end of the year, the distribution centre for joinery products was relocated from Magnet's plant in Keighley to the main plant in Darlington. In conjunction with the relocation, the Keighley plant was divested and rental agreements were entered into for the part of the plant in which Magnet continues to produce windows. This divestment gave rise to capital gains of SEK 78 million. Excluding nonrecurring items, operating profit amounted to SEK 412 million (321) and the operating margin to 7.4 per cent (6.4). The improvement is due to increased sales – including higher sales of white goods and

other accessories – and cost-efficiency enhancements. The cost savings implemented at the end of 2005 had a positive impact on earnings in 2006.

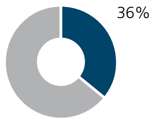
The transition from inventory-based to order-based production at the Magnet business unit's production plant in Darlington was completed in 2006. This extensive transition was implemented according to plan, while maintaining delivery reliability and product quality. The transition generates such advantages as a significant reduction in the plant's inventory of finished products, which in turn enabled the relocation from Keighley.

## Nearly 200 stores

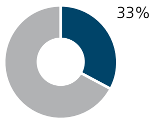
The modernisation of the store network is progressing as planned and is driving Nobia's organic growth. The target is to have stores with a clearly profiled exterior and a pleasant interior in attractive locations. Nobia had a total of 188 wholly owned kitchen studios in the UK at the end of 2006. Including C.P. Hart, which is a bathroom-product retailer, Nobia has 193 stores in the region. The refurbishment programme of the existing store portfolio is continuing and 43 stores were refurbished during the year.

## UK region

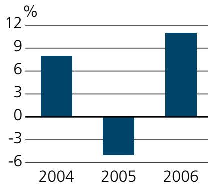
**Percentage of consolidated net sales**




**Percentage of consolidated operating profit**



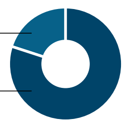

**Organic growth in net sales**



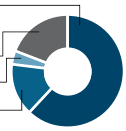

| Key figures | 2006 | 2005 | Change |
|---|---|---|---|
| Net sales, SEK m | 5,572 | 5,037 | 11% |
| Operating profit, SEK m (EBIT) | 439 | 291 | 51% |
| Operating margin, % | 7.9 | 5.8 | |
| Operating capital, SEK m | 1,128 | 1,326 | -15% |
| Return on operating capital, % | 39 | 22 | |
| Investment, SEK m | 191 | 237 | -19% |
| Average number of employees | 2,565 | 2,344 | 9% |

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | IV | III | II | I | IV | III | II | I |
| Net sales, SEK m | 1,416 | 1,357 | 1,445 | 1,354 | 1,300 | 1,223 | 1,307 | 1,207 |
| Operating profit, SEK m | 134 | 94 | 111 | 100 | 84 | 68 | 51 | 88 |
| Operating margin, % | 9.5 | 6.9 | 7.7 | 7.4 | 6.5 | 5.6 | 3.9 | 7.3 |

**Percentage of net sales per business unit**




**Percentage of net sales per product**




**Kitchen studios**

| | Wholly owned | Franchises |
|---|---|---|
| UK | 187 | - |
| Rest of Europe | 1 | - |
| **Total** | **188** | **-** |

**Brands in the UK region**

Magnet Gower C.P. HART BATHROOMS Magnet TRADE

# Nordic region

The Nordic kitchen market is estimated to amount to approximately SEK 12 billion. The region's performance in 2006 was positive with a high level of activity in both construction and refurbishment. Activities were particularly intense in the Swedish market as a result of the positive trends in new construction.

In Nobia's opinion, the company has a leading market position in all of the countries in the region. The largest competitors are IKEA and Ballingslöv. There are a number of smaller players in the Nordic market.

The significance of the different distribution channels varies between countries. Kitchen studios represent a relatively large percentage of sales in Denmark, Norway and Finland while builders' merchants and furniture stores have a strong position in Sweden and Norway.

**Organic growth of 14 per cent**

In 2006, Nobia increased its net sales by 13 per cent to SEK 5,407 million (4,769). Organic growth amounted to 14 per cent. All Nordic countries and segments reported growth. The highest growth rate was seen in Sweden and Denmark. In Sweden, demand was primarily driven by a relatively high level of activities in new construction. This creates demand in both new construction and renovations. In Denmark, HTH's focus on DIY attracted new customer groups. In Finland, Novart's focus on larger specialised kitchen studios reported encouraging results.

Organic growth continued for both flat-pack and rigid kitchens. In addition, the percentage of sales of accessories, such as white goods, increased, contributing to a rise in the average order value.

**More co-ordinated component production**

Operating profit increased by 10 per cent to SEK 742 million (672). Operating profit includes nonrecurring items with a negative impact of SEK 19 million (0) attributable to an action programme for the co-ordination of component production. Excluding these costs, operating profit amounted to SEK 761 million (672).

During the year, systematic improvements to flows and proc-

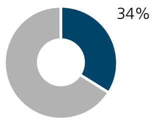
esses were gradually introduced to enhance efficiency. The operating margin declined from 14.1 per cent to 13.7 per cent. However, after adjustments for nonrecurring expenses, the operating margin remained unchanged compared with the year-earlier period. The improvement in operating profit is a result of higher sales volumes and greater internal efficiency. Increases in costs for meeting high delivery commitments, escalating costs of raw materials and the weakening of the Norwegian krone had a negative impact on earnings, however.

### Nearly 300 stores

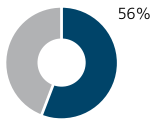
The development of the store network continued. During the year, 14 stores were refurbished or relocated. Nobia had a total of 288 stores, wholly owned and franchises, in the Nordic region at the end of 2006, which is an increase of nine stores compared with the year-earlier period. The expansion of the store portfolio is primarily attributable to the Danish market and pertains to the HTH brand.

## Nordic region

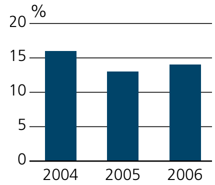
**Percentage of consolidated net sales**




**Percentage of consolidated operating profit**



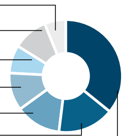

**Organic growth in net sales**



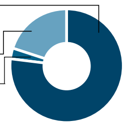

| Key figures | 2006 | 2005 | Change |
|---|---|---|---|
| Net sales, SEK m | 5,407 | 4,769 | 13% |
| Operating profit, SEK m (EBIT) | 742 | 672 | 10% |
| Operating margin, % | 13.7 | 14.1 | |
| Operating capital, SEK m | 843 | 778 | 8% |
| Return on operating capital, % | 88 | 86 | |
| Investments, SEK m | 209 | 143 | 46% |
| Average number of employees | 2,885 | 2,623 | 10% |

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | IV | III | II | I | IV | III | II | I |
| Net sales, SEK m | 1,380 | 1,155 | 1,507 | 1,365 | 1,287 | 1,039 | 1,381 | 1,062 |
| Operating profit, SEK m | 176 | 149 | 241 | 176 | 190 | 137 | 225 | 120 |
| Operating margin, % | 12.8 | 12.9 | 16.0 | 12.9 | 14.8 | 13.2 | 16.3 | 11.3 |

**Percentage of net sales per business unit**




**Percentage of net sales per product**




**Kitchen studios**

| | Wholly owned | Franchises |
|---|---|---|
| Sweden | 4 | 30 |
| Denmark | 6 | 108 |
| Norway | 20 | 29 |
| Finland | - | 74 |
| Rest of Europe | - | 26 |
| **Total** | **30** | **258** |

**Brands in the Nordic region**

Sweden: Marbodal, myresjökök

Norway: Sigdal, Norema

Finland: A la Carte Keittiöt, Petra Keittiöt, Parma Keittiöt, Netto Keittiöt

Denmark: uno form, Gør det selv HTH – du får det lidt bedre, HTH, Invita – det personlige køkken

# Continental Europe region

The primary markets for sales in the Continental Europe region are Germany, France, Austria and the Netherlands. The kitchen market in these countries is valued at a combined total of approximately SEK 60 billion. The market as a whole is deemed to have performed well in 2006, primarily through a positive trend in demand in France and the fact that the German market displayed an upswing for the first time in many years.

The German market is the single largest market in Europe and home to some of Europe's largest kitchen manufacturers, such as Alno, Nobilia, Nolte and Schüller. Nobia's market share in Germany is relatively small. In Austria, Nobia is the market leader along with competitor Dan. Through the acquisition of Hygena in 2006, Nobia gained a solid position in the economy and intermediate price segments in France. Measured in the number of kitchens sold, Hygena is one of France's market leaders. Its competitors include SALM and Fournier, and also Italian company Snaidero.

The significance of the different distribution channels varies among the continental European countries. In France, the kitchen showroom is the most important distribution channel. Furniture stores and kitchen showrooms dominate in Austria and Germany. Purchasing organisations are also found in both of those markets, whereby kitchen and furniture retailers co-ordinate purchases from manufacturers. Furthermore, in Germany it is common that kitchens are sold to the end customer under a different brand than the manufacturer's brand.

### Strategic acquisition in France

In February 2006, Nobia acquired French kitchen company Hygena Cuisines SA. Hygena sells kitchen interiors in France in both the economy and the middle price segments. Hygena offers complete kitchen and bathroom solutions based on flat-pack products with an optional service level ranging to complete installation in the home. Hygena's network of stores currently covers approximately 60 per cent of France. The company does not conduct its own manufacturing.

### Expanding export

Net sales for the Continental Europe region increased by 72 per cent to SEK 4,718 million (2,747). The acquired business unit Hygena contributed SEK 1,788 million during the year. Organic growth amounted to 7 per cent and was primarily attributable to Poggenpohl's growing global sales outside the region, particularly to the UK and US.

Operating profit amounted to SEK 290 million (148). The operating margin amounted to 6.1 per cent (5.4). Excluding nonrecurring

items, operating profit amounted to SEK 303 million (148) and the operating margin to 6.4 per cent (5.4). The above-mentioned structural measures encompassed the discontinuation of Optifit's operations in bathroom interiors for the DIY market. The improvement in operating profit is due to higher sales volumes and the positive contribution to earnings from acquired units.

Nobia believes that Hygena strengthened its market positions in the French market in 2006. Optifit's deliveries to Hygena have begun and the conversion of Hygena's product supply is progressing according to plan and is expected to be completed in 2008.

### Nearly 170 stores

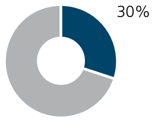
At the end of the year, Nobia had 166 wholly owned and franchise stores in the Continental Europe region, of which 140 in France. In 2006, 37 stores were refurbished or relocated.

### Events after the end of the fiscal year: Strategic entry in Germany

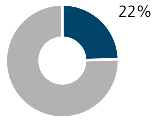
In February 2007, Nobia AB and DeMandemakersGroep Holding BV formed a 50/50 joint venture with the aim of developing a leading position in stores in Germany. The new company, Culinoma, shall grow both organically and through acquisitions. Culinoma signed an agreement for the acquisition of all of the shares in Plana Küchenland Lizenz & Marketing GmbH (Plana). Plana owns the Plana Küchenland franchise concept with 38 stores, primarily in southern Germany, and has net sales in stores of approximately EUR 70 million. Plana Küchenland is Culinoma's first step into the kitchen retail trade in Germany.

## Continental Europe region

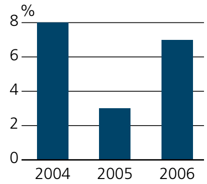
**Percentage of consolidated net sales**




**Percentage of consolidated operating profit**



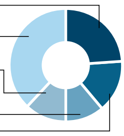

**Organic growth in net sales**



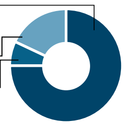

| Key figures | 2006 | 2005 | Change |
|---|---|---|---|
| Net sales, SEK m | 4,718 | 2,747 | 72% |
| Operating profit, SEK m (EBIT) | 290 | 148 | 96% |
| Operating margin, % | 6.1 | 5.4 | |
| Operating capital, SEK m | 703 | 614 | 14% |
| Return on operating capital, % | 41 | 24 | |
| Investments, SEK m | 129 | 88 | 47% |
| Average number of employees | 2,496 | 1,586 | 57% |

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | IV | III | II | I | IV | III | II | I |
| Net sales, SEK m | 1,286 | 1,143 | 1,360 | 929 | 737 | 691 | 704 | 615 |
| Operating profit, SEK m | 81 | 67 | 104 | 38 | 41 | 43 | 45 | 19 |
| Operating margin, % | 6.3 | 5.9 | 7.6 | 4.1 | 5.5 | 6.2 | 6.4 | 3.1 |

**Percentage of net sales per business unit**




**Percentage of net sales per product**




### Kitchen studios

| | Wholly owned | Franchises |
|---|---|---|
| France | 140 | - |
| Germany | 4 | 1 |
| Austria | - | 2 |
| Sweden | 1 | - |
| Denmark | 1 | - |
| UK | 7 | - |
| Rest of Europe | 1 | 1 |
| USA | 8 | - |
| **Total** | **162** | **4** |

All studios outside the region belong to Poggenpohl.

### Brands in the Continental Europe region

Austria

France

Germany

# Consolidated income statement

| SEK m | Note | 2006 | 2005 |
|---|---|---|---|
| Net sales | 3 | 15,590 | 12,442 |
| Cost of goods sold | 4, 6, 7, 8, 23 | -9,525 | -7,579 |
| **Net profit** | | **6,065** | **4,863** |
| | | | |
| Selling expenses | 4, 6, 7, 8, 23 | -3,954 | -3,214 |
| Administrative expenses | 4, 5, 6, 7, 8, 23 | -834 | -676 |
| Other operating income | | 116 | 97 |
| Other operating expenses | 7 | -64 | -76 |
| Share of profit after tax of associated companies | | -2 | -1 |
| **Operating profit** | | **1,327** | **993** |
| | | | |
| Financial income | 9 | 17 | 13 |
| Financial expenses | 9 | -134 | -121 |
| **Profit after financial items** | | **1,210** | **885** |
| | | | |
| Tax on net profit for the year | 10, 24 | -345 | -244 |
| **Net profit for the year** | 22 | **865** | **641** |
| | | | |
| **Profit after tax is attributable to:** | | | |
| The Parent Company's shareholders | | 864 | 640 |
| Minority interests | | 1 | 1 |
| | | **865** | **641** |
| | | | |
| Earnings per share, before dilution, SEK[1] | 21 | 14.95 | 11.10 |
| Earnings per share, after dilution, SEK[1] | 21 | 14.78 | 11.01 |
| Number of shares before dilution | 21 | 57,877,220 | 57,679,720 |
| Average number of shares before dilution | 21 | 57,823,220 | 57,673,928 |
| Number of shares after dilution | 21 | 58,537,445 | 58,143,803 |
| Average number of shares after dilution | 21 | 58,483,445 | 58,138,011 |
| Dividend per share, SEK | 22 | 6.00[2] | 3.50 |

[1] Earnings per share is attributable to the Parent Company's shareholders.
[2] According to the Board's proposal.

# Comments on and analysis of the income statement

Net sales increased by 25 per cent to SEK 15,590 million (12,442). For comparable units and adjusted for exchange-rate effects, net sales increased by 11 per cent. Acquired units contributed SEK 1,788 million (654). The relationship is shown in the table below.

### Analysis of net sales

| | I | II | III | IV | Jan-Dec | |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | SEK m |
| 2005 | | | | | | 12,442 |
| Organic growth | 14 | 8 | 11 | 12 | 11 | 1,397 |
| – of which UK region1) | 9 | 11 | 12 | 12 | 11 | 556 |
| – of which Nordic region1) | 25 | 7 | 14 | 11 | 14 | 659 |
| – of which Continental Europe1) | 4 | 4 | 6 | 11 | 7 | 177 |
| Currency effect | 4 | 1 | -2 | -4 | 0 | -37 |
| Acquired units | 9 | 18 | 14 | 15 | 14 | 1,788 |
| 2006 | 27 | 27 | 24 | 23 | 25 | 15,590 |

1) Organic growth for each region.

During the fourth quarter of 2006, structural measures were implemented in all three regions. Net sales, profit and the operating margin, both including and excluding nonrecurring items are reported below.

### Net sales and profit per region

| | Net sales | | | Operating profit | | | Operating margin | |
|---|---|---|---|---|---|---|---|---|
| SEK m | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 |
| UK | 5,572 | 5,037 | 11% | 439 | 291 | 51% | 7.9% | 5.8% |
| Nordic region | 5,407 | 4,769 | 13% | 742 | 672 | 10% | 13.7% | 14.1% |
| Continental Europe | 4,718 | 2,747 | 72% | 290 | 148 | 96% | 6.1% | 5.4% |
| Other and Group adjustments | -107 | -111 | | -144 | -118 | | | |
| **Group** | **15,590** | **12,442** | **25%** | **1,327** | **993** | **34%** | **8.5%** | **8.0%** |

### Net sales and profit per region, excluding nonrecurring items

| | Net sales | | | Operating profit | | | Operating margin | |
|---|---|---|---|---|---|---|---|---|
| SEK m | 2006 | 2005 | Change | 2006 | 2005 | Change | 2006 | 2005 |
| UK | 5,572 | 5,037 | 11% | 412 | 321 | 28% | 7.4% | 6.4% |
| Nordic region | 5,407 | 4,769 | 13% | 761 | 672 | 13% | 14.1% | 14.1% |
| Continental Europe | 4,718 | 2,747 | 72% | 303 | 148 | 105% | 6.4% | 5.4% |
| Other and Group adjustments | -107 | -111 | | -144 | -118 | | | |
| **Group** | **15,590** | **12,442** | **25%** | **1,332** | **1,023** | **30%** | **8.5%** | **8.2%** |

The Hygena business unit was acquired effective 18 February 2006. If the acquisition had taken place on 1 January 2006, net sales would have been SEK 265 million higher while net profit would have been SEK 36 million lower.

Costs pertaining to the current share option scheme were charged to the Group's profits in the amount of SEK 16 million (3), of which SEK 7 million (1) comprises the expense for the fair value of services received in exchange for the share options granted (IFRS 2 expense). Depreciation of fixed assets for the year amounted to SEK 418 million (309).

### Quarterly data per region

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| SEK m | IV | III | II | I | IV | III | II | I |
| **Net sales** | | | | | | | | |
| UK | 1,416 | 1,357 | 1,445 | 1,354 | 1,300 | 1,223 | 1,307 | 1,207 |
| Nordic region | 1,380 | 1,155 | 1,507 | 1,365 | 1,287 | 1,039 | 1,381 | 1,062 |
| Continental Europe | 1,286 | 1,143 | 1,360 | 929 | 737 | 691 | 704 | 615 |
| Other and Group adjustments | -26 | -24 | -24 | -33 | -33 | -23 | -25 | -30 |
| **Group** | **4,056** | **3,631** | **4,288** | **3,615** | **3,291** | **2,930** | **3,367** | **2,854** |
| **Operating profit** | | | | | | | | |
| UK | 134 | 94 | 111 | 100 | 84 | 68 | 51 | 88 |
| Nordic region | 176 | 149 | 241 | 176 | 190 | 137 | 225 | 120 |
| Continental Europe | 81 | 67 | 104 | 38 | 41 | 43 | 45 | 19 |
| Other and Group adjustments | -44 | -30 | -34 | -36 | -34 | -28 | -31 | -25 |
| **Group** | **347** | **280** | **422** | **278** | **281** | **220** | **290** | **202** |
| **Operating margin, %** | | | | | | | | |
| UK | 9.5 | 6.9 | 7.7 | 7.4 | 6.5 | 5.6 | 3.9 | 7.3 |
| Nordic region | 12.8 | 12.9 | 16.0 | 12.9 | 14.8 | 13.2 | 16.3 | 11.3 |
| Continental Europe | 6.3 | 5.9 | 7.6 | 4.1 | 5.5 | 6.2 | 6.4 | 3.1 |
| **Group** | **8.6** | **7.7** | **9.8** | **7.7** | **8.5** | **7.5** | **8.6** | **7.1** |

# Consolidated balance sheet

| ASSETS, SEK m | Note | 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|---|
| *Intangible assets* | 11 | | |
| Goodwill | | 2,764 | 1,975 |
| Other intangible assets | | 93 | 33 |
| | | **2,857** | **2,008** |
| *Tangible fixed assets* | 12 | | |
| Land and buildings | | 1,708 | 1,419 |
| Investments in progress and advance payments | | 46 | 38 |
| Plant and machinery | | 757 | 706 |
| Equipment, tools, fixtures and fittings | | 349 | 290 |
| | | **2,860** | **2,453** |
| Other long-term receivables | 13 | 118 | 53 |
| Investments in associated companies | 14 | 1 | 3 |
| Deferred tax assets | 24 | 175 | 206 |
| **Total fixed assets** | | **6,011** | **4,723** |
| *Inventories* | | | |
| Raw materials and consumables | | 415 | 387 |
| Products in process | | 148 | 151 |
| Finished products | | 78 | 74 |
| Goods for resale | | 715 | 641 |
| | | **1,356** | **1,253** |
| *Current receivables* | | | |
| Tax receivables | | 12 | 26 |
| Accounts receivable | | 1,441 | 1,262 |
| Derivative instruments | 16 | 8 | 6 |
| Other receivables | | 112 | 43 |
| Prepaid expenses and accrued income | 17 | 455 | 354 |
| | | **2,028** | **1,691** |
| Cash and cash equivalents | 18 | 229 | 251 |
| **Total current assets** | | **3,613** | **3,195** |
| **Total assets** | | **9,624** | **7,918** |
| Of which interest-bearing items | | 270 | 286 |

| SHAREHOLDERS' EQUITY AND LIABILITIES, SEK m | Note | 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|---|
| *Shareholders' equity and provisions that can be attributed to the Parent Company's shareholders* | | | |
| Share capital | 19 | 58 | 58 |
| Other capital contributions | | 1,412 | 1,391 |
| Reserves | | -13 | 120 |
| Profit brought forward | | 2,270 | 1,608 |
| | | **3,727** | **3,177** |
| *Minority interests* | | 7 | 7 |
| **Total shareholders' equity** | | **3,734** | **3,184** |
| Provisions for guarantees | | 21 | 19 |
| Provisions for pensions (IB) | 23 | 899 | 915 |
| Deferred tax liabilities | 24 | 214 | 186 |
| Other provisions | 25 | 169 | 82 |
| Liabilities to credit institutions (IB) | 26 | 1,600 | 1,101 |
| Other liabilities (IB) | | 53 | 51 |
| **Total long-term liabilities** | | **2,956** | **2,354** |
| Liabilities to credit institutions (IB) | | 3 | 2 |
| Overdraft facilities (IB) | 18 | 171 | 148 |
| Other liabilities (IB) | | 4 | 127 |
| Advance payment from customers | | 269 | 150 |
| Accounts payable | | 1,044 | 857 |
| Current tax liabilities | | 92 | 142 |
| Derivative instruments | 16 | 4 | 7 |
| Other liabilities | | 422 | 375 |
| Accrued expenses and deferred income | 27 | 925 | 572 |
| **Total current liabilities** | | **2,934** | **2,380** |
| **Total shareholders' equity and liabilities** | | **9,624** | **7,918** |
| Of which interest-bearing items | | 2,730 | 2,344 |

IB = interest bearing

# Comments on and analysis of the balance sheet

### Goodwill

At the end of 2006, reported goodwill amounted to SEK 2,764 million (1,975). The residual value of goodwill according to plan is specified by acquisition as follows:

| SEK m | 2006 |
|---|---|
| Acquisition Novart 1998 | 83 |
| Acquisition Norema/Invita 2000 | 171 |
| Acquisition Poggenpohl Group 2000 | 140 |
| Acquisition Magnet 2001 | 569 |
| Acquisition Gower 2003 | 741 |
| Acquisition EWE-FM 2005 | 189 |
| Acquisition Hygena 2006 | 838 |
| Other acquisitions 2004-2005 | 33 |
| **Total** | **2,764** |

Goodwill has been allocated to cash-generating units (CGU) when these units were acquired. Nobia has 15 CGUs which in organisational terms corresponds to the company's business units. Goodwill is subject to an annual impairment test by calculating the expected cash flow discounted by a weighted average cost of capital (WACC) after tax. The value in use calculated in conjunction with this is compared with the carrying value including goodwill for each CGU. The starting point of the calculation is the estimated future cash flows based on the financial budget approved by management for the forthcoming fiscal year. The cash flow outside this period is extrapolated by applying assumptions on the growth rate and investment requirements.

Significant assumptions applied to the calculation of the expected cash flow include the growth in net sales and profit and investment and working capital requirements. In order to extrapolate the cash flows outside the budget period, a growth rate corresponding to the expected inflation rate of 2 per cent is applied to all CGUs. The operating margin and working capital requirements are expected to remain at budgeted levels while investments are assumed to reflect a reinvestment level. The development rate that has been assumed has been based on a conservative assessment in order to conduct impairment tests and does not form the basis of the company's business planning for each business unit.

The weighted average cost of capital is calculated on the Group's target debt-equity ratio and costs for borrowed and shareholders' equity. The costs of shareholders' equity is determined on the basis of the assumption that all investors require at least the same level of return as for risk-free government bonds, with an additional risk premium for the risks assumed when they invest in the Nobia share. The risk premium has been established based on the long-term historical return on the stock market and by taking into consideration Nobia's risk profile. The required return on debt-financed capital is also calculated on the return on risk-free government bonds and by applying a borrowing margin based on an estimated company-specific risk. The required return and tax rate for each CGU is influenced by the various interest and tax rates in different countries.

The Group's weighted cost of capital before tax amounted to 11.7 per cent (9.9) in 2006. In total, the utilised cost of capital after tax for 2006 is in the interval 7.7 -8.6 per cent (6.7-7.0). The required return for investments in Sweden amounts to 7.7 per cent (7.0) after tax, meaning that investments must generate a non-restricted cash flow, in other words a cash flow after payments of operating costs and tax but before interest expenses, of at least 7.7 per cent (7.0) of the base investment in order to be profitable.

No impairment requirements were identified from the impairment tests performed during the current year on the amounts of goodwill found in the Group on 31 December 2006. Calculations indicate that the value in use substantially exceeds the carrying amount.

In the company's opinion, reasonable changes in the annual growth rate, operating margin, discount rates and other assumptions would not have any particularly significant effects to such an extent that any individual change would reduce the recoverable amount to a value falling below the carrying amount, including goodwill, for each CGU.

### Financing

Net debt increased and amounted at the end of the period to SEK 2,460 million (2,058). The change in net debt primarily comprises the acquisition of Hygena, SEK 1,084 million, the paid dividend of SEK 202 million, and a positive operating cash flow of SEK 881 million. Consequently, the debt/equity ratio amounted to 66 per cent at the end of the year (65 per cent at the beginning of the year). The change in net debt is shown in the table below.

### Analysis of net debt

| SEK m | 2006 | 2005 |
|---|---|---|
| Opening balance | 2,058 | 2,045 |
| Translation differences | -53 | 169 |
| Operating cash flow | -881 | -708 |
| Acquisition of subsidiaries | 1,084 | 322 |
| Change in pension liabilities | 64 | 57 |
| Dividend | 202 | 174 |
| New share issue | -14 | -1 |
| **Closing balance** | **2,460** | **2,058** |

The components of net debt are described in the table below.

### Components of net debt

| SEK m | 2006 | 2005 |
|---|---|---|
| Bank loans, etc | 1,778 | 1,378 |
| Provisions for pensions | 899 | 915 |
| Leasing | 53 | 51 |
| Cash and bank balances | -229 | -251 |
| Other financial receivables | -41 | -35 |
| **Total** | **2,460** | **2,058** |

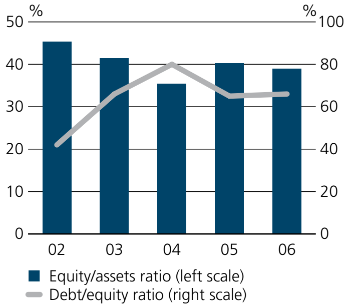
### Changes to classification of pension liabilities

In 2005, the net amount of discounted interest on pension liabilities and the expected return on associated plan assets was reported as part of operating profit. In order to adapt the classification of pension liabilities to current practice, the net amount of interest on pension liabilities and the expected return on associated plan assets is reported as part of net financial items from 1 January 2006 instead of as part of operating profit. As a result, pension liabilities are included in net debt.

# Change in shareholders' equity – Group

| SEK m | Note | Share capital | Other capital contributed | Reserves | Profit brought forward | Total | Minority interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to Parent Company shareholders | | | | | | |
| **Opening balance, 1 January 2005** | | **58** | **1,389** | **-38** | **1,141** | **2,550** | **7** | **2,557** |
| Cash-flow hedges after taxes | 20 | | | 7 | | 7 | | 7 |
| **Adjusted opening balance, 1 January 2005** | | **58** | **1,389** | **-31** | **1,141** | **2,557** | **7** | **2,564** |
| Exchange-rate differences attributable to translation of foreign operations | 20 | | | 158 | | 158 | 0 | 158 |
| Cash-flow hedges after taxes | 20 | | | -7 | | -7 | | -7 |
| **Total transactions reported directly against shareholders' equity** | | **-** | **-** | **151** | **-** | **151** | **0** | **151** |
| Net profit for the year | | | | | 640 | 640 | 1 | 641 |
| **Total revenue and expenses reported for the year** | | | | **151** | **640** | **791** | **1** | **792** |
| Employee share option scheme: | 19 | | | | | | | |
| – Value of employee services | | | 1 | | | 1 | | 1 |
| Payment for issued shares | | 0 | 1 | | | 1 | | 1 |
| Dividend | 22 | | | | -173 | -173 | 1 | -174 |
| | | | **2** | | **-173** | **-171** | **-1** | **-172** |
| **Closing balance, 31 December 2005** | | **58** | **1,391** | **120** | **1,608** | **3,177** | **7** | **3,184** |
| **Opening balance, 1 January 2006** | | **58** | **1,391** | **120** | **1,608** | **3,177** | **7** | **3,184** |
| Exchange-rate differences attributable to translation of foreign operations | 20 | | | -136 | | -136 | 0 | -136 |
| Currency hedge reserve after taxes | 20 | | | 3 | | 3 | | 3 |
| **Total transactions reported directly against shareholders' equity** | | | | **-133** | | **-133** | | **-133** |
| Net profit for the year | | | | | 864 | 864 | 1 | 865 |
| **Total revenue and expenses reported for the year** | | | | **-133** | **864** | **731** | **1** | **732** |
| Employee share option scheme: | 19 | | | | | | | |
| – Value of employee services | | | 7 | | | 7 | | 7 |
| Payment for issued shares | | | 14 | | | 14 | | 14 |
| Dividend | 22 | | | | -202 | -202 | -1 | -203 |
| | | | **21** | | **-202** | **-181** | | **-182** |
| **Closing balance, 31 December 2006** | | **58** | **1,412** | **-13** | **2,270** | **3,727** | **7** | **3,734** |

**Equity/assets ratio and debt/equity ratio**




Based on the strong cash flow and the favourable earnings trend, the Group's financial position improved relatively swiftly after the acquisition of Hygena in 2006.

# Consolidated cash-flow statement

| SEK m | Note | 2006 | 2005 |
|---|---|---|---|
| *Operating activities* | | | |
| Operating profit | | 1,327 | 993 |
| Depreciation | | 418 | 309 |
| Adjustments for non-cash items | | -46 | -28 |
| Interest received | | 17 | 13 |
| Interest paid | | -93 | -82 |
| Income tax paid | | -359 | -191 |
| **Cash flow from operating activities before changes in working capital** | | **1,264** | **1,014** |
| Change in inventories | | -56 | 15 |
| Change in receivables | | -166 | 48 |
| Change in operating liabilities | | 258 | 60 |
| **Cash flow from operating activities** | | **1,300** | **1,137** |
| *Investing activities* | | | |
| Investments in tangible fixed assets | | -508 | -452 |
| Investments in intangible assets | | -24 | -20 |
| Sales of tangible fixed assets | | 137 | 33 |
| Acquisition of subsidiaries | 30 | -1,084 | -317 |
| Acquisition of associated companies | | - | -2 |
| Increase/decrease in current financial investments | | -48 | 1 |
| **Cash flow from investing activities** | | **-1,527** | **-757** |
| *Financing activities* | | | |
| Borrowings | | 540 | - |
| New share issue | | 14 | 1 |
| Dividend to Parent Company's shareholders | | -202 | -173 |
| Dividend to minority shareholders | | -1 | -1 |
| Repayment of debt | | -119 | -627 |
| Increase/decrease in current financial investments | | -19 | 40 |
| **Cash flow from financing activities** | | **213** | **-760** |
| **Cash flow for the year** | | **-14** | **-380** |
| **Cash and cash equivalents at beginning of the year** | | **251** | **616** |
| Exchange-rate difference in cash and cash equivalents | | -8 | 15 |
| **Cash and cash equivalents at year-end** | | **229** | **251** |

The cash flow from operating activities before changes in working capital amounted to SEK 1,264 million (1,014). Adjustments for non-cash items amounted to negative SEK 46 million (negative: 28) as specified in the table below.

### Adjustments for non-cash items

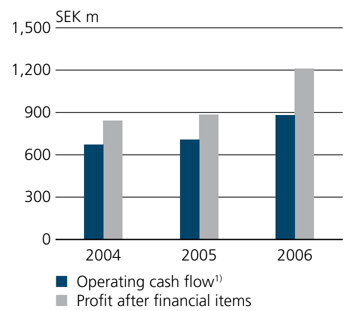
| SEK m | 2006 | 2005 |
|---|---|---|
| Capital gains on fixed assets | -87 | -41 |
| Provisions | 20 | -3 |
| Other | 21 | 16 |
| **Total** | **-46** | **-28** |

The cash flow from operating activities including changes in working capital amounted to SEK 1,300 million (1,137). The decline in working capital amounted to SEK 36 million (123) and is primarily attributable to the UK operations.

Investments in fixed assets amounted to SEK 532 million (472). This increase is primarily attributable to investments in the store network. Other items in investing activities, excluding acquisitions and divestments, had a positive impact on the cash flow of SEK 89 million (32). Sales of tangible fixed assets largely pertain to the sale of property in Keighley in the UK.

Operating cash flow, that is, the cash flow after investments and with adjustments for investments in corporate acquisitions and financial investments, amounted to SEK 881 million (708).

**Profit and cash flow**




[1)] Cash flow after investments and with adjustments for investments in corporate acquisitions and financial investments.

# Parent Company

## Parent Company income statement

| SEK m | Note | 2006 | 2005 |
|---|---|---|---|
| Net sales | | 40 | 37 |
| Administrative expenses | 4, 5, 8, 23 | -96 | -67 |
| **Operating profit** | | **-56** | **-30** |
| Profit from shares in Group companies | | 353 | 235 |
| Financial income | 9 | 0 | 3 |
| Financial expenses | 9 | -6 | -2 |
| **Profit after financial items** | | **291** | **206** |
| Tax on net profit for the year | 10 | 17 | 8 |
| **Net profit for the year** | | **308** | **214** |

## Parent Company cash-flow statement

| SEK m | 2006 | 2005 |
|---|---|---|
| *Operating activities* | | |
| Operating loss | -56 | -30 |
| Dividend received | 353 | 235 |
| Interest received | 0 | 3 |
| Interest paid | -6 | -2 |
| **Cash flow from operating activities before changes in working capital** | **291** | **206** |
| Change in liabilities | 10 | 73 |
| Change in receivables | -175 | -133 |
| **Cash flow from operating activities** | **126** | **146** |
| *Investing activities* | | |
| Other long-term receivables | 0 | 1 |
| Shares and participations | -6 | -8 |
| Pension provisions | 1 | 0 |
| **Cash flow from investing activities** | **-5** | **-7** |
| *Financing activities* | | |
| Option premiums | 7 | 1 |
| New share issue | 14 | 0 |
| Group contributions | 60 | 33 |
| Dividend paid | -202 | -173 |
| **Cash flow from financing activities** | **-121** | **-139** |
| **Cash flow for the year** | **0** | **0** |
| **Cash and cash equivalents at beginning of the year** | **0** | **0** |
| **Cash and cash equivalents at year-end** | **0** | **0** |

## Parent Company balance sheet

| SEK m | Note | 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Shares and participations in Group companies | 13, 15 | 1,380 | 1,374 |
| Associated companies | | 4 | 4 |
| **Total fixed assets** | | **1,384** | **1,378** |
| **Current assets** | | | |
| *Current receivables* | | | |
| Receivables from Group companies | | 1,086 | 911 |
| Prepaid expenses and accrued income | | 1 | 1 |
| Cash and cash equivalents | 18 | 0 | 0 |
| **Total current assets** | | **1,087** | **912** |
| **Total assets** | | **2,471** | **2,290** |
| **SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES** | | | |
| **Shareholders' equity** | 20 | | |
| *Restricted shareholders' equity* | | | |
| Share capital | 19 | 58 | 58 |
| Statutory reserve | | 1,671 | 1,671 |
| | | **1,729** | **1,729** |
| *Non-restricted shareholders' equity* | | | |
| Share premium reserve | | 14 | - |
| Profit brought forward | | 258 | 196 |
| Net profit for the year | | 308 | 214 |
| | | **580** | **410** |
| **Total shareholders' equity** | | **2,309** | **2,139** |
| **Provisions for pensions** | 23 | **2** | **1** |
| **Current liabilities** | | | |
| Accounts payable | | 5 | 10 |
| Liabilities to Group companies | | 130 | 123 |
| Other liabilities | | 9 | 7 |
| Accrued expenses and deferred income | 27 | 16 | 10 |
| **Total current liabilities** | | **160** | **150** |
| **Total shareholders' equity, provisions and liabilities** | | **2,471** | **2,290** |
| Pledged assets | 28 | - | - |
| Contingent liabilities | 29 | 1,832 | 1,340 |

## Change in shareholders' equity – Parent Company

| SEK m | Note | Share capital | Statutory reserve[1)] | Share premium reserve | Non-restricted equity | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **Opening balance, 1 January 2005** | | **58** | **1,670** | **-** | **344** | **2,072** |
| Group contributions received | | | | | 33 | 33 |
| Tax effect of Group contributions | | | | | -9 | -9 |
| | | | | | | |
| Net profit for the year | | | | | 214 | 214 |
| Employee share option scheme | | | | | | |
| – Value of employee service | | | | | 1 | 1 |
| Payment of issued shares | | 0 | 1 | | | 1 |
| Dividend | 22 | | | | -173 | -173 |
| **Shareholders' equity, 31 December 2005** | | **58** | **1,671** | **-** | **410** | **2,139** |
| | | | | | | |
| Group contributions received | | | | | 60 | 60 |
| Tax effect of Group contributions | | | | | -17 | -17 |
| | | | | | | |
| Net profit for the year | | | | | 308 | 308 |
| Employee share option scheme | | | | | | |
| – Value of employee service | | | | | 7 | 7 |
| Payment of issued shares | | 0 | | 14 | | 14 |
| Dividend | 22 | | | | -202 | -202 |
| **Shareholders' equity, 31 December 2006** | | **58** | **1,671** | **14** | **566** | **2,309** |

1) Of the Parent Company's statutory reserve, SEK 1,390 million (1,390) comprises contributed shareholders' equity.

# Notes

## Note 1 Financial risks

### Commercial currency exposure
Nobia applies a decentralised approach to the management of currency hedging. In consultation with the head office, the business units manage their hedging of commercial currency exposure themselves within the framework of the commercial currency exposure policy established by the Board of Directors. Nobia's policy is to hedge approximately 75 per cent of the forecast flows, 6-9 months in the future, and 100 per cent of contracted projects. The most important currency combinations were the SEK against the NOK and the EUR against the GBP. Total exposure in 2006, expressed in SEK and after setting off counteracting flows, amounted to SEK 2,077 million, of which SEK 1,120 million was hedged. At the end of 2006, the hedged volume was SEK 662 million.

### Credit risk
Nobia conducts commercial operations in many markets and in many distribution channels. Depending on the type of distribution channel, the customer base comprises both professional customers and consumers. For these reasons credit management and payment terms must be adapted to each business unit's business logic and distribution channels within the framework of the credit policy established by the Group. The credit policy stipulates that credit ratings shall be based on at least one credit report from a reputable credit rating institute. Credit assessments are continuously performed on customers who make regular purchases. Credit insurance is utilised for certain markets and customer categories. Collateral is often required when credit is granted to customers with low buying frequencies.

### Financial exposure
Nobia's policy for financing foreign assets involves financing capital employed with borrowings in the relevant currency in order to minimise the impact of exchange-rate fluctuations on the debt/equity ratio. Group loans are handled by Nobia's head office. The head office supplies the subsidiaries with funds through an internal bank. Loans are raised in local currencies, which minimises the effects of exchange-rate fluctuations on profits. As a supplementary measure, currency contracts may be entered into to avoid exposure. Given the current debt/equity ratio and currency distribution of capital employed, approximately 38 per cent of foreign capital employed must be financed in local currencies. In combination with this policy, other forms of capitalisation may be utilised in each country to optimise the Group's tax situation. Nobia's financial exposure policy does not involve hedging equity.

| | Capital employed per currency 31 Dec 2006 | Interest-bearing capital per currency 31 Dec 2006 |
|---|---|---|
| SEK | 311 | 390 |
| EURO | 2,457 | 787 |
| GBP | 2,766 | 1,175 |
| DKK | 554 | 286 |
| USD | 63 | 4 |
| NOK | 287 | 88 |
| Other | 26 | 0 |
| **Total** | **6,464** | **2,730** |

### Interest-rate risk
Interest-rate exposure is managed centrally, meaning that the head office is responsible for identifying and managing interest-rate risks. Nobia uses short, fixed-interest terms. In 2006, the fixed-interest rate term was 2-3 months.

### Borrowing risk
Nobia applies a centralised approach to the Group's financing, which means that all financing takes place in Nobia AB or Nobia NBI AB. Most of Nobia's borrowing is in the form of a syndicated bank loan. The syndicate comprises ten banks. The current agreement expires in 2011. Nobia's policy is to obtain long-term lines of credit that are compatible with the Group's long-term acquisition strategy. This must, however, be balanced against the need for low credit costs. In addition to the syndicated loan, Nobia has local overdraft facilities and a small number of local loans. The table below shows the maturity of all of Nobia's loans.

| Year of maturity, SEK m | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Loans and lines of credit | - | - | - | - | 6,000 |

| **Commercial exposure** | **USD** | **EUR** | **NOK** | **CHF** | **GBP** | **SEK** | **DKK** |
|---|---|---|---|---|---|---|---|
| **Currency contracts** | | | | | | | |
| Maturing in 2007, local currencies | 2 | 35 | 165 | 3 | 8 | 0 | 0 |
| **Total, SEK m[1)]** | **14** | **313** | **181** | **15** | **103** | **0** | **0** |
| Fair value, SEK m | 2 | -2 | 5 | 0 | -1 | 0 | 0 |
| Average hedging rate against SEK | 7.35 | 9.18 | 1.116 | 6.153 | 9.42 | - | - |
| **Net flows** | | | | | | | |
| 2006, local currencies | 9 | -77[3)] | 429 | 12 | 19 | 203 | -9 |
| Net flows, SEK m[2)] | 69 | -711[3)] | 493 | 72 | 259 | 203 | -11 |
| Hedged volume, SEK m[2)] | 94 | 480 | 355 | 54 | 137 | 0 | 0 |

1) Flows re-stated at closing date rate, SEK.

2) Restated applying average rate in 2006.

3) In addition, EUR 28 million is flows against DKK, corresponding to SEK 259 million.

Note that SEK is not always one of the currencies in the contract. The value in SEK should therefore be seen as a volume indicator.

## Note 2 Accounting principles

Nobia's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, IFRS, as approved by the European Union, up to 31 December 2006, and in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 30:05 Supplementary Accounting Principles for Groups and the Swedish Annual Accounts Act.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, including derivative financial instruments, which are valued at fair value. For more information, refer to the descriptions of the accounting principles for each item provided below.

The net amount of discounted interest on pension liabilities and the expected return on associated plan assets is reported as part of net financial items. Consequently, pension liabilities in 2006 comprise part of net debt. Comparative figures for 2005 have been restated according to the classification principle applied in 2006 since the aforementioned net interest income/expense was reported in operating profit in the 2005 Annual Report.

The annual report for the Parent Company, Nobia AB, has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation RR 32:05 Accounting for Legal Entities.

**Application of standards or amendments that come into effect on 1 January 2006 or later**

*Amendments to published standard that came into effect in 2006*

IAS 19 (amendment) Employee Benefits is obligatory from 1 January 2006. This amendment entails the possibility of applying an alternative accounting method for actuarial gains and losses and also involved an expanded disclosure requirement. For Nobia, the application of this amendment has impacted the presentation and content of supplementary disclosures. Nobia has not changed its accounting principles for actuarial gains and losses.

IAS 39 (amendment) Financial Instruments: Recognition and Measurement, Cash Flow Hedge Accounting of Forecast Intragroup Transactions came into effect on 1 January 2006, although earlier application was encouraged. Nobia has applied this amendment since 2005.

*Standards and interpretations coming into effect on 1 January 2007*

When the consolidated financial statements were prepared on 31 December 2006, a number of standards and interpretations had been published that had not yet come into effect. Nobia did not prematurely apply any standards or interpretations in 2006. The standards that may lead to additional disclosure requirements when introduced are: IAS 1 (amendment) Presentation of Financial Statements, that comes into effect on 1 January 2007, and IFRS 7 Financial Instruments: disclosure, that also comes into effect on 1 January 2007. Other standards and interpretations are, preliminarily, not deemed to have an effect on accounting or lead to additional disclosure requirements.

### Important estimates and assumptions for accounting purposes

In order to be able to prepare an annual report in accordance with generally accepted accounting principles, company management and the Board of Directors must make assessments and assumptions that affect the reported income and cost items, asset and liability items and other information provided. The actual outcome may differ from assessments made. The main areas in which estimates and assumption may imply a risk of adjustments to carrying amounts of assets and liabilities during future fiscal years are as follows:

**– Assumptions regarding impairment testing of goodwill**

The Group regularly performs impairment tests of goodwill in accordance with the accounting principles described under "Intangible assets" on page 45. The assumptions and assessments made pertaining to expected cash flows and the discount rate in the form of weighted average cost of capital are described under "Comments on and analysis of the balance sheet" on page 38. Forecasts of future cash flows are based on the approved budget and assumptions on the rate of growth and investment requirements.

**– Assumptions regarding income tax**

The Group is liable to pay taxes in many different countries which is the reason that assessments are made to determine the Group-wide provisions for income tax. Liabilities for expected tax-audit issues are reported based on assessments of whether an additional tax obligation will arise. The probability of whether tax receivables can be realised though future taxable income is assessed. Refer also to the accounting principles described under "Taxes" on page 40 and in Note 24.

### Cash flow

The cash-flow statement has been prepared in accordance with the indirect method. The reported cash flow includes only those transactions resulting in receipts and payments.

### Consolidated financial statements

The consolidated financial statements include all companies in which the Group has the right to form financial and operational strategies in a manner usually associated with shareholdings amounting to more than 50 per cent of the voting rights.

The consolidated financial statements have been prepared in accordance with the purchase method of accounting. The acquisition value of a corporate acquisition comprises the fair value of assets provided as remuneration, issued equity instruments and incurred or assumed liabilities on transfer date, plus expenses directly attributable to the acquisition. The subsidiaries' acquired equity is determined as the difference between the fair value of identifiable assets, assumed liabilities and contingent liabilities based on a market assessment at the time of acquisition. The acquired subsidiaries' equity is eliminated in its entirety, which means that the Group's equity therefore includes only that portion of the subsidiaries' equity provided after the acquisition.

If the consolidated acquisition value of the shares exceeds the value of the company's net assets reported in the acquisition analysis, the difference is reported as goodwill. If the acquisition value falls below the value of the company's net assets, the difference is reported directly in the income statement.

Subsidiaries acquired during the year are included in the consolidated financial statements from the date on which the Group takes control of the company based on a controlling influence and at the amounts pertaining to the period after the acquisition.

Divested subsidiaries are excluded from the consolidated financial statements from the date on which the Group's control of the company ceases.

Inter-company transactions, such as income, costs, receivables, liabilities and Group contributions are eliminated in their entirety.

Inter-company profits are eliminated in their entirety, without consideration of minority shares.

The Group applies the principle of reporting minority shareholdings as transactions with third parties.

### Translation of foreign subsidiaries

The financial statements of subsidiaries are prepared in the local currency, that is to say the functional currency, used in the country in which the company conducts operations. Swedish kronor, SEK, is utilised in the consolidated financial statements, which is the Parent Company's functional currency and also the Group's reporting currency. This means that the earnings and financial position of all Group companies that have a different functional currency to the reporting currency are translated to the Group's reporting currency of SEK. Foreign subsidiaries' assets and liabilities are translated at the closing date rate and all income-statement items are translated at the average exchange rate for the year. Exchange-rate differences are reported directly in "Reserves" in the Group's shareholders equity.

| | Closing date rate | | Average exchange rate | |
|---|---|---|---|---|
| Significant exchange rates | 31 Dec 2006 | 31 Dec 2005 | 2006 | 2005 |
| DKK | 1.21 | 1.26 | 1.24 | 1.25 |
| EUR | 9.05 | 9.43 | 9.25 | 9.28 |
| GBP | 13.49 | 13.73 | 13.58 | 13.58 |
| NOK | 1.09 | 1.18 | 1.15 | 1.16 |
| USD | 6.87 | 7.95 | 7.38 | 7.48 |

### Reporting of associated companies

Associated companies are those companies that are not subsidiaries, but in which the Parent Company exercises a significant but not controlling influence, which usually entails shareholdings of between 20 and 50 per cent of the voting rights. Investments in associated companies are reported in the Group's accounts in accordance with the equity method. The equity method means that investments in an associated company are reported at acquisition value on the acquisition date and are subsequently adjusted by the Group's share of the change in the associated company's net assets.

The accumulated profits that are not paid as dividends attributable to associated companies are reported under "Other provisions" in the consolidated balance sheet. The Group's non-restricted profit is reduced by the accumulated portion of losses in associated companies. Unrealised inter-company profit is eliminated by the portion accruing to the Group.

Shares in profit of associated companies are reported on separate lines in the consolidated income statement and consolidated balance sheet. Shares in profit of associated companies are reported in operating profit in the consolidated income statement since the holdings are operations-based. Shares in profit of associated companies are reported after tax.

## Note 2 continued

In the Parent Company's accounts, participations in associated companies are reported at acquisition value with deductions for any impairment. Only dividends received for profit earned after the acquisition are reported as revenues from associated companies.

### Segments

To establish whether a business segment or geographic area comprises a primary segment, Nobia has assessed the background and character of the operations' risks and opportunities based on the internal organisation, management structure and internal reviews and reports. Nobia's operations include different categories of products that essentially share such characteristics that they comprise one reportable segment. The operations are deemed to be affected by the size and the breadth of the product offering and also by the economic and political conditions and country and exchange-rate risks existing between segments. As a result, a business segment is equally as important as the geographic domicile of the customers.

Therefore, Nobia considers the Group's kitchen, bathroom and storage operations business segments as its primary segments. The bathroom and storage operations are not disclosed separately since these segments comprise such a small part of the Group's total balance sheet, income statement and cash flow. In line with the above, refer to the consolidated income statement, balance sheet and cash-flow statement for information regarding the primary segment.

The secondary segment is the Group's regions comprising the Nordic, Continental Europe and UK regions. The division of the business units by region is based on the geographic domicile of the units. Information regarding the secondary segment is provided in the Board of Directors' report.

### Revenue recognition

The company recognises revenue when the risk associated with the goods has been transferred to the customer in accordance with the terms of delivery. In cases where installation services are provided, revenue is recognised when the service has been completed. Sales are reported net after VAT, discounts and exchange-rate differences for sales in foreign currency and returns. Inter-company sales are eliminated in the consolidated financial statements.

### Borrowing costs

Borrowing costs are charged to profit in the period to which they are attributable. Interest expenses are not capitalised.

### Taxes

Deferred tax is calculated according to the liability method on all temporary differences arising between reported and fiscal values of assets and liabilities.

The tax effect attributable to tax loss carryforwards that could be utilised against future profits is capitalised as a deferred tax asset. This applies to both accumulated loss carryforwards at the time of acquisition and losses arising thereafter.

Valuations take place at the tax rate applying on the closing date. Deferred tax is reported in the balance sheet as a fixed asset or provision. The income tax liability is reported as a current receivable or liability. The tax expense for the year comprises current tax and deferred tax.

If the actual outcome differs from the amounts first reported, the differences will affect the provisions for current tax and deferred tax in the period in which these calculations are made.

### Tangible fixed assets

Tangible fixed assets are reported at acquisition value with deductions for depreciation. Acquisition value includes expenses that can be directly attributed to the acquisition. Expenses for improvements to the asset's performance, exceeding the original level, increase the asset's carrying amount. Expenses for repairs, maintenance and any interest expenses are reported as costs in the income statement in the period in which they arise.

In the event that an asset's carrying amount exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

In the income statement, operating profit is charged with depreciation according to plan, which is calculated on the original acquisition value and is based on the estimated useful lives of the assets as follows:

| | |
|---|---|
| Kitchen displays | 2-4 years |
| Office equipment and vehicles | 3-5 years |
| Buildings | 15-40 years |
| Plant and machinery | 6-12 years |
| Equipment, tools, fixtures and fittings | 6-12 years |

Land is not depreciated.

### Intangible assets

Goodwill comprises the amount by which the consolidated acquisition value of shares in acquired companies exceeds the value of the subsidiary's net assets on the acquisition date as reported in the acquisition analysis.

Goodwill has been allocated to cash-generating units when these units were acquired. Nobia has 15 cash-generating units which, in organisational terms, corresponds to the company's business units. Goodwill is subject to an annual impairment test and is reported at acquisition value less any accumulated decrease in value. A description of the method and assumptions applied to impairment tests is found under "Goodwill" in "Comments on and analysis of the balance sheet" on page 33.

Other intangible assets, primarily patents and licences, are reported at acquisition value less accumulated amortisation. The amortisation period is determined based on the estimated useful life of the asset (three to five years).

### Research and product development

Costs for product development are reported immediately as and when they arise.

Product development within the Group is mainly in the form of design development and is conducted continuously to adapt to current style trends. This development is relatively fast, which is the reason that no portion of the costs for product development is reported as an intangible asset until 2006. The Group does not carry out research and development in the actual sense of the concept or to any significant extent.

### Leasing agreements

Leasing agreements concerning fixed assets in which the Group essentially carries the same risks and enjoys the same benefits that direct ownership would entail are classified as financial leasing. Financial leasing is reported at the start of the leasing period at the lower of the leasing object's fair value and the present value of minimum leasing fees. Financial leasing agreements are reported in the balance sheet as fixed assets and financial liabilities, respectively. Future leasing payments are specified between repayment of the liabilities and financial expenses in order that each accounting period is charged with an amount of interest corresponding to a fixed-interest rate on the liability reported during the respective period. Leasing assets are amortised according to the same principles that apply to other assets of the same type. Costs for leasing contracts are divided between amortisation and interest in the income statement.

Leasing of assets, where the lessor essentially remains the owner of the asset, is classified as operational leasing. Leasing fees are reported on a straight-line basis during the leasing period. Operational leasing agreements are reported in the income statement as an operating expense. Leasing of cars and computers is normally treated as operational leasing. The value of these leasing agreements is not considered to be significant.

The Parent Company reports all leasing agreements, whether financial or operational, as rental agreements.

### Inventories

Inventories comprise finished and semi-manufactured products and raw materials. Inventories are valued according to the first-in, first-out (FIFO) principle, at the lower of the acquisition value and net sales value on the closing date. The net sales value comprises the estimated sales value in the ongoing operations less selling expenses. Finished and semi-manufactured products are valued at manufacturing cost including raw materials, direct labour, other direct expenses and production-related expenses based on normal production. Interest expenses are not included in inventory valuations.

Deductions are made for inter-company profits arising in conjunction with deliveries between companies in the Group. The required obsolescence provisions have been established.

### Receivables

Receivables falling due for payment more than 12 months after the closing date are reported as fixed assets. Other receivables are reported as current assets. Receivables are reported at the amounts that are expected to be received after individual assessment.

### Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are valued at the closing date rate.

Nobia applies hedge accounting for inter-company currency flows to the extent that they qualify for hedge accounting in accordance with IAS 39 requirements. Hedge accounting means that the unrealised profits and gains arising in the assessment of the market value of the hedging instrument and that meet the conditions for hedge accounting are reported under "Reserves" in shareholders' equity.

## Note 2 continued

### Accounts receivable
Accounts receivable are initially reported at fair value and subsequently at accrued acquisition value, less any provisions for decreases in value. Such a provision is established when there is objective evidence that the Group will not receive all amounts that have fallen due for payment according to the original conditions of the receivable. The amount of the provision comprises the difference between the carrying value of the assets and the present value of estimated future cash flows. The amount of the provision is reported in the income statement.

### Securities and financial receivables
Securities and financial receivables that are intended as a long-term holding are reported at acquisition value. Impairment losses are recognised if a permanent decline in value is noted. Short-term financial holdings are reported at acquisition value, which is primarily the same as the market value of the holdings. All transactions are reported on the settlement date.

### Cash and cash equivalents
Cash and cash equivalents are defined as cash and bank balances and short-term investments with maturities not exceeding three months. Cash and cash equivalents are valued at fair value.

### Financial liabilities
All transactions pertaining to financial liabilities are reported on the settlement date.

### Derivative financial instruments
The Nobia Group utilises derivatives to cover risks pertaining to changes in exchange rates and to limit exposure to interest-rate risks. For further information, refer to Note 1.

Nobia applies hedge accounting for inter-company currency flows to the extent that they qualify for hedge accounting in accordance with IAS 39 requirements. Hedge accounting means that the unrealised profits and gains arising in the assessment of the market value of the hedging instrument and that meet the conditions for hedge accounting are reported under "Reserves" in shareholders' equity.

### Transaction exposure
**– Hedging of currency flows**

Accounts receivable and accounts payable in foreign currencies are valued at the closing date rate. Currency-hedging transactions in the form of forward contracts relating to future flows of foreign currency impact on profits when the contracts expire.

**– Hedging fixed interest rates**

The Group has an interest-rate swap agreement to protect itself from fluctuations in interest rates. Any differences in interest rates to be paid or received due to interest-rate swaps are reported under the item "Interest expenses and similar items."

### Provisions and contingent liabilities
Provisions are reported in the balance sheet among current and long-term liabilities, when the Group has a legal or constructive present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

### Employee benefits
**– Pensions**

Within the Group there are a number of both defined-contribution and defined-benefit pension plans. In Sweden, Norway, and in some companies in Germany, Austria and the UK, employees are covered by defined-benefit pension plans. In other countries and companies, employees are covered by defined-contribution pension plans.

The Group's defined-benefit pension plans state the amount of pension benefit that an employee, or a former employee, will receive after retirement based upon their salary and the number of years of service. Pension obligations for defined-benefit plans are reported according to common principles and calculation methods and are calculated by considering future salary increases and inflation, among other factors. The Group carries the risk that the promised benefit will be paid.

There are both funded and unfunded defined-benefit plans within the Group. Funded pension plans are financed on the basis of contributions paid to pension funds.

Regarding defined-benefit plans, the pension commitment is calculated in accordance with the Projected Unit Credit method. This method allocates the cost of pensions at the rate at which the employees perform services for the company that increase their entitlement to future remuneration. This calculation is performed annually by independent actuaries. The company's obligations are valued at the present value of expected future cash flows using a discount rate corresponding to interest on high-quality corporate bonds or government bonds issued in the same currency in which the remuneration will be paid and with terms comparable with the term of pension liability in question.

Actuarial gains and losses may arise when the present value of commitments and the fair value of plan assets are established. Such gains and losses arise either due to the fact that the fair value differs from the previous assumption or that the assumption has changed. The portion of accumulated actuarial gains and losses at the end of the preceding year exceeding 10 per cent of the largest of the present value of the commitments or the fair value of the plan assets is reported in income over the employees' estimated average remaining period of service.

For funded plans, the Group reports pension obligations in the consolidated balance sheet as a liability comprising the net amount of the estimated present value of the commitments and the fair value of plan assets. Funded plans with net assets, that is, plans with assets exceeding the pension commitment, are reported as financial fixed assets.

For 2006, Nobia reports the net amount of discounted interest on pension liabilities and the expected return on accompanying plan assets as part of net financial items. Comparable figures for 2005 are restated in accordance with this principle since the net interest expenses were reported in the 2005 annual report in operating profit. The effects of this change were explained in the 2005 annual report and in the interim reports published in 2006.

In defined-contribution plans, the company pays fixed contributions to a separate legal entity.

The Parent Company reports defined-benefit pension plans in accordance with the law on safeguarding of pension commitments and instructions from Sweden's Financial Supervisory Authority.

**– Other long-term remuneration**

The Group operates schemes for remuneration in connection with anniversaries and to employees with long service.

Other long-term remuneration is reported in the consolidated financial statements in accordance with IAS 19 Employee Benefits.

Actuarial gains and loss may arise when establishing the present value of a commitment and the fair value of the plan assets. Unlike the reporting of benefit-defined pension plans, actuarial gains and loss are reported immediately and no "corridor" is applied.

**Employee share option scheme**

The Group's costs for employee share options are reported in accordance with IFRS 2 Share-based payment. The cost is calculated based on the share option's theoretical value adjusted with regard to disposition right infringements and employee turnover, and is expensed over the term of the programme. In countries in which employee share options may give rise to costs in the form of social security contributions, the Group establishes a provision for social security contributions that follows share price trends during the term.

## Note 3 Net sales by geographic market

| | Group | |
|---|---|---|
| SEK m | 2006 | 2005 |
| Sweden | 1,233 | 1,018 |
| Denmark | 1,811 | 1,550 |
| Norway | 1,471 | 1,382 |
| Finland | 854 | 771 |
| **Total Nordic region** | **5,369** | **4,721** |
| | | |
| UK | 5,761 | 5,170 |
| France | 1,828 | 44 |
| Germany | 843 | 842 |
| Austria | 499 | 510 |
| Netherlands | 324 | 333 |
| Other, Europe | 492 | 420 |
| **Total Europe** | **15,116** | **12,040** |
| | | |
| North America | 265 | 196 |
| Rest of world | 209 | 206 |
| **Group** | **15,590** | **12,442** |

## Note 4 Salaries, remuneration and social security contributions

| SEK m | 2006 Salaries and other remuneration | 2006 Social security contributions (of which pension costs) | 2005 Salaries and other remuneration | 2005 Social security contributions (of which pension costs[1]) |
|---|---|---|---|---|
| Subsidiaries in: | | | | |
| Sweden | 225 | 92 | 195 | 85 |
| | | (13) | | (16) |
| Denmark | 525 | 55 | 447 | 42 |
| | | (40) | | (31) |
| Norway | 185 | 39 | 175 | 34 |
| | | (5) | | (10) |
| Finland | 105 | 59 | 93 | 57 |
| | | (23) | | (22) |
| Germany | 370 | 74 | 355 | 70 |
| | | (0) | | (1) |
| Austria | 141 | 32 | 136 | 28 |
| | | (17) | | (18) |
| UK | 718 | 98 | 674 | 89 |
| | | (32) | | (27) |
| France | 248 | 98 | 2 | 1 |
| | | (18) | | (0) |
| USA | 38 | 4 | 33 | 6 |
| | | (1) | | (0) |
| Switzerland | 14 | 2 | 10 | 2 |
| | | (0) | | (0) |
| **Total subsidiaries** | **2,569** | **553** | **2,120** | **414** |
| | | **(149)** | | **(125)** |
| **Parent Company** | **22** | **18** | **20** | **12** |
| | | **(9)** | | **(5)** |
| **Group** | **2,591** | **571** | **2,140** | **426** |
| | | **(158)** | | **(130)** |

[1] Previously reported pension costs have been adjusted in the amount of SEK 39 million for changes in pension classifications. The net amount of discounted interest on pension liabilities and the expected return on plan assets, previously reported under operating profit, have reduced net financial items.

Total remuneration costs for employees are as follows:

| SEK m | 2006 | 2005 |
|---|---|---|
| Salaries, other remuneration and social security contributions | 3,004 | 2,436 |
| Pension costs – defined-contribution plans | 104 | 94 |
| Pension costs – defined-benefit plans | 29 | 32 |
| Costs for special employer's contribution and tax on returns | 25 | 4 |
| Costs for allotted warrants 2003-2008 (Note 19) | 1 | 1 |
| Costs for allotted employee stock options 2005-2009 (Note 19) | 9 | 2 |
| Costs for allotted employee stock options 2006-2010 (Note 19) | 6 | - |
| **Total costs for employees** | **3,178** | **2,569** |

Salaries and other remuneration, Board and President:

| SEK m | 2006 | 2005 |
|---|---|---|
| **Parent Company** | | |
| Board and President | 10 | 11 |
| Other employees | 14 | 11 |
| **Total Parent Company** | **24** | **22** |
| | | |
| **Subsidiaries** | | |
| Board and President | 45 | 52 |
| Other employees | 2,524 | 2,068 |
| Total subsidiaries | 2,569 | 2,120 |
| **Group** | **2,593** | **2,142** |

Absence due to illness is not reported for the Parent Company since there are fewer than 10 employees.

The average number of employers and number of men and women among Board members and senior executives are described in Note 32.

### Remuneration to senior management

**– Board members and the Chairman of the Board**

Remuneration to the Chairman and members of the Board is determined by decisions at the Annual General Meeting. No special fees are paid for committee work. Board members who are employed by Nobia do not receive a separate Board fee. Board members elected by the Annual General Meeting receive a fixed fee of SEK 280,000 per Board member and the Chairman receives SEK 700,000, a total of SEK 2,380,000. The Chairman of the Board has no pension benefits, severance pay agreement or other benefits. Employee representatives receive a reading and preparation fee of SEK 26,000 per person per year.

**– President**

The President received SEK 5,395,617 in salary and benefits for the 2006 fiscal year and a bonus related to results for 2006 of SEK 2,483,000.

In addition to the normal pension in accordance with the Swedish National Insurance Act (ATP and AFP), the President has the right to an ITP pension scheme (supplementary pension for salaried employees in industry) at 65 years of age. The President is also entitled to an increased occupational pension premium of 20 per cent on salary portions of more than 30 basic amounts. In addition to the ITP plan, the President is entitled to a temporary pension between the ages of 60 and 65. This pension is premium-based and the premium is equivalent to 20 per cent of the annual salary of the preceding year. For 2006, the cost was SEK 1,580,431. The President has the right to 12 monthly salaries plus severance pay equivalent to 12 months' salary if employment is terminated by Nobia. However, the amount of the severance pay will be reduced in the event the former President receives a salary from other employment. If employment is terminated by the President, six months' notice must be given.

**– Other Group management**

Other Group management, comprising six people in 2006, received salaries and benefits during the fiscal year amounting to SEK 12,117,602 and bonuses based on results for 2006 of SEK 3,636,873. Group management has the right to ITP pensions or an equivalent scheme. The age of retirement is 65. In addition, management has the right to an increased occupational pension premium of 20 per cent on salary portions amounting to more than 30 basic amounts.

**– Bonus scheme**

The bonus scheme for the business unit managers and Group management entitles them to a maximum bonus of 30 per cent of their annual salary, and 50 per cent for the President and one member of Group management. Bonuses are based on an earning period of one year and are dependent on the extent to which predetermined targets are met. The targets for the President are set by the Board of Directors. The President sets the targets for other members of Group management following recommendations from the Board's Remuneration Committee.

**– Remuneration Committee**

The Board of Directors appoints a Remuneration Committee from within its ranks. The Committee's tasks include preparing proposals with respect to remuneration for the President, and to reach decisions on remuneration proposals for managers that report directly to the President. For information about the Committee and its members, see page 58.

**– Group management's employment contracts**

The contracts include provisions regarding remuneration and termination of employment. Under these agreements, employment may be terminated by the employee with a six-month period of notice and by the company with a 12-month period of notice. These provisions also apply to the President. Certain senior executives, including the President, are entitled to severance pay in the amount of one year's basic salary. The employment contracts normally contain a non-competition clause that applies for the employment term and an additional period of twelve months. Redundancy payment is not paid when the employee chooses to resign.

**– Share option scheme**

*Share option scheme 2003-2008*

At the 2003 Annual General Meeting, a decision was made to launch a share option scheme encompassing 91 senior executives and key individuals who subscribed for 774,600 options entitling them to subscribe for new shares in Nobia AB at a price of SEK 70.50. The option premium was SEK 10.20. Those subscribing for options and who remained employees of the company on 22 May 2005 were entitled to receive compensation corresponding to 40 per cent of the options premium. The options can be exercised to subscribe for shares during the period 22 May 2005 to 22 May 2008. If all options are exercised, the number of shares in the company will be increased by 566,600 shares. On full exercise of the remaining options, the number of share options and the acquisition price are as follows:

| Share options 2003-2008 | Number | Acquisition price, SEK |
|---|---|---|
| President | 40,000 | 408,000 |
| Other Group management | 40,000 | 408,000 |
| Other employees | 486,600 | 4,963,320 |
| **Total** | **566,600** | **5,779,320** |

## Note 4 continued

*Employee share option scheme 2005-2009*
At the 2005 Annual General Meeting, a decision was made in accordance with the Board's proposal to implement an incentive scheme in the form of a performance-related employee share option scheme for 146 individuals comprising a total of 610,000 options. Employee share options entitle employees to acquire shares in Nobia AB during the period from 31 May 2008 to 1 March 2009 at a fixed exercise price of SEK 124.70. The entitlement to exercise the options presupposes that the options holder remains an employee of the Nobia Group, that earnings per share during the 2005-2007 fiscal years has increased compared with the 2004 fiscal year such that the total increase in earnings per share corresponds to an average annual increase in earnings per share of at least 5.0 per cent and a maximum of 15.0 per cent. The annual increase in earnings per share affects the number of options that may be received. In the case of the maximum increase in earnings per share and full exercise, the number of remaining employee share options at the end of the year will be as follows:

| Employee share options 2005-2009 | Number |
|---|---|
| President | 22,500 |
| Other Group management | 85,000 |
| Other employees | 427,500 |
| **Total** | **535,000** |

*Employee share option scheme 2006-2010*
At the 2006 Annual General Meeting, a decision was made in accordance with the Board's proposal to implement an incentive scheme in the form of a performance-related employee share option scheme for 156 individuals comprising a total of 610,000 options. Employee share options entitle employees to acquire shares in Nobia AB during the period from 31 May 2009 to 1 March 2010 at a fixed exercise price of SEK 265.10. The entitlement to exercise the options presupposes that the options holder remains an employee of the Nobia Group, that earnings per share during the 2006-2008 fiscal years have increased compared with the 2005 fiscal year such that the total increase in earnings per share corresponds to an average annual increase in earnings per share of at least 5.0 per cent and a maximum of 15.0 per cent. The annual increase in earnings per share affects the number of options that may be received. In the case of the maximum increase in earnings per share and full exercise, the number of remaining employee share options at the end of the year will be as follows:

| Employee share options 2006-2010 | Number |
|---|---|
| President | 22,500 |
| Other Group management | 78,000 |
| Other employees | 488,000 |
| **Total** | **588,500** |

*Call options*
In December 2006, Nobia's principal owners, Säkl AB, Investment AB Öresund and IF Skadeförsäkring AB, agreed to issue call options to Nobia's Group management. This package includes the right to acquire 300,000 Nobia shares.

The terms and conditions are market based and have been calculated in accordance with the Black and Scholes method. The scheme is valid for three years with redemption from October 2009 until May 2010. The price for each call option is SEK 20. The exercise price is SEK 305.

## Note 5 Remuneration to auditors

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Audit assignments, Öhrlings PricewaterhouseCoopers AB | 10 | 9 | 8 | 0 | 0 | 0 |
| Other assignments in addition to audit assignments[1), Öhrlings PricewaterhouseCoopers AB | 2 | 4 | 2 | 0 | 0 | 0 |

[1)] Predominantly advisory services in audit-related matters such as accounting and tax.

## Note 6 Depreciation per activity

| SEK m | 2006 | 2005 |
|---|---|---|
| Cost of goods sold | -148 | -139 |
| Selling expenses | -207 | -115 |
| Administrative expenses | -63 | -55 |
| **Total depreciation** | **-418** | **-309** |

## Note 7 Specification by type of costs

| SEK m | 2006 | 2005 |
|---|---|---|
| Raw materials | -6,254 | -4,940 |
| Costs for remuneration to employees (Note 4) | -3,178 | -2,569 |
| Depreciation and impairment (Note 6) | -418 | -309 |
| Freight | -603 | -546 |
| Operational leasing costs, primarily stores (Note 8) | -527 | -480 |
| Other costs | -3,397 | -2,701 |
| **Total operating costs** | **-14,377** | **-11,545** |

## Note 8 Operational leasing contracts

The nominal values of contracted future leasing fees, where the remaining term exceeds one year, are specified as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Paid during the year | 527 | 480 | 0 | 0 |
| Falling due for payment 2006 | - | 491 | - | - |
| Falling due for payment 2007 | 578 | 438 | 0 | 0 |
| Falling due for payment 2008 | 515 | 397 | 0 | 0 |
| Falling due for payment 2009 | 451 | 349 | 0 | 0 |
| Falling due for payment 2010 | 381 | 307 | 0 | 0 |
| Falling due for payment 2011 | 323 | - | 0 | 0 |
| Falling due for payment later | 1,483 | 1,550 | 0 | 0 |

The above amounts include renewed lease contracts of SEK 187 million (129).

The nominal values of premises that are sublet, where the remaining term exceeds one year, are specified as follows:

| | Group | |
|---|---|---|
| SEK m | 2006 | 2005 |
| Falling due for payment 2006 | - | - |
| Falling due for payment 2007 | 62 | 48 |
| Falling due for payment 2008 | 53 | 37 |
| Falling due for payment 2009 | 48 | 32 |
| Falling due for payment 2010 | 32 | 24 |
| Falling due for payment 2011 | 22 | 17 |
| Falling due for payment later | 38 | 29 |

## Note 9 Financial income and expenses

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| **Profit from shares in Group companies** | | | | |
| Dividends | - | - | 353 | 235 |
| **Financial income** | | | | |
| Interest income, current | 17 | 13 | 0 | 0 |
| Exchange-rate differences | 0 | 0 | 0 | 3 |
| **Financial expenses** | | | | |
| Interest expense [1)] | -133 | -121 | -3 | -2 |
| Exchange-rate differences | -1 | 0 | -3 | 0 |
| **Total** | **-117** | **-108** | **347** | **236** |

[1)] Previously reported interest expenses have been negatively adjusted in the amount of SEK 39 million due to changed classification of pensions.

## Note 10 Tax on net profit for the year

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Current tax expense for the period | -306 | -248 | -0 | -1 |
| Deferred tax | -39 | 4 | 17 | 9 |
| **Tax on net profit for the year** | **-345** | **-244** | **17** | **8** |

Tax expense accounted for 28.5 per cent (27.6) of profits before tax. The increase was due to the change in taxable income for the Group's subsidiaries in different countries, including the effect of the acquisition of subsidiaries in France. The difference between the reported tax expense (28.5 per cent) and the anticipated tax expense on the Group's profits before tax calculated at the local tax rate for Sweden (28 per cent) is explained in the table below. The deferred tax revenue for the preceding year is mainly attributable to the dissolution of a tax reserve and the change in loss carryforwards.

The Parent Company's deferred tax is related to the tax effect on Group contributions. Group contributions are reported directly against shareholders' equity.

| % | 2006 | 2005 |
|---|---|---|
| Local tax rate in Sweden | 28.0 | 28.0 |
| Different local tax rates | 1.8 | 1.2 |
| Taxes relating to earlier periods | -0.6 | -0.7 |
| Other non-deductible/tax-exempt items | -0.7 | -1.0 |
| Other | - | 0.1 |
| **Group's tax expense** | **28.5** | **27.6** |

Tax-exempt items include capital gains attributable to the sale of fixed assets that are offset against non-assessed loss carryforwards.

Note 24 explains the calculation of deferred tax liabilities and assets.

## Note 11 Intangible assets

| **Goodwill,** SEK m | 2006 | 2005 |
|---|---|---|
| Opening carrying amounts | 1,975 | 1,645 |
| Corporate acquisitions | 859 | 202 |
| Translation differences | -70 | 128 |
| **Closing carrying amount** | **2,764** | **1,975** |

| **Other intangible fixed assets, SEK m** | | |
|---|---|---|
| Opening acquisition value | 170 | 127 |
| Investments for the year | 24 | 20 |
| Sales and scrapping | -10 | -5 |
| Corporate acquisitions | 62 | 21 |
| Reclassifications | 0 | 1 |
| Translation differences | -10 | 6 |
| **Closing accumulated acquisition value** | **236** | **170** |
| | | |
| Opening amortisation | 137 | 99 |
| Sales and scrapping | -10 | -5 |
| Amortisation for the year | 16 | 18 |
| Corporate acquisitions | 7 | 20 |
| Translation differences | -7 | 5 |
| **Closing accumulated amortisation** | **143** | **137** |
| | | |
| Opening impairment | 0 | 0 |
| **Closing accumulated impairment** | **0** | **0** |
| **Closing carrying amount** | **93** | **33** |
| | | |
| *Of which* | | |
| Software | 15 | 16 |
| Brands | 31 | 9 |
| Other | 47 | 8 |
| **Closing carrying amount** | **93** | **33** |

## Note 12 Tangible fixed assets

| **Buildings,** SEK m | 2006 | 2005 |
|---|---|---|
| Opening acquisition value including written-up amount | 2,000 | 1,720 |
| Investments for the year | 133 | 111 |
| Sales and scrapping | -93 | -52 |
| Corporate acquisitions | 756 | 128 |
| Reclassifications | 31 | -4 |
| Translation differences | -81 | 97 |
| **Closing acquisition value including written-up amount** | **2,746** | **2,000** |
| Opening depreciation | 813 | 649 |
| Sales and scrapping | -57 | -19 |
| Corporate acquisitions | 371 | 73 |
| Reclassifications | 3 | -8 |
| Depreciation for the year | 173 | 82 |
| Translation differences | -36 | 36 |
| **Closing depreciation** | **1,267** | **813** |
| **Closing carrying amount** | **1,479** | **1,187** |

The items above include financial leasing according to the table below:

| | Accumulated acquisition value | | Accumulated depreciation | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Buildings | 54 | 51 | 12 | 8 |

| **Land and land improvements,** SEK m | | |
|---|---|---|
| Opening acquisition value including written-up amount | 261 | 212 |
| Investments for the year | 8 | 6 |
| Sales and scrapping | -32 | -22 |
| Corporate acquisitions | 37 | 42 |
| Reclassifications | -6 | 10 |
| Translation differences | -11 | 13 |
| **Closing acquisition value including written-up amount** | **257** | **261** |
| Opening depreciation | 29 | 26 |
| Depreciation for the year | 1 | 1 |
| Translation differences | -2 | 2 |
| **Closing depreciation** | **28** | **29** |
| **Closing carrying amount** | **229** | **232** |
| **Tax assessment value for property in Sweden** | **70** | **72** |
| **Closing carrying amount** | **73** | **75** |

Bank loans are secured via mortgages for buildings and land within the Group amounting to SEK 0 million (9).

| **Investments in progress,** SEK m | 2006 | 2005 |
|---|---|---|
| Opening balance | 33 | 45 |
| Investments initiated during the year | 45 | 29 |
| Investments completed during the year | -50 | -47 |
| Corporate acquisitions | - | 4 |
| Translation differences | -1 | 2 |
| **Closing carrying amount** | **27** | **33** |

| **Plant and machinery,** SEK m | | |
|---|---|---|
| Opening acquisition value including written-up amount | 2,373 | 2,002 |
| Investments for the year | 177 | 190 |
| Sales and scrapping | -154 | -98 |
| Corporate acquisitions | 13 | 150 |
| Reclassifications | 29 | 9 |
| Translation differences | -68 | 120 |
| **Closing acquisition value including written-up amount** | **2,370** | **2,373** |
| Opening depreciation and impairment | 1,667 | 1,457 |
| Sales and scrapping | -142 | -92 |
| Corporate acquisitions | 5 | 105 |
| Reclassifications | 0 | -12 |
| Depreciation for the year | 128 | 125 |
| Translation differences | -45 | 84 |
| **Closing depreciation and impairment** | **1,613** | **1,667** |
| **Closing carrying amount** | **757** | **706** |

## Note 12, continued

| Equipment, tools, fixtures and fittings, SEK m | | |
|---|---|---|
| Opening acquisition value | 771 | 607 |
| Investments for the year | 126 | 110 |
| Sales and scrapping | -83 | -50 |
| Corporate acquisitions | 141 | 46 |
| Reclassifications | 5 | 17 |
| Translation differences | -37 | 41 |
| **Closing acquisition value** | **923** | **771** |
| Opening depreciation and impairment | 481 | 361 |
| Sales and scrapping | -45 | -30 |
| Corporate acquisitions | 59 | 38 |
| Reclassifications | 0 | 3 |
| Depreciation for the year | 100 | 86 |
| Translation differences | -21 | 23 |
| **Closing depreciation and impairment** | **574** | **481** |
| **Closing carrying amount** | **349** | **290** |

| Advance payment for fixed assets, SEK m | | |
|---|---|---|
| Opening balance | 5 | 0 |
| Expenses during the year | 18 | 5 |
| Corporate acquisitions | 0 | 1 |
| Reclassifications | -5 | -1 |
| **Closing carrying amount** | **18** | **5** |

No interest has been capitalised for tangible fixed assets in the closing acquisition value.

## Note 13 Other long-term receivables /Shares and participations in Group companies

| | Group | |
|---|---|---|
| **Other long-term receivables,** SEK m | 2006 | 2005 |
| Deposits | 37 | 15 |
| Long-term loans to retailers | 13 | 14 |
| Financial leasing receivable | 16 | 9 |
| Other interest-bearing receivables | 12 | 12 |
| Other | 40 | 3 |
| **Total** | **118** | **53** |

| | Parent Company | |
|---|---|---|
| **Shares and participations in Group companies,** SEK m | 2006 | 2005 |
| Opening acquisition value | 1,374 | 1,370 |
| Acquisition of subsidiaries[1)] | 6 | 4 |
| **Closing acquisition value** | **1,380** | **1,374** |

[1)] Acquisition of subsidiaries, see Note 15

## Note 14 Investments in associated companies

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Shares in associated companies,** SEK m | 2006 | 2005 | 2006 | 2005 |
| Opening balance | 3 | 0 | 4 | 0 |
| Share in net profit/loss for the year | -2 | -1 | 0 | 0 |
| Acquisitions for the year | - | 2 | 0 | 4 |
| Capital contribution | - | 2 | - | - |
| Exchange-rate differences | 0 | 0 | 0 | 0 |
| **Closing balance** | **1** | **3** | **4** | **4** |

The Group's shares in associated companies, all of which are unlisted, are as follows:

| | Country of regis-tration | Participat-ing inter-est, % | Shares, SEK m | Shares, SEK m |
|---|---|---|---|---|
| UAB Domingos Durelés | Lithuania | 45.0 | 1 | 2 |
| HTH Expert w Kuchni sp Z | Poland | 44.7 | 0 | 0 |
| HTH Schweiz AG | Switzer-land | 33.0 | 0 | 1 |
| **Total** | | | **1** | **3** |

The Group has unrecognised losses for HTH Expert w Kuchni sp Z and HTH Schweiz AG amounting to SEK 2 million (0). Unrecognised accumulated losses amount to SEK 3 million (1).

## Note 15 Shares and participations in subsidiaries

Nobia AB's holdings of shares and participations in operating Group companies, %. Dormant companies are not included in the table below.

| | Corporate Registration Number | Domicile | Share of equity, % | No. of shares | Book value |
|---|---|---|---|---|---|
| **Nobia NBI AB** | **556060-1006** | **Stockholm** | **100** | **100** | **456** |
| **Sigdal Kjøkken AS** | | **Kolbotn** | **100** | | |
| **Marbodal AB** | **556038-0072** | **Tidaholm** | **100** | | |
| **HTH Køkkener A/S** | | **Ølgod** | **100** | | |
| HTH Kök Svenska AB | 556187-3190 | Helsingborg | 100 | | |
| HTH Køge A/S | | Køge | 100 | | |
| **Novart OY** | | **Nastola** | **100** | | |
| Nobia Holding (UK) Limited | | Darlington | 100 | | |
| **Magnet Ltd** | | **Darlington** | **100** | | |
| Hiveserve Ltd | | Darlington | 100 | | |
| **C.P. Hart & Sons Ltd** | | **Darlington** | **100** | | |
| Flint Properties Ltd | | Darlington | 100 | | |
| Magnet (Retail) Ltd | | Darlington | 100 | | |
| The Penrith Joinery Company Ltd | | Darlington | 100 | | |
| **Gower Group Ltd** | | **Halifax** | **100** | | |
| Charco Ninety-Nine Ltd | | Halifax | 100 | | |
| **Myresjökök AB** | **556048-3256** | **Älmhult** | **100** | **30,000** | **77** |
| **Poggenpohl Möbelwerke GmbH** | | **Herford** | **98.57** | | **532** |
| Poggenpohl Group UK Ltd | | London | 100 | | |
| Norman Glen Kitchens & Interiors Ltd | | London | 100 | | |
| Wigmore Street Kitchens Inteiors Ltd | | London | 100 | | |
| Ultimate Kitchens (Pimlico) Ltd | | London | 100 | | |
| Poggenpohl France SARL | | Montesson Cedex | 100 | | |
| Poggenpohl US Inc. | | Wayne NJ | 100 | | |
| Poggenpohl Group Schweiz AG | | Littau | 100 | | |
| Poggenpohl Küchenstudio Zürich AG | | Zürich | 100 | | |
| Poggenpohl AB | 556323-2551 | Stockholm | 100 | | |
| Poggenpohl A/S | | Copenhagen | 100 | | |
| Möbelwerkstätten Josef Ritter GmbH | | Herford | 100 | | |
| Poggenpohl Forum Gmbh | | Herford | 100 | | |
| **Pronorm Einbauküchen Gmbh** | | **Vlotho** | **100** | | |
| **Optifit Jaka-Möbel GmbH** | | **Stemwede** | **100** | | |
| Eurofit Vertriebs GmbH | | Stemwede | 100 | | |
| Marlin Bad-Möbel GmbH | | Stemwede | 100 | | |
| Nobia Holding France SAS | | Seclin | 100 | | |
| **Hygena Cuisines SAS** | | **Seclin** | **100** | | |
| **Norema AS** | | **Jevnaker** | **100** | **20,000** | **154** |
| **Invita Køkkener A/S** | | **Bording** | **100** | **6,000,000** | **151** |
| Invita Detail & Projekt A/S | | Bording | 100 | | |
| Invita Retail A/S | | Bording | | | |
| Invita Köksstudio AB | 556634-7497 | Malmö | 100 | | |
| Nobia Beteiligungs GmbH | | Wels | 100[1)] | 2[1)] | |
| Nobia Liegenschafts und Anlagenverwaltungs GmbH | | Wels | 100[1)] | 1[1)] | |
| **EWE Küchen GmbH** | | **Wels** | **100** | | |
| **FM Küchen GmbH** | | **Linz** | **100** | | |
| EWE Kuchyne CZ S.r.o | | Prague | 100 | | |
| Other | | | | | 7 |
| **Total** | | | | | **1,380** |

1) The company is 1 per cent-owned by Nobia AB and 99 per cent-owned by the subsidiary, Nobia NBI AB. The details concern the 1 per cent holding.

A complete statutory specification accompanies the annual report sent to the Swedish Companies Registration Office. This specification can be obtained from Nobia AB, Communications department, Box 70376, SE-107 24 Stockholm.

## Note 16 Derivative instruments

| | Group | |
|---|---|---|
| | Book value | Fair value |
| SEK m | 2006 | 2006 |
| Forward agreements, transaction exposure – assets | 8 | 6 |
| Forward agreements, transaction exposure – liabilities | -4 | -5 |
| **Forward agreements, transaction exposure – net** | **4** | **1** |
| Interest-rate swap agreements, transaction exposure – assets | 0 | 0 |
| Interest-rate swap agreements, transaction exposure – liabilities | 0 | -2 |
| **Interest-rate swap agreements, transaction exposure – net** | **0** | **-2** |

Unrealised gains and loss in shareholders' equity for forward agreements as per 31 December 2006 will be reported in the income statement at different times within 12 months of the closing date.

For information about forward agreements and interest-rate swaps, see Note 1 Financial risks.

## Note 17 Prepaid expenses and accrued income

| | Group | |
|---|---|---|
| SEK m | 2006 | 2005 |
| Prepaid rent | 48 | 48 |
| Bonus from suppliers | 62 | 77 |
| Prepaid bank charges | 20 | 16 |
| Insurance policies | 7 | 9 |
| Accrued income from property sales and rental contracts | 151 | 93 |
| Other | 167 | 111 |
| **Total** | **455** | **354** |

## Note 18 Cash and cash equivalents

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Cash and bank balances | 229 | 251 | 0 | 0 |

Unutilised credit facilities, which are not included in cash and cash equivalents, totalled SEK 253 million (278) at the end of the year. In addition to the overdraft facilities, the company has unutilised credit commitments of SEK 4,400 million (1,724).

## Note 19 Share capital

| | No. of shares, each |
|---|---|
| **As per 1 January 2005** | **57,669,220** |
| Share option scheme – issued shares | 10,500 |
| **As per 31 December 2005** | **57,679,720** |
| Share option scheme – issued shares[1)] | 197,500 |
| **As per 31 December 2006** | **57,877,220** |

[1)] Of which 27,000 were being registered at the end of the year.

A specification of the changes in shareholders' equity can be found in "Change in shareholders' equity – Group."

The par value is SEK 1 per share. Full payment has been received for all shares. Nobia owns 0 (0) of its own Class A shares.

**Share option scheme 2003-2008**

At the 2003 Annual General Meeting, a decision was made to launch a share option scheme encompassing 91 senior executives and key individuals who subscribed for 774,600 options entitling them to subscribe for new shares in Nobia AB. Those subscribing for options and who remained employees of the company on 22 May 2005 were entitled to receive compensation corresponding to 40 per cent of the options premium of SEK 10.20, calculated in accordance with the Black and Scholes model. Important input data in the model was the share price of SEK 56.33 on the allotment date, the exercise price detailed in the table below, the expected volatility of the share price of 35 per cent, the term of the options and the annual risk-free interest of 4.01 per cent. The value of the share is based on the volume-weighted average noted price paid on the Stockholm Stock Exchange during the five-day period prior to allotment. The volatility assumption is based on the historic volatility of the Nobia share.

The consolidated income statement was charged with SEK 1 million (1) in 2006 pertaining to social security contributions on estimated benefits. Costs for the preceding year also include accrued expenses for the repayment of 40 per cent of received option premiums amounting to SEK 0.5 million.

**Employee share option scheme 2005-2009**

At the 2005 Annual General Meeting, a decision was made in accordance with the Board's proposal to implement an incentive scheme in the form of a performance-related employee share option scheme for 146 individuals comprising a total of 610,000 options.

The fair value of the options allotted in 2005 (employee share option scheme 2005-2009), determined by applying the Black and Scholes valuation model, was SEK 15.20. Important input data in the model was the share price of SEK 113.32 on allotment date, the exercise price detailed in the table below, the expected volatility of the share price of 24 per cent, the term of the options and the annual risk-free interest of 2.71 per cent. The value of the share is based on the volume-weighted average noted price paid on the Stockholm Stock Exchange during the five-day period prior to allotment. The volatility assumption is based on future assessments and the historic volatility of the Nobia share.

The consolidated income statement was charged with SEK 9 million (2) in 2006 pertaining to costs for these employee share options, including any costs for social security contributions.

**Employee share option scheme 2006-2010**

At the 2006 Annual General Meeting, a decision was made in accordance with the Board's proposal to implement an incentive scheme in the form of a performance-related employee share option scheme for 156 individuals comprising a total of 610,000 options.

The fair value of the options allotted in 2006 (employee share option scheme 2006-2010), determined by applying the Black and Scholes valuation model, was SEK 39.40. Important input data in the model was the share price of SEK 241.03 on allotment date, the exercise price detailed in the table below, the expected volatility of the share price of 26 per cent, the term of the options and the annual risk-free interest of 3.31 per cent. The value of the share is based on the volume-weighted average noted price paid on the Stockholm Stock Exchange during the five-day period prior to allotment. The volatility assumption is based on the historic volatility of the Nobia share.

The consolidated income statement was charged with SEK 6 million in 2006 pertaining to costs for these employee share options, including any costs for social security contributions.

Changes in the number of outstanding share options and their weighted average exercise price are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Average exercise price, SEK per share | Number of options | Average exercise price, SEK per share | Number of options |
| As per 1 January | 94.56 | 1,374,100 | 70.50 | 774,600 |
| Allotted | 265.10 | 610,000 | 124.70 | 610,000 |
| Forfeited | 156.00 | -96,500 | - | - |
| Exercised | 70.50 | -197,500 | 70.50 | -10,500 |
| **As per 31 December** | **155.42** | **1,690,100** | **94.56** | **1,374,100** |

Of the 1,690,100 outstanding options (1,374,100), a total of 566,600 options (764,100) were available for exercise. Exercised options in 2006 resulted in the issue of 197,500 shares (10,500) at SEK 70.50 per share.

The outstanding share options at year-end had the following expiry dates and exercise prices:

| | | Shares | |
|---|---|---|---|
| Expiry date | Exercise price | 2006 | 2005 |
| 22 May 2008 | 70.50 | 566,600 | 764,100 |
| 1 March 2009 | 124.70 | 535,000 | 610,000 |
| 1 March 2010 | 265.10 | 588,500 | - |
| | | **1,690,100** | **1,374,100** |

Further information regarding the employee share option scheme is provided in Note 4 Salaries, other remuneration and social security contributions.

## Note 20 Reserves in shareholders' equity

A specification of changes in shareholders' equity is provided on pages 34 and 37.

| SEK m | Translation differences | Hedging reserve | Total |
|---|---|---|---|
| **Opening balance as per 1 January 2005** | **-38** | **7** | **-31** |
| Exchange-rate differences attributable to translation of foreign operations | 158 | | 158 |
| Cash-flow hedges, after tax | | -7 | -7 |
| **Closing balance as per 31 December 2005** | **120** | **0** | **120** |
| **Opening balance as per 1 January 2006** | **120** | **0** | **120** |
| Exchange-rate differences attributable to translation of foreign operations | -136 | | -136 |
| Cash-flow hedges, after tax | | 3 | 3 |
| **Closing balance as per 31 December 2006** | **-16** | **3** | **-13** |

## Note 21 Earnings per share

**Earnings per share before dilution**
Earnings per share before dilution is calculated by dividing profit attributable to the Parent Company's shareholders by the weighted average number of outstanding ordinary shares during the period.

| | 2006 | 2005 |
|---|---|---|
| Profit attributable to Parent Company shareholders, SEK m | 864 | 640 |
| Weighted average number of outstanding ordinary shares before dilution | 57,823,220 | 57,673,928 |
| Earnings per share before dilution, SEK per share | 14.95 | 11.10 |

**Earnings per share after dilution**
To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares. These potential ordinary shares are attributable to the options that were subscribed for in May 2003 by senior executives in the Group and the employee stock options allotted to senior executives in 2005 and 2006. Refer also to Notes 4 and 19.

A dilution effect arises if the present value of the issue price is lower than the fair value of the ordinary shares. The dilution effect appears as the difference between the number of shares that the options holders are entitled to subscribe for, and the number of shares valued at the fair value, to which this subscription payment is equivalent. The difference is treated as an issue of shares for which the company does not receive any payment.

When calculating the dilution effect, a fair value per share based on the average for the year was applied. For the employee share option scheme 2003-2008 and 2005-2008 the fair value per share was SEK 226.79, and for the employee share option scheme 2006-2010, SEK 242.81. A discount rate corresponding to the risk-free interest with the same term as each option was applied, for which the average rate in 2006 was 3.7 per cent.

| | 2006 | 2005 |
|---|---|---|
| Weighted average number of outstanding ordinary shares | 57,823,220 | 57,673,928 |
| Employee share option scheme 2003, 2005, 2006 | 660,225 | 464,083 |
| Weighted average number of outstanding ordinary shares after dilution | 58,483,445 | 58,138,011 |
| Earnings per share after dilution, SEK per share | 14.78 | 11.01 |

## Note 22 Dividend per share

A dividend for 2006 of SEK 6 per share will be proposed to the Annual General Meeting to be held on 29 March 2007. Based on the number of shares at the end of 2006, this dividend proposal totals SEK 347 million. This amount has not been reported as a liability, but instead will be reported as an appropriation of profits under shareholders' equity for the 2007 fiscal year. The dividends paid in 2006 and 2005 amounted to SEK 202 million (SEK 3.50 per share) and SEK 173 million (SEK 3 per share) respectively. In addition, SEK 1 million (1) was paid to minority shareholders in subsidiaries.

## Note 23 Provisions for pensions

**Defined-benefit pension plans, Group**

| | Group | |
|---|---|---|
| **Provisions for pensions,** SEK m | 2006 | 2005 |
| Defined-benefit pension plans | 899 | 915 |

There are several defined-benefit pension plans within the Group, whereby the employee's right to remuneration after termination of employment is based upon the final salary and period of service. These plans are primarily found in the UK.

Commitments for old-age pensions and family pensions for salaried employees in Sweden are secured on the basis of insurance with Alecta. According to statement URA 42 from the Emergency Issues Task Force of the Swedish Financial Accounting Standards Council, this is a multi-employer defined-benefit plan. Since the Group did not have access to information in the 2006 fiscal year which would make it possible to report this plan as a defined-benefit plan, ITP pensions plans secured on the basis of insurance with Alecta have been reported as defined contribution plans. Fees for pension insurance with Alecta for the year amounted to SEK 3 million (3). At the end of 2006, Alecta's surplus, which can be distributed between the policy holder and/or the persons insured, amounted in the form of the collective consolidation level to 143 per cent (128). The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's actuarial calculation assumptions, which are not in agreement with IAS 19.

The amounts reported in the consolidated balance sheet have been calculated as follows:

| SEK m | 2006 | 2005 |
|---|---|---|
| Present value of funded obligations | 2,342 | 2,539 |
| Fair value of plan assets | -1,704 | -1,600 |
| | **638** | **939** |
| Present value of unfunded obligations | 100 | 97 |
| Unrecognised actuarial gains/losses (-) | 161 | -120 |
| **Net liability in balance sheet** | **899** | **915** |

The net liability for defined-benefit plans amounting to SEK 899 million (915) is reported in its entirety in the "Provisions for pensions" item in the consolidated balance sheet.

The largest portion of the net liability at the end of the year pertains to pension plans in the UK.

Changes in the defined-benefit pension commitments during the year were as follows:

| SEK m | 2006 | 2005 |
|---|---|---|
| At beginning of the year | 2,636 | 2,174 |
| Costs for service during current year | 29 | 32 |
| Interest expense | 122 | 117 |
| Contributions from plan participants | 4 | 4 |
| Actuarial losses/gains | -219 | 210 |
| Exchange-rate differences | -57 | 178 |
| Benefits paid | -73 | -79 |
| **Amount at year-end** | **2,442** | **2,636** |

## Note 23, continued

The change in fair value of plan assets during the year was as follows:

| SEK m | 2006 | 2005 |
|---|---|---|
| At beginning of the year | 1,600 | 1,276 |
| Expected return on plan assets | 82 | 79 |
| Actuarial losses/gains | 54 | 146 |
| Exchange-rate differences | -33 | 105 |
| Employer contributions | 65 | 64 |
| Employee contributions | 4 | 4 |
| Benefits paid | -68 | -74 |
| **Amount at year-end** | **1,704** | **1,600** |

The amounts reported in the consolidated income statement are as follows:

| SEK m | 2006 | 2005 |
|---|---|---|
| Costs for service during current year | 29 | 32 |
| Interest expenses | 122 | 117 |
| Expected return on plan assets | -82 | -79 |
| Actuarial net losses reported during the year | 2 | 1 |
| **Total** | **71** | **71** |

Costs in the consolidated income statement are divided between the following items:

| SEK m | 2006 | 2005 |
|---|---|---|
| Cost of goods sold | 4 | 3 |
| Selling expenses | 3 | 3 |
| Administrative expenses | 24 | 26 |
| Net financial items | 40 | 39 |
| **Total** | **71** | **71** |

Previously reported pension costs have been adjusted in the amount of SEK 39 million for changes in pension classifications. The net amount of interest on pension liabilities and the expected return on plan assets, previously reported under operating profit, are now reported as net financial items.

The actual return on the plan assets of the pension plans amounted to SEK 137 m (229).

Principal actuarial assumptions on the closing date:

| % | 2006 | 2005 |
|---|---|---|
| Discount rate | 5.2 | 4.8 |
| Expected return on plan assets | 6.1 | 5.8 |
| Future annual salary increases | 3.9 | 3.6 |
| Future annual pension increases | 2.9 | 2.6 |

Life expectancy:
The expected average number of years of life remaining after retirement at 65 years of age are as follows:

| | 2006 | 2005 |
|---|---|---|
| *On closing date* | | |
| Men | 19.7 | 18.2 |
| Women | 22.5 | 21.7 |
| *20 years after closing date* | | |
| Men | 21.3 | 19.7 |
| Women | 24.1 | 23.3 |

Plan assets comprise the following:

| % | 2006 | 2005 |
|---|---|---|
| Shares | 58 | 57 |
| Interest-bearing securities | 13 | 16 |
| Other | 29 | 27 |
| | **100** | **100** |

The expected return on plan assets was determined by taking into consideration the current level of expected return on risk-free investments, the historic estimated risk premium on the other assets encompassed by the investment policy in question and the estimate of expected future return for each type of asset. The expected return for each type of asset was weighted on the distribution of assets in the applicable investment policy.

Contributions to remuneration plans after employment has been completed are expected to amount to SEK 87 million for the 2007 fiscal year.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Present value of defined-benefit commitments | 2,442 | 2,636 | 2,174 |
| Fair value of plan assets | 1,704 | 1,600 | 1,276 |
| **Deficit** | **738** | **1,036** | **898** |
| Experience-based adjustments of defined-benefit commitments | 233 | 4 | - |
| Experience-based adjustments of plan assets | 54 | 148 | 17 |

The total pension cost reported in the consolidated income statement is as follows:

| **Pension costs,** SEK m | 2006 | 2005 |
|---|---|---|
| Total costs for defined-benefit plans | 29 | 32 |
| Total costs for defined-contribution plans | 104 | 94 |
| Costs for special employer's contribution and tax on returns from pension funds | 25 | 4 |
| **Total pension costs** | **158** | **130** |

**Defined-benefit pension plans, Parent Company**

| | Parent Company | |
|---|---|---|
| **Provision for pensions,** SEK m | 2006 | 2005 |
| Statutory provisions for the safeguarding of pension commitments FPG/PRI-pensions | 1 | 1 |

The costs reported in the Parent Company's income statement as follows:

| **Defined-benefit plans,** SEK m | 2006 | 2005 |
|---|---|---|
| Administration costs | 1 | 1 |

The total pension cost reported in the Parent Company's income statement is as follows:

| **Pension costs,** SEK m | 2006 | 2005 |
|---|---|---|
| Total costs for defined-benefit plans | 1 | 1 |
| Total costs for defined-contribution plans | 6 | 3 |
| Costs for special employer's contribution and tax on returns from pension funds | 2 | 1 |
| **Total pension costs** | **9** | **5** |

## Note 24 Deferred tax

A tax expense of SEK 39 million (4) is reported in the Group.

**The period's closing balance of deferred tax assets/tax liabilities**

**Deferred tax assets**

| | Group | |
|---|---|---|
| SEK m | 2006 | 2005 |
| Opening balance | 206 | 163 |
| Reclassifications | - | 27 |
| Acquisitions | 29 | 5 |
| Reported in income statement | -51 | -24 |
| Offset in tax jurisdiction | 0 | 9 |
| Exchange-rate differences | -10 | 24 |
| Other changes | 1 | 2 |
| **Closing balance** | **175** | **206** |

**Deferred tax liabilities**

| | Group | |
|---|---|---|
| SEK m | 2006 | 2005 |
| Opening balance | 186 | 151 |
| Reclassifications | - | 27 |
| Acquisitions | 51 | 11 |
| Reported in income statement | -12 | -28 |
| Offset in tax jurisdiction | - | 9 |
| Exchange-rate differences | -11 | 14 |
| Other changes | 0 | 2 |
| **Closing balance** | **214** | **186** |

**Closing balance of deferred tax assets/tax liabilities for the period**

Deferred tax assets and liabilities are offset when there is a legal right to offset for current tax assets and liabilities and when deferred tax pertains to the same tax authority.

**Deferred tax assets**

| | Timing differences | Loss carryforward | IAS 19 | Other | Offset | Total |
|---|---|---|---|---|---|---|
| **As per 1 January 2005** | **20** | **47** | **229** | **9** | **-142** | **163** |
| Reported in income statement | -1 | -26 | 6 | -3 | - | -24 |
| Reclassification | | 27 | | | | 27 |
| Reported in shareholders' equity | | | | 2 | | 2 |
| Acquisition of subsidiaries | 5 | | | | | 5 |
| Offset | | | | | 9 | 9 |
| Exchange-rate differences | 2 | 4 | 18 | | | 24 |
| **As per 31 December 2005** | **26** | **52** | **253** | **8** | **-133** | **206** |
| Reported in income statement | -25 | -25 | -1 | | | -51 |
| Acquisition of subsidiaries | 29 | | | | | 29 |
| Other | | | | 1 | | 1 |
| Exchange-rate differences | -2 | -3 | -5 | | | -10 |
| **As per 31 December 2006** | **28** | **24** | **247** | **9** | **-133** | **175** |

**Deferred tax liabilities**

| | Timing differences | Revaluation | Other | Offset | Total |
|---|---|---|---|---|---|
| **As per 1 January 2005** | **107** | **135** | **51** | **-142** | **151** |
| Reported in income statement | -3 | -5 | -20 | | -28 |
| Reclassification | | | 27 | | 27 |
| Reported in shareholders' equity | | | 2 | | 2 |
| Acquisition of subsidiaries | | 11 | | | 11 |
| Other | -21 | | 21 | | 0 |
| Offset | | | | 9 | 9 |
| Exchange-rate differences | 5 | 6 | 3 | | 14 |
| **As per 31 December 2005** | **88** | **147** | **84** | **-133** | **186** |
| Reported in income statement | 7 | -9 | -10 | | -12 |
| Reclassification | -5 | | 5 | | 0 |
| Acquisition of subsidiaries | | 43 | 8 | | 51 |
| Exchange-rate differences | -3 | -6 | -2 | | -11 |
| **As per 31 December 2006** | **87** | **175** | **85** | **-133** | **214** |

The loss carryforward is primarily attributable to Germany and the US and expires in 2011 or later. The value of the loss carryforward for which a deferred tax asset is not recognised amounts to SEK 21 million (26), and is primarily attributable to the US.

Nobia does not recognise any deferred tax attributable to temporary differences relating to investments in subsidiaries or associated companies. Any future effects (withholding tax and other deferred tax for profit taking within the Group) are reported when Nobia is no longer able to govern the reversal of such differences or when, for other reasons, it is no longer improbable that reversals will be made in the foreseeable future. These possible future effects are not deemed to have any relation to the overall amount of the temporary differences.

## Note 25 Provisions

| | Unutilised tenancy rights | Dilapidations | Guarantee commitments | Other long-term employee-benefits | Other | Total |
|---|---|---|---|---|---|---|
| **As per 1 January 2006** | **32** | **0** | **5** | **44** | **1** | **82** |
| Expensed in the consolidated income statement | | | | | | |
| – Additional provisions | 98 | 10 | 6 | 1 | 5 | 120 |
| – Reversed unutilised amounts | -10 | 0 | | -1 | 0 | -11 |
| Acquisitions | | | | 5 | 4 | 9 |
| Translation differences | 1 | | 0 | -1 | 2 | 0 |
| Utilised during the year | -19 | -1 | -5 | -4 | -2 | -31 |
| **As per 31 December 2006** | **100** | **9** | **6** | **44** | **10** | **169** |

## Note 26 Liabilities to credit institutions

| **Maturity structure,** SEK m | 2006 | 2005 |
|---|---|---|
| Within 1 year | 0 | 2 |
| Between 1 and 5 years | 1,600 | 1,101 |
| Longer than 5 years | 0 | 0 |
| **Total** | **1,600** | **1,103** |

The total of liabilities to credit institutions includes secured liabilities in the amount of SEK 0 million (1). Mortgages for buildings and land in the Group totalling SEK 0 million (9) have been pledged as collateral for bank loans, see Note 12.

## Note 27 Accrued expenses and deferred income

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Bonuses to customers | 91 | 74 | - | - |
| Accrued salary-related expenses | 271 | 164 | 16 | 10 |
| Accrued interest | 2 | 1 | - | - |
| Rents | 89 | 71 | - | - |
| Other accrued expenses | 472 | 262 | 0 | 0 |
| **Total** | **925** | **572** | **16** | **10** |

## Note 28 Pledged assets

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| For liabilities to credit institutions | | | | |
| Floating charges | 1 | - | - | - |
| Property mortgages | 0 | 9 | - | - |
| **Total pledged assets** | **1** | **9** | **-** | **-** |

## Note 29 Contingent liabilities and commitments

The Group has contingent liabilities pertaining to sub-contractor guarantees, pension liabilities, bank guarantees for loans and other guarantees and other considerations that arise in the normal commercial operations. No significant liabilities are expected to arise through these contingent liabilities. Concerning current tax cases, the company has appealed a decision made by the Swedish National Tax Board to the County Administrative Court. The company has made an assessment and decided not to establish a provision for this ongoing tax case. The amounts involved are not considered to have any significant effect on the company's results or financial position.

In its normal business activities, the Group and the Parent Company have made the following guarantees and contingent liabilities:

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK m | 2006 | 2005 | 2006 | 2005 |
| Securities for pension commitments | 0 | 0 | 10 | 10 |
| Other contingent liabilities | 93 | 93 | 1,822 | 1,330 |
| **Total** | **93** | **93** | **1,832** | **1,340** |

The Group has not identified any commitments other than those reported in the financial statements.

## Note 30 Corporate acquisitions

On 18 February 2006, Nobia acquired 100 per cent of the share capital in French kitchen company Hygena Cuisines SA from MFI UK Ltd. This chain store sells kitchens under the Hygena brand.

The acquired unit contributed revenue of SEK 1,788 million and net profit of SEK 99 million to the Group for the period 18 February to 31 December 2006.

If the acquisition had taken place on 1 January 2006, the Group's revenues would have amounted to SEK 15,855 million and net profit for the year to SEK 829 million. These amounts have been calculated by applying the Group's accounting principles and by adjusting profit in the subsidiaries so that it includes additional depreciation that would have been made if the fair value adjustments of tangible fixed assets and intangible assets had been made on 1 January 2006, together with the accompanying tax consequences.

Nobia acquired the EWE-FM business unit in 2005.

| **Acquired net assets and goodwill,** SEK m | 2006 | 2005 |
|---|---|---|
| Purchase price including acquisition costs | 1,250 | 317 |
| Additional purchase price | - | 17 |
| Fair value of acquired net assets | -391 | -132 |
| **Goodwill** | **859** | **202** |

Goodwill is attributable to the estimated future profit-generating ability. No specific intangible asset, other than goodwill, was identified in the acquisition analysis.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **Assets and liabilities included in the acquisition**, SEK m | Fair value | Acquired book value | Fair value | Acquired book value |
| Cash and cash equivalents | 166 | 166 | 0 | 0 |
| Tangible fixed assets | 512 | 388 | 155 | 114 |
| Intangible assets | 55 | 55 | 1 | 1 |
| Financial assets | 19 | 19 | 11 | 11 |
| Inventories | 101 | 98 | 42 | 42 |
| Receivables | 91 | 91 | 65 | 65 |
| Liabilities | -188 | -188 | -94 | -94 |
| Other provisions | -9 | -4 | -40 | -31 |
| Guarantee provisions | - | - | -1 | -4 |
| Financial liabilities | -334 | -334 | -1 | -1 |
| Deferred taxes, net | -22 | - | -6 | 3 |
| **Acquired net assets** | **391** | **291** | **132** | **106** |

| SEK m | 2006 | 2005 |
|---|---|---|
| Purchase price settled in cash | 1,250 | 317 |
| Cash and cash equivalents in acquired subsidiaries | -166 | 0 |
| **Change in the Group's cash and cash equivalents in conjunction with acquisitions** | **1,084** | **317** |

## Note 31 Related-party transactions

No sales of goods were made to and no purchases of goods were made from the Parent Company to other Group companies during the year. However, Group-wide services are invoiced to subsidiaries.

Goods were purchased from associated companies during the year. The closing balance at the end of the year as a result of these purchases amounts to SEK 8 million (5), refer also to Note 14.

Remuneration was paid to senior executives during the year, refer also to Note 4.

## Note 32 Average number of employees

| | 2006 | | 2005 | |
|---|---|---|---|---|
| Subsidiaries | Average no.of employees | Of whom men | Average no. of employees | Of whom men |
| Sweden | 674 | 519 | 592 | 480 |
| Denmark | 1,239 | 945 | 1,102 | 820 |
| Norway | 481 | 254 | 463 | 257 |
| Finland | 520 | 362 | 497 | 337 |
| Germany | 966 | 765 | 974 | 753 |
| Austria | 470 | 382 | 465 | 371 |
| UK | 2,601 | 2,048 | 2,378 | 1,923 |
| France | 924 | 468 | 4 | 2 |
| USA | 70 | 43 | 75 | 42 |
| Switzerland | 23 | 17 | 23 | 16 |
| **Group** | **7,968** | **5,803** | **6,573** | **5,001** |

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Number on closing date | Of whom men | Number on closing date | Of whom men |
| Board members | 79 | 92% | 66 | 85% |
| President and other senior executives | 106 | 96% | 98 | 95% |
| **Group** | **185** | **95%** | **164** | **91%** |

Several people are members of more than one of the subsidiaries' Board of Directors or management groups.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Number on closing date | Of whom men | Number on closing date | Of whom men |
| Board members | 11 | 82% | 10 | 80% |
| President and other senior executives | 7 | 100% | 7 | 100% |
| **Parent Company** | **18** | **89%** | **17** | **88%** |

## Note 33 Events after closing date

At the beginning of February 2007, the joint venture Culinoma AG was founded together with the Dutch kitchen company DeMandemakersGroep Holding BV with the aim of developing a leading position in stores in Germany. Culinoma signed agreements for the acquisition of all of the shares in Plana Küchenland GmbH. Plana is a franchise chain with 38 stores, primarily in southern Germany and has net sales in stores of approximately EUR 70 million.

Plana Küchenland is Culinoma's first step into the kitchen retail trade in Germany. The acquisition of Plana is conditional on the approval of the appropriate competition authorities which is the reason that no acquisition analysis has been presented.

To the best of our knowledge, the Annual Report has been prepared in accordance with the generally accepted accounting principles for listed companies, the information presented agrees with actual conditions and nothing of significance has been omitted that could affect the perception of the Group conveyed by the Annual Report.

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on 29 March 2007 for adoption.

Stockholm, 2 March 2007

Hans Larsson
*Chairman*

Stefan Dahlbo    Bodil Eriksson    Wilhelm Laurén    Harald Mix

Thomas Nilsson    Ingrid Osmundsen    Fredrik Palmstierna

Fredrik Cappelen
*President*

Per Bergström
*Employee representative*

Olof Harrius
*Employee representative*

Our Audit Report was submitted on 2 March 2007

Öhrlings PricewaterhouseCoopers AB

Robert Barnden
*Authorised Public Accountant*

# Audit Report

## To the Annual General Meeting of the shareholders of Nobia AB
## Corporate Registration Number 556528-2752

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Nobia AB for the year 2006 (page 20-52). The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated financial statements. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the annual accounts and the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated financial statements as well as evaluating the overall presentation of information in the annual accounts and the consolidated financial statements. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated financial statements have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated financial statements.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, 2 March 2007

Öhrlings PricewaterhouseCoopers AB

Robert Barnden
*Authorised Public Accountant*

# The share and shareholders

### Price trend and turnover

Nobia's share price rose by 64 per cent from SEK 161 on 30 December 2005 to SEK 263.50 on 29 December 2006. During the same period, the Affärsvärlden General Index rose by 24.5 per cent and the Stockholm Stock Exchange's index for manufacturers of consumer discretionary products and services (SX25 Consumer Discretionary) rose by approximately 24 per cent. The highest and lowest prices during the year were SEK 265 and SEK 146 respectively. The total market capitalisation as per 29 December 2006 was SEK 15,244 million. A total of 49,231,153 Nobia shares were traded on the Stockholm Stock Exchange in 2006. The turnover rate, or number of shares traded in relation to the total number of shares in the company, was 85 per cent.

### Index affiliation

Nobia is included in the Stockholm Stock Exchange's index for manufacturers of consumer discretionary products and services (SX25 Consumer Discretionary) in the Home Improvement Retail subgroup. Nobia is found in the Consumer Discretionary sector of the Nordic Large Cap segment of the Stockholm Stock Exchange.

### Share facts

Nobia AB's share capital amounts to SEK 57,850,220, distributed between 57,850,200 shares, each with a par value of SEK 1. Each share entitles the holder to one vote. All of the shares carry the same entitlement to the company's assets and profits. One trading lot consists of 50 shares. Nobia was listed on the Stockholm Stock Exchange's O-list on 19 June 2002.

### Ownership structure

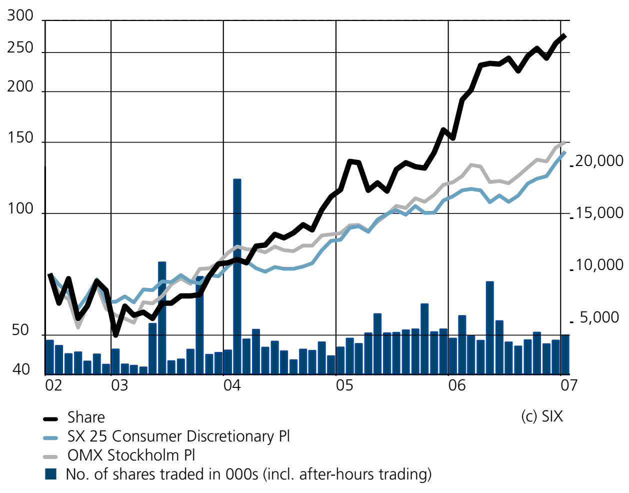
On 31 December 2006, Nobia had 5,097shareholders. The ten largest owned 47.8 per cent of the capital and votes. Foreign owners held 30.7 per cent of the share capital and Swedish institutional shareholders owned 60.1 per cent. The seven members of Nobia's Group management had combined holdings of 1,255,300 Nobia shares at the end of the year, corresponding to 2.2 per cent of the capital and votes. Nobia's Board members held 707,367 shares in the company at the end of the year, corresponding to 1.2 per cent of the capital and votes.

## Nobia's ten largest owners, 31 December, 2006

| | No. of shares | Share of capital and votes, % | Accumulated share, % |
|---|---|---|---|
| Säkl | 6,177,253 | 10.7 | 10.7 |
| Öresund | 4,508,900 | 7.8 | 18.5 |
| IF Skadeförsäkring | 3,614,200 | 6.2 | 24.7 |
| Swedbank Robur | 3,595,854 | 6.2 | 30.9 |
| AMF pension funds | 2,430,450 | 4.2 | 35.1 |
| Columbia funds | 1,803,000 | 3.1 | 38.2 |
| AMF pension | 1,530,100 | 2.6 | 40.8 |
| SEB funds | 1,443,300 | 2.5 | 43.3 |
| SHB/SPP funds | 1,317,266 | 2.3 | 45.6 |
| H & Q funds | 1,291,300 | 2.2 | 47.8 |
| **Total** | **27,711,620** | **47.8** | |

Source: VPC/SIS Ownership Data Corp.

## Share price trend




## Data per share

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Earnings per share before dilution, SEK | 7.83 | 5.86 | 10.27 | 11.10 | 14.95 |
| Earnings per share after dilution, SEK | 7.53 | 5.84 | 10.23 | 11.01 | 14.78 |
| Dividend per share, SEK | 2.25 | 2.25 | 3.00 | 3.50 | 6.00[1)] |
| Most recent price paid, SEK | 64.50 | 75.00 | 110.00 | 161.00 | 263.50 |
| Yield, % | 3.5 | 3.0 | 2.7 | 2.2 | 2.3 |
| P/E ratio | 9 | 13 | 11 | 15 | 18 |
| Shareholders' equity per share, SEK | 45 | 46 | 44 | 55 | 64 |

1) In accordance with Board proposal.

**Share-related incentive schemes**
In 2003, senior executives and key individuals in the Nobia Group were given the opportunity to take part in a five-year share option scheme. A total of 91 people acquired a total of 774,600 share options to subscribe for new shares in Nobia AB. The issue price was set at SEK 70.50 and the options were issued on 22 May 2005. The options will expire on 22 May 2008 and can be exercised to subscribe for shares during the period 22 May 2006 to 22 May 2008. At the end of 2006, 181,000 options had been exercised to subscribe for new shares.

In accordance with a decision by the Annual General Meeting, performance-related employee share option schemes were implemented in 2005 and 2006. The programmes encompass a total of 610,000 options for each year. In brief, the terms and conditions are identical for both programmes: the employee shall remain employed with the company when the options are exercised. The number of issued share options depends on the annual increase in earnings per share. If the annual increase in earning per share is less than 5 per cent, no options are issued. If the increase exceeds 5 per cent, the allotment increases on a rising scale and at 15 per cent, 100 per cent of the number of employee share options will be issued.

**Buy-back**
At the beginning of 2006, Nobia owned none of its own shares.

**Dividend policy**
The Board's intention is for Nobia, on average, to pay a dividend corresponding to at least 30 per cent of profit after tax. When preparing dividend proposals, the Board considers investment requirements, the financial position of the company, the earnings trend and the outlook for the next few years. For the 2006 fiscal year, the Board proposes a dividend of SEK 6 per share, corresponding to 40 per cent of net profit for the year or SEK 347 million.

**Analysis**
The following securities brokers and banks presented analyses of Nobia during the year: ABG Sundal Collier, Carnegie Investment Bank, Hagströmer & Qviberg, Nordea, Swedbank, SEB Enskilda and Svenska Handelsbanken.

## Ownership structure, 31 December, 2006

| | No. of shares | No. of shareholders | Percentage of shares, % | Percentage of shareholders, % |
|---|---|---|---|---|
| 1-500 | 628,006 | 3,270 | 1.1 | 64.16 |
| 501-1,000 | 645,435 | 753 | 1.1 | 14.77 |
| 1,001-2,000 | 578,708 | 354 | 1.0 | 6.95 |
| 2,001-5,000 | 993,241 | 287 | 1.7 | 5.63 |
| 5,001-10,000 | 908,911 | 119 | 1.6 | 2.33 |
| 10,001-20,000 | 1,299,938 | 86 | 2.2 | 1.69 |
| 20,001-50,000 | 2,937,242 | 89 | 5.1 | 1.75 |
| 50,001-100,000 | 3,291,807 | 45 | 5.7 | 0.88 |
| 100,001- | 46,566,935 | 94 | 80.5 | 1.84 |
| | **57,850,220** | **5,097** | **100.0** | **100.00** |

## Change in share capital

| Year | Transaction | Change in no. of shares | Change in share capital | Total share capital | Total number of shares | Par value |
|---|---|---|---|---|---|---|
| 1995 | Company formed | 10,000 | 100,000 | 100,000 | 10,000 | 10 |
| 1996 | New issue | 2,990,000 | 29,900,000 | 30,000,000 | 3,000,000 | 10 |
| 1997 | New issue | 126,220 | 1,262,200 | 31,262,200 | 3,126,220 | 10 |
| 1998 | New issue | 4,425 | 44,250 | 31,306,450 | 3,130,645 | 10 |
| 2000 | Non-cash issue[1)] | 987,636 | 9,876,360 | 41,182,810 | 4,118,281 | 10 |
| 2000 | Non-cash issue[2)] | 509,123 | 5,091,230 | 46,274,040 | 4,627,404 | 10 |
| 2001 | Non-cash issue[1)] | 989 | 9,890 | 46,283,930 | 4,628,393 | 10 |
| 2001 | New issue | 26,684 | 266,840 | 46,550,770 | 4,655,077 | 10 |
| 2002 | New issue | 297,944 | 2,979,440 | 49,530,210 | 4,953,021 | 10 |
| 2002 | New issue | 113,901 | 1,139,010 | 50,669,220 | 5,066,922 | 10 |
| 2002 | Split 10 to 1 | 45,602,298 | - | 50,669,220 | 50,669,220 | 1 |
| 2002 | New issue | 7,000,000 | 7,000,000 | 57,669,220 | 57,669,220 | 1 |
| 2005 | New issue | 10,500 | 10,500 | 57,679,720 | 57,679,720 | 1 |
| 2006 | New issue | 170,500 | 170,500 | 57,850,220 | 57,850,220 | 1 |

1) Refers to Poggenpohl acquisition.
2) Refers to Norema/Invita acquisition.

# Corporate Governance Report

*This report is unaudited.*

Nobia applies the Swedish Code of Corporate Governance, which was introduced on 1 July 2005. Nobia follows the Code with one exception with regard to audit committees. The matter of an audit committee was addressed at the 2004 Annual General Meeting at which the Meeting agreed with the Board's decision that it was important that internal-control issues be addressed by the Board in its entirety. The purpose of this is to ensure that individual members are not isolated from these issues. The Board continues to uphold this opinion regarding how audit issues should be managed in Nobia. Work performed by the Board on audit and internal-control issues is regulated by the Board's rules of procedure and is described in more detail below.

Nobia's Articles of Association regulate the object of the operations, share capital and how and when notification of the Annual General Meeting is to take place. The full text of the Articles of Association is available from the Nobia website, www.nobia.com.

The share capital in Nobia AB on 31 December 2006 amounted to SEK 57,850,220 divided between the same number of shares in one class of share. The par value (previously nominal value) is SEK 1 per share. All shares entail equal rights to a share in the company's assets and profits. The Nobia share and ownership structure are described in more detail on pages 54-55.

### 2006 Annual General Meeting

The 2006 Annual General Meeting was held on 29 March 2006 at Södra Paviljongen in Stockholm. Board Chairman Hans Larson was elected Chairman of the Meeting. The Meeting adopted the Board's proposal regarding the appropriation of profits. The Meeting also adopted the Nomination Committee's proposal regarding that the number of Board members should be nine without alternates, the fees for the Board and the Board Chairman, and the election of Board members. Fredrik Palmstierna was elected as a new Board member. All of the Board members were re-elected. The Stockholm Stock Exchange's Listing Agreement contains certain requirements regarding the composition of the Board of Directors. According to these requirements, the majority of the Board members elected by the Annual General Meeting shall be independent in relation to the company. Furthermore, at least two of these Board members shall also be independent in relation to the company's largest shareholders. Nobia's Board of Directors fulfils these requirements.

### Nomination Committee

In accordance with a decision of the Annual General Meeting, the Chairman of the Board is responsible for convening the company's four largest shareholders not later than the end of the third quarter, each of whom shall appoint one member of the Nomination Committee. Should any of the four largest shareholders refrain from appointing a member, the next largest owner shall be presented with the opportunity to appoint a member. The Nomination Committee should be chaired by an owner representative, although the Chairman of the Board may be elected a member of the Committee and its Chairman. The tasks of the Nomination Committee are to submit proposals to the Annual General Meeting on the election of the Board of Directors, the Chairman and, when applicable, auditors, and on fees for the Board of Directors, the Chairman and auditors. In addition, the Nomination Committee shall submit proposals to the Annual General Meeting on decisions for the principles of the composition of the Nomination Committee and proposals for the Chairman of the Annual General Meeting. Information regarding the members of the Nomination Committee and how proposals can be submitted is available at www.nobia.com and in the interim report for the third quarter. The complete minutes from the Annual General Meeting are available at www.nobia.com.

The members of the Nomination Committee for 2006-2007 are: Erik Törnberg from Öresund (Chairman of the Nomination Committee), Fredrik Palmstierna from SäkI, KG Lindvall from Robur, Jan-Erik Erenius from AMF and, following a decision by the other members of the Nomination Committee, Board Chairman Hans Larsson. No remuneration is paid to the Committee members. The basis of the Nomination Committee's work was the company's strategies and priorities and an evaluation of the Board, its size and composition.

The basis of the Nomination Committee's proposal regarding the election of auditors was the preparatory work undertaken by the Board.

The Nomination Committee's proposals regarding the election of Board members, Board Chairman and auditors are presented in the notice to attend the Annual General Meeting and are simultaneously published on Nobia's website.

### Work of the Board of Directors

The Board of Directors of Nobia AB comprises nine standard Board members elected by the Annual General Meeting and two Board members with two alternates appointed by the employees. A presentation of the Board members is found in the Annual Report on pages 60-61. The President is a member of the Board. Other executives in the company participate at Board meetings to make presentations and to serve as Secretary. The Board held seven scheduled meetings and four extraordinary meetings during the 2006 fiscal year.

The work of the Board of Directors follows a fixed agenda for each Board meeting including such matters as business status, investments, budget, interim reports and annual accounts. The Chairman leads and delegates the work of the Board and ensures that matters not included in the fixed agenda are addressed. The Board's work is also regulated by the rules of procedure adopted annually by the Board governing the distribution of duties between the Board and the President. In 2006, the Board's work focused on discussing issues concerning Group strategy, financial target and matters pertaining to acquisitions. In the autumn, the Board also worked particularly with the preparation of the Nomination Committee's proposals regarding election of auditors prior to the 2007 Annual General Meeting. The Secretary at the Board meetings was Lennart Rappe, Executive Vice President. Attendance at Board meetings during the year was high.

An evaluation of the Board with assistance from external consultants was conducted in 2005. An internal follow-up was performed in 2006 and measures were taken as a result of this follow-up. An evaluation of the President was performed in 2006.

The Board does not have a separate audit committee. Instead, the Board in its entirety strives to maintain a close relationship with the company's auditors to ensure that the Board satisfactorily monitors significant issues concerning the company's accounts, accounting routines, management of the company's assets and level of internal control. Internal control issues to be discussed by the Board are addressed by the Board in its entirety. To ensure that the Board's information requirements are met in this respect, the company's auditors report to the Board at least three times a year. Part of the auditors' presentation of information to the Board takes place in the absence of the company's executives. The form in which these reports are to be prepared is documented in the Board's rules of procedure.

The audit process is structured such that reports from the auditors are received in connection with the planning of future audits, in conjunction with hard-close audits and finally, in conjunction with the adoption of the annual accounts. In addition, the auditors also present an annual account of the consulting assignments that have been performed by the audit firm as well as the auditors' independence in relation to the company and its management.

In 2006, this meant that the focus and scope of the audit was presented at the Board meeting in August. The audit also took particular consideration of the risk perspective regarding internal control. A decision was made to carry out specific audit efforts regarding the internal control of the self-assessment that the company performs annually.

At the meeting in December, the auditors presented their observations from the hard-close audit. Particular emphasis was placed on the results of the auditors' examination of the internal control. The auditors also performed a special examination of company management costs. The examination of the annual accounts was presented at the Board meeting in February 2007.

#### Remuneration Committee

The Board appoints a Remuneration Committee from within its ranks, which for the period until the 2007 Annual General Meeting comprises Hans Larsson (Chairman), Bodil Eriksson and Thomas Nilsson. No remuneration is paid to the Committee members. The Committee's task is to prepare proposals to the Board relating to the company's remuneration programme (pension policy, employee share option scheme, bonus scheme, etc.) and also the remuneration and employment terms for the President. The Committee also has the task of making decisions on the President's proposals regarding remuneration and other employment terms for the managers who report to the President. In addition, the Committee shall ensure that the company has an adequate programme to ensure the supply of managers and their development, and a model for evaluating the performance of the President. The Committee also submits proposals to the Annual General Meeting regarding principles for remuneration and other employment terms for company managers. The Committee held six meetings during the year.

#### Remuneration to senior management

All senior managers in the management group are offered a basic salary supplemented with variable remuneration comprising a maximum of 30 per cent of annual salary when individual targets are met. For the President and members of Group management employed in the UK, this variable salary portion may total a maximum of 50 per cent of annual salary. The management group has also been offered the opportunity to subscribe for options as part of the employee share option scheme described in more detail in Note 4. The remuneration and benefits of senior managers are also described in Note 4 on page 42.

#### Group management

Group management, refer to page 62, holds monthly group-management meetings led by the President. In addition to these meetings, a larger group entitled the Advisory Board meets on several occasions during the year. This Advisory Board includes Group management and all business unit managers. The meetings follow a fixed agenda and minutes are taken.

For the purpose of enhancing implementation in both growth and co-ordination, it was decided in 2006 to group the business units in three regions. Together with the President and/or CFO, the regional managers meet the entire management group of each business unit three times at year at local meetings.

Group management strives to maintain close contact with each business unit so as to support and provide assistance and tools for increasing efficiency and marketing, business development and internal exchanges of experience.

### Auditors

Öhrlings PricewaterhouseCoopers AB was elected as the company's auditors in 2003 and has held this assignment since 1996. The Auditor in Charge is Robert Barnden, Authorised Public Accountant. The interaction of the auditors with the Board is described above. Nobia's purchases of services from this firm, in addition to audit assignments, are described in Note 5, page 43.

The 2007 Annual General Meeting will elect auditors for the forthcoming four-year period.

### Report on the internal control over the financial reporting

The report on the internal control over the financial reporting has been prepared in accordance with the aims of Chapter 3.7.2 of the Swedish Code of Corporate Governance and the application instructions decided by the Swedish Corporate Governance Board in September 2006. Accordingly, this report on the internal control does not include any statement on the function of the internal control and has not been examined by the company's auditors.

### Control environment and steering documents

Nobia builds and organises its operations based on decentralised responsibility for each brand and its entire value chain. Nobia's intentions regarding this decentralised responsibility for profitability and internal control through benchmarking are described in the Strategy section of the Annual Report on page 9.

The basis for the internal control over the financial reporting is the control environment that comprises the company's organisation, decision-making procedures, authority and responsibility, as documented and communicated in steering documents such as internal policies, guidelines, manuals and codes. Examples include the division of responsibility between the Board on the one hand and the President and other bodies established by the Board on the other, instructions for attestation rights and instructions for accounting and reporting.

All documentation concerning principles and methods for reporting, internal controls and monitoring are collected in Nobia's Financial & Administration Manual.

Each business unit manager is ultimately responsible for maintaining a high level of internal control, and the finance manager at each unit is responsible for following up and ensuring daily compliance with Nobia's accounting procedures and principles. These instructions are included in the aforementioned manual.

### Risk management

The company has introduced methods for risk assessment and risk management to ensure that the risks to which the company is exposed are managed within the established frameworks.

The risks identified concerning financial reporting are managed in the company's control structure and are monitored and assessed continuously by the company. One of the tools used for this purpose is self-assessment, which is performed and evaluated annually, and is subject to a separate examination by the company's auditors. The company has introduced routines for special controls concerning IFRS requirements.

### Financial information

The company has established information and communication channels in order to support the completeness and accuracy of the financial reporting, for example through steering documents in the form of internal policies, guidelines, manuals and codes regarding the financial reporting applied by the appropriate employees.

The company monitors compliance with these steering documents and measures the efficiency of control structures. In addition, the company's information and communication channels are monitored to ensure that these channels are appropriate for the financial reporting. Furthermore, the company has developed checklists to ensure full compliance with the disclosure requirements in the financial statements.

### Monitoring by the Board

The outcome of the company's risk assessment and risk management processes is addressed each year by the Board, which ensures that these processes include all material areas and provide balanced guidelines for the various executives.

The Board receives monthly financial reports and each Board meeting addresses the company's and Group's financial position.

The company's Internal Control function, which is an integrated part of the central Finance function, has performed reviews of the internal control and its work follows a plan approved by the Board. The results of these reviews, measures to be taken and their status are reported to the Board.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# Board of Directors and auditors

**1. HANS LARSSON**
Born 1942, B.Sc. Business Economics. Chairman since 1998, Board member since 1996. Chairman of Remuneration Committee.
Independent.
Board assignments: Chairman of Biolight International, Attendo Holding and Creval Partners. Vice Chairman of Svenska Handelsbanken. Other Board memberships include Holmen and Dynea.
Previous employment: President of Swedish Match, Esselte and Nordstjernan. Previous chairmanships include Sydsvenska Kemi, NCC, Bilspedition/BTL and Althin Medical.
Holding in Nobia:130,000 shares.

**2. FREDRIK CAPPELEN**
Born 1957, B.Sc. Business Administration. President and CEO of Nobia since 1995. Employed at Nobia since 1995.
Dependent in relation to the company
Board assignments: Board member of Munksjö, Byggmax, ICC and Association of Stock Market Companies.
Previous employment: marketing director of Stora Finepaper, President of Kaukomarkkinat International Sweden and Norway, and President of Kaukomarkkinat Oy Germany.
Holding in Nobia: 300,700 shares, 40,000 share options, 45,000 employee share options and 150,000 call options.

**3. STEFAN DAHLBO**
Born 1959, B.Sc. Business Administration. Board member since 2004, President of Investment AB Öresund.
Independent.
Board assignments: Chairman of Klövern. Board member of HQ AB and Fabege.
Previous employment: President of Hagströmer & Qviberg, President of Hagströmer & Qviberg Fond- och Kapitalförvaltning. Alfred Berg Fondkommission.
Holding in Nobia AB: 8,800 shares.

**4. BODIL ERIKSSON**
Born 1963, Berghs School of Communication.
Board member since 2003. Member of Remuneration Committee, Senior Vice President, Communications and Investor Relations at SCA.
Independent.
Board assignments: Board member of Hemtex and Oriflame Cosmetics S.A.
Previous employment: Vice President Axfood, Communications Director Volvo Cars.
Holding in Nobia: 300 shares.

**5. WILHELM LAURÉN**
Born 1943, B.Sc. Economics. Board member since 1996.
Independent.
Board assignments: Chairman of Swedestart Life Science kb and Elektrokoppar Holding. Other Board memberships include Ostnor.
Previous employment: Vice President and CFO Fläktgruppen and Vice President ABB.
Holding in Nobia: 30,000 shares.

**6. HARALD MIX**
Born 1960, B.Sc Mathematics and Economics, MBA. Board member since 1996. Partner of Altor Equity Partners.
Independent.
Board assignments: Board member of Aalborg Industries, Carlssons school, Dynapac, Ferrosan, Lindorff Group, Relacom, Piab, Dustin, Dansk Cater and Sweden American Foundation.
Previous employment: Vice President of Industri Kapital.
Holding in Nobia: 200,000 shares.

**7. THOMAS NILSSON**
Born 1948, B.Sc. Business Administration. Board member since 1998, independent. Member of Remuneration Committee. President of Firesteed Capital Limited.
Independent.
Board assignments: Board member of Chinsay, Dyconex AG, Kandia N.V. and ScandiNova Systems.
Previous employment: President of Export-Invest, President of Investor UK Ltd and member of Investor's management team, Partner and Director of European Private Equity at Thomas Weisel Partners LLC. Chairman of Förvaltnings AB Hasselfors and Gunnebo. Other Board memberships include WM-Data AB, TV4 and Svenska Dagbladet. Holding in Nobia: 37,000 shares.

**8. INGRID OSMUNDSEN**
Born 1961, B.A. Psychology. Board member since 2004. COO of Europe Claires Inc.
Independent.
Previous employment: President of Wedins Skor och Accessoarer, Sweden Manager of Lindex, Purchasing Manager at Nike Retail, Business Area Manager Eastern Europe at Nike, Purchasing Manager at Meier & Frank.
Holding in Nobia: 350 shares.

**9. FREDRIK PALMSTIERNA**
Born 1946, B.Sc. Business Administration, MBA. Board member since 2006. President of SäkI AB since 1997.
Dependent in relation to major shareholder.
Board assignments: Board member of Securitas, SäkI, Investment AB Latour, Hultafors, Fagerhult and Academic Work.
Holding in Nobia: 100,000 shares.

**13. PATRIK PERSSON**
Born 1973. Alternate Board member, employee representative since 2003. Employed at Myresjökök since 1992.
Holding in Nobia: 0.

**10. PER BERGSTRÖM**
Born 1960. Employee representative since 2000. Employed at Marbodal since 1976.
Holding in Nobia AB: 217 shares.

**11. OLOF HARRIUS**
Born 1949. Employee representative since 1998. Employed at Marbodal since 1971.
Holding in Nobia AB: 0.

**12. INGA ANDERSEN**
Born 1951. Alternate Board member, employee representative since 2000. Employed at HTH Køkkener A/S since 1973.
Board assignments HTH Køkkener A/S.
Holding in Nobia AB: 0.

## Auditors

**ÖHRLINGS PRICEWATERHOUSECOOPERS AB**
Auditor in charge: Authorised Public Accountant

**ROBERT BARNDEN**
Born 1946. Auditor for Nobia since 1996. Other auditing assignments: SCA and Seco Tools, deputy auditor for Ericsson and Acando.

Holdings in Nobia as per 31 December 2006.

# Group Management

**BO JOHANSSON**
Born 1965. Executive Vice President Supply Chain (production, purchasing and logistics) since 2005. Joined Nobia in 2005.
Previous employment: Production manager and sales manager at Swedform Metall, business development manager Europe and global accounts at Flextronics Enclosures Europe and sales director at Europe Flextronics International.
Holding in Nobia: 7,600 shares, 28,000 employee share options and 15,000 call options.

**EGIL WOLD**
Born 1947. Executive Vice President Operations with responsibility for the Nordic business since 2006. Joined Nobia in 1995.
Previous employment: Various positions within HTH in Norway and Sweden since 1981, marketing director of Sigdal, head of Swedoor's and Nobia's business in Norway and Business Unit Manager for Sigdal.
Holding in Nobia: 185,000 shares, 27,000 share options, 23,000 employee share options and 30,000 call options.

**FREDRIK CAPPELEN**
Born 1957, B.Sc. Business Administration. President and CEO of Nobia AB since 1995. Joined Nobia in 1995.
Board assignments: Board member of Munksjö, Association of Stock Market Companies and Byggmax.
Previous employment: President of Kaukomarkkinat Oy Germany, President of Kaukomarkkinat International Sweden and Norway and marketing director of Stora Finepaper.
Holding in Nobia: 300,700 shares, 40,000 share options, 45,000 employee share options and 150,000 call options.

**JAN JOHANSSON**
Born 1962, B.Sc. Business Administration. CFO since 2004. Joined Nobia in 1995.
Previous employment: Various positions within finance within the Stora Group and Group controller of Nobia.
Holding in Nobia: 18,680 shares, 6,000 share options, 28,000 employee share options and 25,000 call options.

**PREBEN BAGER**
Born 1948. Executive Vice President Operations with responsibility for the UK business and Business Unit Manager at Magnet since 2004. Joined HTH in 1989.
Previous employment: President of Domino Furniture, sales manager at Bianca Yachts, President of Danica Køkkener and Business Unit Manager at HTH.
Holding in Nobia: 475,200 shares, 28,000 employee share options and 30,000 call options.

**LENNART RAPPE**
Born 1944, B.Sc. Business Administration. Executive Vice President since 2000. EVP, Mergers and Acquisitions since 2004. Joined Nobia in 1999.
Board assignment: Board member of Jötul AS.
Previous employment: Vice President Esab AB, CFO at VME Group, Volvo Trucks, Spectra-Physics AB and Nobia.
Holding in Nobia: 133,720 shares, 28,000 employee share options and 20,000 call options.

**PETER PETERSSON**
Born 1951, B.Sc. Business Administration. Executive Vice President Operations with responsibility for the Continental European business. Joined Nobia in 1995.
Previous employment: HR director at Stena Line, Business consultant at Impact, Vice President business development/human resources and communications at Nobia and Business Unit Manager at various Nobia units, most recently at Norema.
Holding in Nobia: 134,400 shares, 7,000 share options, 28,000 employee share options and 30,000 call options.

## Business Unit Managers

**PER ANDERSSON**
Born 1948. Business Unit Manager Myresjökök since 1988. Employed by Myresjökök since 1988. Holding in Nobia: 3,030 shares, 27,000 share options and 19,000 employee share options.

**GLENN ANDRESEN**
Born 1966. Business Unit Manager Sigdal since 2006. Joined Sigdal in 2003. Holding in Nobia: 12,000 employee share options.

**LEO BRECKLINGHAUS**
Born 1959. Business Unit Manager Optifit since 2003. Employed by Optifit since 2000. Holding in Nobia: 4,500 shares, 27,000 share options and 19,000 employee share options.

**JOAKIM BROBÄCK**
Born 1949. Business Unit Manager Marbodal since 2006. Employed by Marbodal since 2001. Holding in Nobia: 10,000 employee share options.

**ELMAR DUFFNER**
Born 1960. Business Unit Manager Poggenpohl since 2003. Employed by Optifit 1999. Holding in Nobia: 11,450 shares, 27,000 share options and 19,000 employee share options.

**NICK FRIEND**
Born 1956. Business Unit Manager Gower since 2007. Employed by Gower since 2007. Holding in Nobia: 0 shares.

**HEINZ HACHMEISTER**
Born 1953. Business Unit Manager Pronorm since 2004. Employed by Pronorm since 1984. Holding in Nobia: 19,000 employee share options.

**JORMA LEHTOVUORI**
Born 1952. Business Unit Manager Novart since 1992. Employed by Novart since 1985. Holding in Nobia: 2,500 shares and 19,000 employee share options.

**KJELL-HUGO MELVOLL**
Born 1968. Business Unit Manager Norema since 2007. Employed by Norema since 2007. Holding in Nobia: 0 shares.

**LEIF NYGÅRD**
Born 1949. Business Unit Manager Invita since 1974. Employed by Invita since 1974. Holding in Nobia: 42,940 shares, 27,000 share options and 19,000 employee share options.

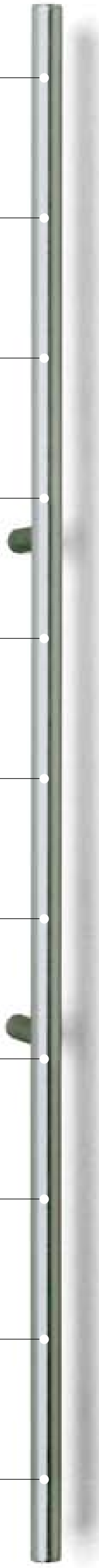
**DANIEL SOUISSI**
Born 1949. Business Unit Manager Hygena, included in Nobia since February 2006. Holding in Nobia: 9,000 employee share options.

**HENNING STORM**
Born 1955. Business Unit Manager HTH since 2005. Employed by HTH since 1981. Holding in Nobia: 38,700 shares, 15,000 share options and 19,000 employee share options.

**JOSEF ZOBL**
Born 1948. Business Unit Manager EWE-FM since 2006. Joined EWE-FM in 1977. Holding in Nobia: 14,000 employee share options.

Holdings in Nobia as per 31 December 2006

# Ten-year summary



**2006 – Acquisition of Hygena**

At the beginning of the year, Hygena, France's leading kitchen company, was acquired. The acquisition of Hygena was confirmation of the great significance Nobia attaches to its network of specialised kitchen showrooms – a network that now comprises approximately 700 showrooms across Europe. The ability to control the offering in these stores is an important prerequisite for profitability and growth.

**2005 – Acquisition of EWE-FM**

A new acquisition was carried out when Nobia acquired Austria's leading kitchen manufacturer EWE-FM.

**2004 – Acquisition of Gower**

The prerequisites for a fourth cornerstone – profitable growth – were created by combining acquisitions and organic growth. In addition, there was increased insight into the fact that low costs are not merely a matter of production but involve all purchasing. Therefore, this cornerstone will be designated low product costs in the future. The German business unit Goldreif was discontinued. Nobia also acquired Gower, the UK's leading manufacturer of flat-pack kitchens.

**2003**

**2002 – Listing on the stock exchange**

Nobia was listed on the stock exchange and had 824 shareholders at the end of the year. In 2002, net sales increased to SEK 9.6 billion and the number of employees to 5,900. The kitchen operations were divided into three geographical regions – UK, Nordic and Continental Europe. Streamlining continued with the divestment of the door and window operations in Penrith and Flint in the UK.

**2001 – Strong focus on streamlining**

Door manufacturers Swedoor and BorDörren, window manufacturer Svenska Fönster and building material supplier Star Byggprodukter were divested. At the same time, the company's presence in the European kitchen market was strengthened through acquisitions of the German Poggenpohl Group, Swedish company Myresjökök, Norwegian company Norema, Danish company Invita and UK company Magnet. In line with strengthening the core operations, the importance of reducing costs and broad market coverage via a variety of sales channels was emphasised. Two additional cornerstones of the Group's strategy were established – low product costs and the multi-brand and multi-channel strategy.

**2000**

**1999 – Strategic decision to focus on European kitchen market**

After three years, Nobia converts a loss into profit through improved margins, the rationalisation of production, expanded brand recognition, efficiency enhancements, reorganisation and the closure of operations that were not included in core operations. A strategic decision was subsequently made to focus on kitchens and to expand outside the Nordic region. The kitchen industry in Europe is fragmented. Nobia believes it is possible for a company with capacity to lead the consolidation of the industry.

**1998 – Acquisition of Novart**

Work with streamlining and profitability accelerated. The responsibility for profitability was decentralised to each business unit while Nobia began to direct the operations toward kitchens. The decentralised responsibility for profitability subsequently became one of Nobia's four strategic cornerstones. In 1998, Finland's leading kitchen manufacturer Novart was acquired.

**1997**

**1996 – Buy-out of Nobia from STORA**

Nobia is founded by the company being bought out from STORA. The operations had 3,600 employees, generated net sales of SEK 3.4 billion and reported a loss of SEK 167 million. The Swedish domestic market was weak and in order to compensate for this, the business strategy focused on export. The operations were based on four product areas: doors, windows, wholesalers and kitchens. The kitchen operations generated approximately SEK 1.5 billion and included the following brands: Danish company HTH, Norwegian company Sigdal and Swedish company Marbodal.

| SEK m | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004[1] | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | |
| Net sales | 3,316 | 3,977 | 4,049 | 4,102 | 8,283 | 9,594 | 9,273 | 11,337 | 12,442 | 15,590 |
| Change in per cent | -3 | 20 | 2 | 1 | 102 | 16 | -3 | 22 | 10 | 25 |
| Gross profit | 873 | 1,082 | 1,176 | 1,325 | 3,170 | 3,865[2] | 3,586 | 4,414 | 4,863 | 6,065 |
| Operating profit | 79 | 110 | 132 | 261 | 537 | 725 | 565 | 963 | 993 | 1 327 |
| Financial income | 3 | 3 | 3 | 9 | 15 | 11 | 14 | 13 | 26 | 17 |
| Financial expenses | -45 | -59 | -51 | -50 | -138 | -130 | -79 | -136 | -134 | -134 |
| **Profit after financial items** | **37** | **54** | **84** | **220** | **414** | **606** | **500** | **840** | **885** | **1,210** |
| of which, goodwill amortisation | -1 | -6 | -6 | -9 | -51 | -63 | -60 | - | - | - |
| Tax on profit for the year | -34 | -33 | -83 | -115 | -160 | -198 | -162 | -247 | -244 | -345 |
| Minority interests in net profit for the year | - | - | - | 0 | 0 | 0 | 0 | | | |
| **Net profit for the year** | **3** | **21** | **1** | **105** | **254** | **408** | **338** | **593** | **641** | **865** |
| **Net profit for the year attributable to:** | | | | | | | | | | |
| Parent Company's shareholders | | | | | | | | 592 | 640 | 864 |
| Minority interests | | | | | | | | 1 | 1 | 1 |
| **Net profit for the year** | | | | | | | | **593** | **641** | **865** |
| **Balance sheet** | | | | | | | | | | |
| Fixed assets | 910 | 1,052 | 1,000 | 1,975 | 3,719 | 3,308 | 3,783 | 3,972 | 4,723 | 6,011 |
| Inventories | 371 | 385 | 447 | 614 | 1,178 | 1,107 | 1,208 | 1,147 | 1,253 | 1,356 |
| Current receivables | 395 | 498 | 608 | 835 | 1,159 | 1,021 | 1,315 | 1,490 | 1,691 | 2,028 |
| Cash and cash equivalents | 157 | 160 | 135 | 221 | 362 | 293 | 154 | 616 | 251 | 229 |
| **Total assets** | **1,833** | **2,095** | **2,190** | **3,645** | **6,418** | **5,729** | **6,460** | **7,225** | **7,918** | **9,624** |
| Shareholders' equity | 324 | 375 | 351 | 1,363 | 1,776 | 2,589 | 2,667 | 2,551 | 3,177 | 3,727 |
| Minority interest | - | - | - | 5 | 6 | 6 | 6 | 6 | 7 | 7 |
| Non-interest-bearing provisions | 123 | 83 | 89 | 378 | 467 | 285 | 266 | | | |
| Interest-bearing provisions | 13 | 25 | 56 | 79 | 74 | 91 | 87 | | | |
| Non-interest-bearing liabilities | 699 | 798 | 905 | 1,025 | 1,714 | 1,443 | 1,580 | 1,984 | 2,390 | 3,160 |
| Interest-bearing liabilities | 674 | 814 | 789 | 795 | 2,381 | 1,315 | 1,854 | 2,684 | 2,344 | 2,730 |
| **Total equity and liabilities** | **1,833** | **2,095** | **2,190** | **3,645** | **6,418** | **5,729** | **6,460** | **7,225** | **7,918** | **9,624** |
| Net debt | 530 | 680 | 710 | 601 | 2,078 | 1,098 | 1,763 | 2,045 | 2,058 | 2,460 |
| Capital employed | 1,011 | 1,214 | 1,196 | 2,242 | 4,237 | 4,001 | 4,614 | 5,241 | 5,528 | 6,464 |
| **Key figures** | | | | | | | | | | |
| Operating margin, % | 2.4 | 2.7 | 3.3 | 6.4 | 6.5 | 7.6 | 6.1 | 8.5 | 8.0 | 8.5 |
| Operating profit before amortisation of goodwill | 80 | 116 | 138 | 270 | 588 | 788 | 625 | | | |
| Operating margin before amortisation of goodwill, % | 2.4 | 2.9 | 3.4 | 6.6 | 7.1 | 8.2 | 6.7 | | | |
| Profit after financial items in per cent of net sales | 1.1 | 1.3 | 2.1 | 5.4 | 5.0 | 6.3 | 5.4 | 7.4 | 7.1 | 7.8 |
| Turnover rate of capital employed, times | 3.4 | 3.6 | 3.4 | 3.4 | 2.3 | 2.3 | 2.2 | 2.3 | 2.3 | 2.4 |
| Return on capital employed, % | 8.4 | 10.2 | 11.2 | 22.2 | 15.5 | 17.9 | 14.6 | 19.8 | 18.6 | 20.9 |
| Return on shareholders' equity, % | 0.9 | 6.0 | 0.0 | 17.2 | 16.2 | 18.7 | 13.0 | 25.7 | 22.6 | 25.4 |
| Debt/equity ratio, % | 164 | 181 | 202 | 44 | 117 | 42 | 66 | 80 | 65 | 66 |
| Equity/assets ratio, % | 17.7 | 17.9 | 16.0 | 37.5 | 27.8 | 45.3 | 41.4 | 35.4 | 40.2 | 39 |
| Cash flow from operating activities | -121 | 127 | 126 | 156 | 551 | 513 | 439 | 1,010 | 1,137 | 1,300 |
| Investments | 101 | 87 | 74 | 87 | 226 | 269 | 294 | 370 | 472 | 532 |
| Earnings per share after dilution | 0.09[3] | 0.64[3] | 0.03[3] | 2.90[3] | 5.15[3] | 7.53 | 5.84 | 10.23 | 11.01 | 14.78 |
| **Employees** | | | | | | | | | | |
| Average no. of employees | 3,092 | 3,529 | 3,334 | 3,003 | 5,343 | 5,790 | 5,571 | 6,052 | 6,573 | 7,968 |
| Net sales per employee, SEK 000s | 1,072 | 1,127 | 1,214 | 1,366 | 1,550 | 1,657 | 1,665 | 1,873 | 1,893 | 1,957 |
| Salaries and other remuneration | 718 | 825 | 825 | 818 | 1,672 | 1,814 | 1,742 | 1,914 | 2,140 | 2,591 |

[1] Figures for 2004 are restated to take into account the transition to IFRS and changes in the classification of pensions.

[2] Reclassification of historical values for the cost of goods sold and selling expenses.

[3] Adjusted for split 10 to 1 on 19 June 2002. The calculation of the dilution effect is adjusted by the actual number of options exercised.

2006 is Nobia's tenth year of operations. During its first decade, the Group has evolved into Europe's leading kitchen company. Net sales amount to approximately SEK 16 billion, profit after financial items to approximately SEK 1.3 billion and the number of employees to about 8,000. At the end of its tenth year, Nobia had more than 5,000 shareholders – an increase by a factor of six since the company was first listed on the stock exchange in 2002.

# Definitions of key figures

**Capital employed**
Balance sheet total less non-interest-bearing provisions and liabilities.

**Debt/equity ratio**
Net debt as a percentage of shareholders' equity including minority interests.

**Earnings per share**
Net profit for the year divided by a weighted average number of shares during the year.

**Equity/assets ratio**
Shareholders' equity including minority interests as a percentage of the balance sheet total.

**Gross debt**
The total of interest-bearing liabilities and interest-bearing provisions.

**Net debt**
The total of interest-bearing liabilities and interest-bearing provisions, less interest-bearing assets.

**Operating capital**
Balance sheet total less interest-bearing assets, receivables relating to current and deferred tax and non-interest-bearing provisions and liabilities, excluding liabilities for current and deferred tax. Operating capital at business area level excludes all consolidated surplus value.

**Operating cash flow**
Cash flow after investment, adjusted for investments in corporate acquisitions and financial investments.

**Operating margin**
Operating profit as a percentage of net sales.

**Return on capital employed**
Profit after financial income as a percentage of average capital employed. The calculation of average capital employed has been adjusted for acquisitions and divestments.

**Return on shareholders' equity**
Net profit for the year as a percentage of the average shareholders' equity. The calculation of shareholders' equity has been adjusted for capital increases and reductions.

**Return on operating capital**
Operating profit as a percentage of operating capital.

**Turnover rate of capital employed**
Net sales divided by average capital employed.

# Notification of Annual General Meeting

The shareholders in Nobia AB (publ) are invited to the Annual General Meeting on Thursday, 29 March 2007 at 5:00 p.m. at Operaterrassen, Operahuset, Karl XII:s torg, Stockholm.

**Notification**
Shareholders who wish to participate in the Annual General Meeting must:

*first* be included in the shareholders' register maintained by VPC AB as of Friday, 23 March 2007, and

*second* notify the company of their participation no later than 4:00 p.m. on Friday, 23 March 2007.

Notification of attendance at the Annual General Meeting may be made by mail to Nobia AB, Box 70376, SE-107 24 Stockholm, Sweden, or by telephone at +46 8 440 16 00 or fax at +46 8 503 826 49 or by e-mail to ingrid.yllmark@nobia.se.

This notification shall state the shareholder's name, personal/corporate registration number, shareholding, address, telephone number and information about any assistants and, when applicable, information on representatives.

Shareholders whose shares have been registered with a nominee must temporarily re-register their shares in their own names with VPC AB in order to be entitled to participate in the Annual General Meeting. Shareholders wishing such re-registration must inform their nominee of this well before Friday, 23 March 2007, when such re-registration must have been completed.

**Payment of dividend**
The proposed record date for the dividend is Tuesday, 3 April 2007, meaning that the final trading date to be included in the dividend payment is 29 March. Payment through VPC is expected to take place on Tuesday, 10 April 2007.

# Financial information 2007

| | |
|---|---|
| **29 March** | Annual General Meeting |
| **26 April** | Interim Report January – March |
| **19 July** | Interim Report January – June |
| **25 October** | Interim Report January – September |

# Addresses

**C.P. Hart**
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