# Heating Newsletter

*July 07*

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## Monthly Special

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International strategic market research and consultancy on building product and related markets
Bulgaria: ELDOMINVEST Invests EUR 3.1 Million in Capacity Increase

Bulgarian household appliances maker ELDOMINVEST said on Thursday it would have invested LEV 6.0 million ($4.1 million/ €3.1 million) by the end of the year to increase its output capacity by about 40%.

The company will be able to produce 500,000 electrical and gas appliances once it has completed its modernisation programme, up from 360,000 now, ELDOMINVEST said in a statement. It has invested some LEV 10 million to upgrade its factory in the past five years.

ELDOMINVEST, one of the largest household appliances makers in Bulgaria alongside with FICOSOTA, expects to raise its sales by 10% to LEV 35 million this year. ELDOMINVEST's revenue through May rose by 45% on the year to LEV 14.2 million.

The company produces some 26,000 appliances monthly and says it has a 70% share of the water heaters market in Bulgaria. It exports over 30% of its output to Sweden, the UK, Romania, Slovakia, Italy, Lithuania, Ireland, Hungary, Iceland, Denmark and the USA. ELDOMINVEST, set up in 1987 and based in the Black Sea city of Varna, employs 530 people.

Source: SeeNews

China: AO SMITH and FAGOR in China to Produce Boilers

US-based engineering firm AO SMITH and Spain's FAGOR have signed an agreement to jointly invest in a new company to manufacture residential wall-hung gas combination boilers in China.

The venture, FAGOR - AO SMITH (Nanjing) Combi Boiler Co Ltd, will manufacture 'combi' boilers that provide both potable water and heating for residential applications.

Production is set to begin next year.

Source: AFX Asia ProFeed
Czech Republic: KORADO to Expand Production in the Ukraine & Russia

The Czech company KORADO, a leading manufacturer of heating radiators, aims to invest nearly CZK 1 billion into production, following booming sales in Ukraine and Russia, the Czech state business development agency CzechInvest announced Friday.

"The company is returning to the Eastern European market" CzechInvest spokesperson Lucie Kralova said. "Sales are growing mainly in the Ukraine and Russia, and the current production capacity will soon not be able to cover new orders."

KORADO sold more than 2 million radiators last year and is the world's fifth largest producer of panel radiators, Kralova said.

The company, founded in 1990 and based in the town of Ceska Trebova, East Bohemia, showed revenues exceeding CZK 2.5 billion last year.

It has production capacities in Bulgaria and sales outlets in for example Germany, Poland and Lithuania.

KORADO now has some 600 employees. It will hire another 125 people in connection with expanding production.

Source: Czech Republic Business Newswire

Denmark: DANFOSS Launches $25 Million Plant in Moscow Region

International industrial company DANFOSS has launched a U.S. $25 million plant in the Istra district of the Moscow Region to produce radiator thermostats and taps for heating systems, the plant's director Mikhail Shapiro said recently.

The company plans to invest more than $25 million in the development of its production facility in Russia by 2009, he added.

The company plans to build a storage facility in the Russian city of Novosibirsk and bring its annual thermostat production capacities in Russia to 1 million and tap production capacity to 300,000 units, Shapiro said.

The company has operated in Russia since 1993. Currently it controls about 40% of the Russian market for thermostats. DANFOSS plans this year to ship to Russia € 140 million worth of products, up from € 100 million in 2006. The new plant will account for about 30% of the supplies.

Source: Prime-Tass
BOSCH, the European leader in domestic appliances, has made a demand-led decision to launch advanced air conditioning units, due to a flood of requests from customers.

As its first foray into the air conditioning sector anywhere in the world, the German multinational has already received pre-sales of almost US$10 million for the new product range.

Bosch Home Appliances' marketing director Middle East, Ralph Kobsik, said: "This is a completely demand-led decision for us. Our existing Middle East customer network has increasingly been making requests to our sales agents for us to consider offering air conditioning units that provide both high quality performance and maximum reliability.

"The venture into the supply of split AC units is an entirely new business field for the world-wide BOSCH and SIEMENS HAUSGERATE Group and has been launched in the GCC before being rolled-out throughout the Middle East and other countries.

"It's still a relatively small number in a market worth well over US$1 billion annually, but our pre-sales are extremely encouraging and we expect orders to flood in after launching a GCC-wide advertising campaign.

"The advanced anti-bacterial units have a sleek design and an ultra-quiet performance for what we believe is the ultimate in quality and energy efficient air conditioning.

"The AC market is growing at a dramatic rate and it's no surprise, with the population of the MENA (Middle East/North Africa) region doubling over the last three decades. Estimates also predict continued growth in the AC segment, with sales of AC units having grown 56 per cent since 2000 and over 2.7 million unit sales projected by 2008."

Kobsik explained, customers who choose the BOSCH systems will also benefit from award winning customer service and support that dealers and end users already enjoy from the BOSCH Domestic Appliances after sales service team.

"This is an exciting development for BOSCH and hopefully we will enjoy the expected level of success that will lead us to replicate the operations in other markets world-wide."

BOSCH will initially supply air conditioning units within the GCC countries, with ambitions to cover the entire Middle East region within the next few years.

Source: AME Info
Germany: CONERGY Sees Revenue up 66% in 2007

The German solar energy company CONERGY AG is forecasting a 66% increase in sales this year, and a further rise of around 44% in 2008, as environmental concerns and legislation spur demand for renewable energy.

The company reported revenue in 2006 of €752 million, and said it expects 2007 sales to rise to 1.25 billion, and to €1.8 billion in 2008.

The projected rise in revenue has gained further impetus through CONERGY’s diversification strategy, which is designed to expand sales outside of its core German and solar markets.

Finance director Heiko Piossek told the company will achieve its diversification targets a year earlier than planned as international expansion outstrips German growth.

The company, which predominantly manufactures solar energy components and panels, has been targeting 50% of total revenues from abroad by 2008, and Piossek said this target will now be met in 2007.

He says the regulatory environment is a factor in the growing demand for renewable technology, with more than 40 countries now having a regulatory framework for renewables. He notes that German renewable subsidies will be in place until 2009, and he doesn’t see limitations on Spanish growth, where there is a cap on solar power at 400 Megawatts, although this is expected to be increased.

‘Now there are new markets like France, Italy, Greece, and Korea where we can see tremendous growth. We expect to grow ten-fold in the Mediterranean countries in the next three years,’ Poissek said.

He explained that the companies diversity strategy makes it less reliant on one country and one type of technology subsidy because it is also involved in solar thermal and biomass renewable energy projects.

It is working towards generating 50% of its revenue from complementary renewable energy products like solar cooling, solar thermal systems and bioenergy.

Source: AFX UK ProFeed
Sweden: NIBE INDUSTRIER AB First Quarter Result

NIBE continued to increase its growth in 2007. Its first quarter result showed a 22% increase in turnover to SEK 1,285 million (€ 138.8 million) and a 24% increase in profit to SEK 108.7 million (€ 11.7 million). The company reported market share increases in all of its market areas: Heating, Stoves, and Elements.

Source: Nibe

Switzerland: Pellet Market Heats up As More Units Installed

Switzerland’s boom in heating units fired by wood pellets continued in 2006 as the market continued to grow at a 20-25% annual rate with some 10,000 units installed.

AEK Pellet of Solothurn, a subsidiary of the Argovia cantonal energy company AEK Energie, leads the field and accounts for nearly half of all sales CEO Erich Fuchs said. Although a project to increase production from the current 30,000 tonnes to 120,000 tonnes annually by building a new wood processing centre at Luterbach has run into planning problems, work on doubling the output of the company’s Balsthal factory to 60,000 tonnes is expected to be completed by January 2008. Sites are also being considered for other factories. AEK has its eye on neighbouring Italy as an outlet.

Source: Renewable Energy Report
Switzerland: AFG Targets 10% EBIT Margin by 2010, Eyes Acquisitions

Swiss AFG Arbonia-Forster-Holding AG is still targeting an EBIT margin of 8% by 2008 and a 10% margin by 2010, the group's chief executive and majority owner Edgar Oheler said in an interview.

Ohler said that the targets are realistic with AFG enjoying an operational savings potential of 20-30 million CHF, and additional cost-cutting opportunities of 20-30 million CHF in purchasing.

The group's organic sales growth target of 1.4 million CHF still remains valid, he said.

He also said that AFG is eyeing acquisitions in all its five main divisions - heating and sanitary, kitchen and refrigerating, windows & doors as well as steel and surface technologies - and that deals are likely to come through this year.

'Thanks to the recent capital hike, we have the financial flexibility to realize a large number of opportunities,' Oehler said.

Future growth is also likely to come from Asia, with China expected to contribute up to 5% of the group's total sales volume within five years, excluding possible acquisitions.

Source: AFX International ProFeed
UK: CERES Launches Fuel Cell Boiler

The fuel cell business CERES Power is launching a pilot programme in the UK this summer to test its combined heat and power boilers for homes and businesses.

Peter Blance, chief executive officer for CERES Power, said: 'We're unique because our fuel cell is compact enough that it can be integrated into something that fits into the same place as your current boiler.

'Usually fuel cells that deliver heat and power are the size of double American fridges that sit in people's basements. Our product lends itself to the mass market almost every home can have one.'

The company has also secured commercial development programmes with British Gas and EDF Energy.

Blance said its boilers use solid oxide technology, which enables its fuel cells to operate at temperatures far lower than conventional designs. Fuel cells running at lower temperatures require fewer materials, meaning there is less bulk.

Full details of CERES Power's pilot project have not been disclosed. But Blance said: 'It will be initially smaller numbers but we're in negotiations for a larger roll-out programme with existing partners and others. The pilot will be a catalyst for our existing backers, and it will also give our customer base confidence to go for it too.'

Source: CityWire

UK: DIMPLEX Buys UK Company

DIMPLEX, the household appliance and heater manufacturer owned by Louth businessman Martin Naughton, has bought UK firm APPLIED ENERGY PRODUCTS for an undisclosed sum.

APPLIED ENERGY PRODUCTS is involved in the manufacture of water heaters, ventilation products and radiators.

The take-over is thought to have cost DIMPLEX in the region of €20-25 million.

Source: Daily Mail
UK: Companies Join Forces to Produce New Fuel

A new biofuel has been created after two energy companies joined forces. Strawsons Energy and HOVAL have joint to produce 'Koolfuel' - a carbon-neutral fuel made from willow.

Strawsons produces the willow on a short rotation crop system and claims to be the world's biggest grower using the system. HOVAL make biomass boilers, solar heating and heat pumps with ultra-efficient gas and oil fired boilers.

"The maximum environmental benefits of Koolfuel are achieved when the fuel is supplied locally, so that emissions associated with transportation are minimised," explained Andy Oldridge of Strawsons Energy.

Wood fuels are classified as 'carbon neutral' because the carbon dioxide released during burning is equivalent to the carbon dioxide taken out of the air by the plants as they grew. Koolfuel is produced from short rotation coppice using willow crops that are harvested every three years and re-grow from the remaining stumps. The crops produce 30 tonnes of Koolfuel per hectare at harvest.

Source: Retford /Gainsborough/Worksop Times
The European heating sector is currently undergoing profound changes, and the patterns of change are varied, reflecting the diversity of the countries involved. The major drivers of change in recent years have been legislative initiatives (at national or at EU level) and product related incentives and subsidies. Within the EU, the timeframe for achieving results has recently shifted from the Kyoto targets to the commitment to make 20% savings by 2020. The interest of legislators in domestic heating has increased and it is almost inevitable that this sector will be expected to offer at least a proportional share of the targeted savings.

Solar thermal has so far benefited from both legislation and incentive schemes. It is a general perception that these will support the growth of solar thermal until it reaches a critical mass and becomes an almost universally utilised technology. It should however be noted that the use of solar thermal for heating at present is rarely justifiable on a purely economic basis, as payback periods are still rather long. Competition for investment in heating is likely to intensify in the near future, and other energy saving measures with a shorter payback may find themselves preferred. It is then possible that the great popularity that solar thermal enjoyed in a number of European countries will not be replicated in neighbouring markets.

While the EU Commission’s Eco-Design process might aim for the harmonisation of minimum performance standards across the EU, the Energy Performance of Buildings Directive (EPBD) leaves each Member State to use different means. Thus the approach to energy saving in heating is likely to continue to be diverse.

Concerning solar thermal it is probably necessary to distinguish between:

– **the Mediterranean countries**, with Turkey, Cyprus and Greece as the established users (mainly of gravity systems for water heating), and Spain, Italy and Portugal now adopting EPBD-linked legislation

– **central and northern Europe**, with Germany and Austria as the most advanced markets, especially for pressurised water heating and combined systems

– **the USA**, where (apart from unglazed systems for swimming pools) much of the household demand is for the replacement of old systems.

The Stern Report called climate change “the greatest market failure the world has ever seen”. One clear message to come out of the BRG CONSULT research (see below) is that there is no solution that can make a sufficient difference which can intrinsically be justified solely on economic grounds, apart from perhaps changing attitudes and encouraging better insulation and use of simple heating controls. Finding adequate solutions will require substantial investment of public funds, supported by a willingness of households to make some sacrifices (voluntarily or via legislative coercion). The message is that solar thermal needs to compete with other energy saving solutions for over-stretched funding.

The total European market for solar thermal in 2005 comprised an estimated 550,000 systems (from 10...
c. 300,000 systems in 2000; compounded yearly growth c. 13% 2000-2005), of which the vast majority were water heating only products. Roughly one third of system sales in 2005 were pressurised and two-thirds gravity. The German speaking countries are the main drivers of demand for pressurised systems and are behind the growth of combined systems. Germany is easily the largest non-Mediterranean market, and on a per capita basis Austria is also highly developed. It is thus worth exploring some of the issues that might determine whether other countries in Europe will follow the lead of Germany and Austria.

First of all, it needs to be recognised that Germany is not typical. The success of the MSP (MAP) programme launched in 1999 was based on a combination of the incentives offered and a cultural receptivity, reflecting a highly developed environmental consciousness and a concern about the future security of energy supply. Even with the incentives on offer, payback projections hardly looked inviting.

Forecasts for the future of solar thermal in Germany tend to be very positive, with suggestions that the market in m² will grow by a further factor of 5 or more by 2020. However, even in recent years the growth has been erratic. The number of systems sold in 2005 was still running below the 2001 level, with the market having dipped in 2002 and then recovered. The surge in 2006 may have been in anticipation of the hiatus in subsidies and VAT rates that occurred at the end of the year, and by April 2007 there were reports of sales going into reverse. The next 6 months may prove to be critical.

In most of the rest of Europe, support for solar thermal is far more hesitant. Politicians love to talk about it along with other renewables, but payback tends to be uppermost in the minds of those expected to invest in it. Even in Mediterranean countries such as Spain, Italy and Portugal that are being obliged to invest more in solar by EPBD linked legislation, we have found a good deal of scepticism. Further north, the scepticism is even greater, with doubts about whether solar thermal is suited at all to climates where the greatest need is when there is the least sunshine. Solar thermal is widely perceived as a supplementary technology, able to make a significant contribution to water heating and a more marginal one to space heating.

This said, solar thermal does fit nicely into the EPBD holistic approach to energy management in buildings, and this should ensure a growth in demand over the next few years from new construction (especially collective housing where buffer storage facilities can be shared). The big question is how things will develop in about 5 years’ time. We foresee a period of disillusion setting in about 5 years from now, when politicians realise they are not achieving the required emissions savings from their favoured technologies, and householders find they are not getting the paybacks they had hoped for. This could lead to a shift in public funding:

– away from new build towards the existing dwelling stock (in 2020 homes built after 2006 will only account for 15% of the total dwelling stock)

– away from marginal technologies towards the established mass market (even in Germany solar thermal is installed in only 2% of dwellings).

This is not to say that there will be no place for solar: good environmental practice in building is an investment for the future. But if the emission reductions targets are to be met by 2020, something on a larger scale will be needed, such as:
– Europe-wide improvements in insulation and heating controls in existing dwellings (not so urgent in Germany as in most other European countries)

– targeted and accelerated replacements of old boilers with more efficient ones

– remodelling of the East European district heating networks, and possibly more investment in CHP in other countries.

Any such solutions are likely to need more funding than will be generated from the market place alone, or indeed than is currently being offered from the public purse. Stern suggests that to act quickly might only cost 1% of global GDP. That 1% needs to be made available and invested judiciously.

*There are many possible approaches and technologies available to help reduce energy consumption and CO2 emissions from home heating, and the markets for these are being explored by BRG CONSULT in a major new multi-client research programme entitled “Study on Eco-Related Developments in the Domestic Heating Markets in 30 European Countries and the USA 2006/7”. Due to be completed in June 2007, this study follows on from some 25 years of researching European heating product markets, as well as BRG CONSULT’s recent involvement in the EU Commission’s Boiler Market Study and Eco-Design projects on boilers and water heaters.*

*If you wish to receive more data concerning our study, please email Hana Herynkova (hherynkova@brgconsult.com) or call +44 1227 766810.*

*Source: BRG CONSULT*