



VärmeKyl Grossisten Scandinavia AB (publ)

Interim Report 1 January – 31 March 2008

1 January–31 March 2008

- Consolidated net sales for the period reached SEK 55.4 million (74.3).
- The operating loss for the period was SEK 18.6 million (7.8). The loss after tax was SEK 19.2 million (6.1), equal to earnings per share of SEK -1.13 (-0.38).
- On 24 January 2008 the Parent Company VärmeKyl Grossisten Scandinavia AB was granted permission for a corporate reconstruction. Composition negotiations will be held in district court on 25 April, after which the reconstruction is expected to be cancelled.
- In order to finance the company's operations, the Board of Directors decided on two directed issues to GTM Holding AS and an issue with pre-emptive rights for the shareholders. All in all, these issues will provide the company with proceeds of approximately SEK 48 million.
- On 20 March a new Board of Directors took office, with Ole Oftedal as the new Chairman and Gunnar Mannerheim, Patrik Gransäter, Bertil Persson and Fredrik Mannerheim as Board members.
- In February the company began winding up its operations in the consumer market outside Stockholm, and a total of around 90 employees were given notice. These measures are expected generate cost savings of around SEK 40 million on an annual basis.

Comments from the CEO:

On 24 January a corporate reconstruction was initiated in the Parent Company VärmeKyl Grossisten Scandinavia AB, a process that has naturally set the tone for the entire first quarter. The Group reported an overall loss of SEK 18.6 million for the period, mainly attributable to operations in the consumer market. This is also the segment where we have made the most far-reaching changes and where we expect to see tangible effects already in the second quarter.

As we prepare to leave the reconstruction behind us, I can say that the process has been unusually successful. We have secured the company's future financing and gained a new and committed Board of Directors. Through the issue of shares and warrants the company will earn total proceeds of around SEK 48.8 million, giving us a very strong cash position.

Following reconstruction, VKG is a whole different company today than it was last autumn. There is still much work to be done in developing the Group, but I see enormous opportunities for VKG in the future. This applies not least to the market for commercial properties and multi-dwelling units – the portion of the market where we are already strong and which is assessed to have the greatest potential for growth in coming years.

Market

Corporate market

The willingness to invest in energy saving solutions, particularly for multi-dwelling units, is assessed to remain high. The market is being fuelled by rapid technological development, a rising share of cooperative housing and the new EU directive on energy performance certification of buildings. An increasing environmental interest is another key factor. Market growth in the ventilation and air conditioning segments is also deemed good.

Consumer market

The declining trend in the consumer market for heat pumps that arose in late 2007 is assessed to have slowed further at the beginning of 2008. The downturn is blamed mainly on falling electricity prices and a mild winter, combined with removal of the homeowner subsidy for conversion from oil-fired boilers. Towards the end of the quarter, however, rising demand was noted for both air-to-air heat pumps and air-to-water systems.

VKG Group

The VKG Group is active in sales, installation and service of energy saving solutions for indoor climate to the consumer and corporate/property markets in Sweden. In addition, the Group also conducts operations in ventilation and HVAC & plumbing.

Business areas

Corporate market

In the corporate market, VKG sells planning, installation and service to companies, public sector clients, commercial property owners, etc. Net sales for the first quarter reached SEK 44.0 million (19.0). The operating loss for the same period was SEK 1.3 million (+0.1). Sales to other business areas are carried out on market-based terms.

Consumer market

In the consumer market VKG sells products, installation and service to homeowners and other private consumers. Net sales for the first quarter amounted to SEK 21.2 million (60.2). The operating loss for the same period was SEK 17.3 million (7.9). Sales to other business areas are carried out on market-based terms.

Future outlook

On 25 April 2008 composition negotiations will be held in district court, after which the

ongoing corporate reconstruction in the Parent Company Värmekyl Grossisten Scandinavia AB is expected to be cancelled. The Board of Directors has carried out a directed issue of 23,022,500 subscription warrants to CTM Holding AS and decided on a directed issue of 9,209,000 shares to the same company. In addition, the Board has decided to carry out an issue of 6,791,000 shares with pre-emptive rights for the shareholders. These issues will provide the company with total proceeds of around SEK 48 million, whereby GTM Holding AS will become the principal shareholder with more than 50 percent of the total number of shares and votes. This, together with an aggressive efficiency enhancement and cost-cutting program, will give the company the conditions for continued operation. The market for energy saving products is assessed to have enormous potential. In order to create long-term growth and sustainable profitability, the company will continue developing its operations, which may also include acquisitions and the establishment of new geographical markets.

Sales and profit

Consolidated net sales for the first quarter of 2008 reached SEK 55.4 million (74.3). The operating loss for the same period was SEK 18.6 million (7.8) and the loss after tax was SEK 19.2 million (6.1).

Capital expenditure and depreciation

Capital expenditure on tangible and intangible assets in the first quarter of 2008 amounted to SEK 0.2 million (3.4). Operations were acquired for a total of SEK 5.4 million (12.4). Depreciation/amortization is reported at SEK 2.0 million (1.5). After the ongoing corporate reconstruction, the equity/assets ratio will be just over 45%.

Financial position, cash flow and equity/assets ratio

Consolidated net debt at 31 March 2008 was SEK 52.6 million, an increase of SEK 4.4 million since 1 January 2008. Total cash flow for the first quarter was SEK 1.9 million (4.6).

During the period from 1 January to 31 March 2008, consolidated equity decreased by SEK 19.0 million and amounted to SEK 16.8 at the end of the quarter. This is equal to an equity/assets ratio of 10.2%, compared to 19.6% at 1 January 2008.

Acquisitions

In February 2008 the wholly owned subsidiary FMT Rör AB acquired its former sister company FMT Vent AB for a total price of SEK 8.4 million, of which SEK 7.2 was paid in cash in connection with the transfer of ownership on 3 March 2008. The fair value of acquired net assets is SEK 3.0 million, resulting in goodwill of SEK 5.4 million. The effect of the acquisition on the Group's cash and cash equivalents amounts to SEK 4.5 million. From the date of acquisition until 31 March 2008, FMT Vent AB contributed net sales of SEK 1.8 million and a net loss of SEK 0.3 million to the Group. If the company had been acquired at 1 January 2008, FMT Vent AB would have contributed net sales of SEK 4.7 million and net profit of SEK 0.4 million. The acquisition has been financed by GTM Holding AS via a loan secured by all of the shares in FMT Vent AB.

In the first quarter of 2008 the subsidiary FMT Rör AB also acquired the operations of Båge Rör AB for a price of SEK 0.9 million.

Key events in the first quarter of 2008

On 18 January 2008 the Board of Directors revised its forecast of a positive operating result for the fourth quarter of 2007. On 23 January trading of the company's share on the First North marketplace was suspended. On 24 January the company applied for and was granted permission for a corporate reconstruction, and trading of the share was resumed. On 30 January the Board of Directors called an extraordinary general meeting to be held on 13 February. On 1 February Board members Hagge Rilegård and Lars Byström left the Board of Directors at their own request. On 1 February the subsidiary Solina Bergenergi AB applied for a corporate reconstruction. On 12 February GTM Holding AS signed an agreement to subscribe for a directed issue and guarantee a pre-emptive rights issue to the shareholders, conditional on the acceptance of a 50% composition of claims by the company's ordinary creditors. On 13 February the extraordinary general meeting resolved to authorize the Board to decide on the issuance of shares, convertible debentures and/or subscription warrants. The same meeting also approved the proposed new Board of Värmekyl Grossisten Scandinavia AB (publ). Ole Oftedal was elected as the new Board Chairman and Gunnar

Mannerheim, Fredrik Mannerheim, Bertil Persson and Patrik Gransäter were elected as new Board members. The new Board was to meet on 20 March 2008.

On 27 February the wholly owned subsidiary FMT Rör AB acquired its former sister company FMT Vent AB.

On 27 February it was announced that the company would wind up its operations in the consumer market outside Stockholm.

On 29 February the Board decided on a directed issue of 23,022,500 warrants to GTM Holding AS.

On 7 March two general meetings were held. The first resolved that the capital limits in the Articles of Association shall be not less than SEK 845,000 and not more than SEK 3,380,000, whereby the number of shares in the company shall be not less than 16.9 million and not more than 67.6 million. The second meeting authorized the Board to decide on the issue of new shares, convertible debentures and/or subscription warrants up to the above mentioned capital limits.

On 18 March the Board decided on a pre-emptive rights issue of 6,791,000 shares to the shareholders and a directed issue of 9,209,000 shares to GTM Holding AS.

On 20 March the Board was retired and the new Board elected by the extraordinary general meeting on 13 February took office.

Related party transactions

In the first quarter of 2008 the company signed consulting agreements with Board members Ole Oftedal and Bertil Persson.

The consulting agreement with Ole Oftedal (via the company Lorrider Invest AB) involves the purchase of services at the top management level. The agreement for 2008 amounts to around SEK 2.2 million and has been signed on market-based terms. Total compensation of SEK 0.4 million was paid during the first quarter of 2008.

The consulting agreement with Bertil Persson (via the company BER-MA AB) involves the purchase of services at the top management level and financial control. The agreement for 2008 amounts to around SEK 0.8 million and has been signed on market-based terms. Total compensation of SEK 0.3 million was paid during the first quarter of 2008.

Significant risks and uncertainties

The company's ongoing corporate reconstruction is expected to be cancelled on 25 April 2008, for which reason the associated risks have decreased significantly. However, it cannot be ruled out that the company's brand has been damaged and that VKG has lost market shares as a result of the corporate reconstruction. The company is also exposed to a number of industry- and market-related risks, such as customer and supplier dependency, the risk for inventory obsolescence, sales risk and credit risk. For a more detailed description of the company's risk management, see the 2007 annual report.

Employees

The number of employees at 31 March 2008 was 211 (212). The average number of employees during the period was 218 (179).

Share capital

The number of shares outstanding at 31 March 2008 was 16,977,500 (16,977,500). Basic earnings per share were SEK -1.13 (-0.38) and diluted earnings per share were SEK -1.13 (-0.38).

The total number of registered subscription warrants at the end of the quarter was 24,222,500 (0).

Parent Company

The Parent Company Värmekyl Grossisten Scandinavia AB (publ) is an operating enterprise that sells and installs energy saving products. The responsibilities of the Parent Company also include group management and administration. The Parent Company's net sales for the first quarter of 2008 reached SEK 15.2 million (47.7). The operating loss for the period is reported at SEK 16.1 million (5.0). The loss after tax was SEK 16.7 million (5.6). Capital expenditure on tangible and intangible assets totalled SEK 0.0 million (1.4). Cash and cash equivalents at 31 March 2008 amounted to SEK 0.2 million (3.4) and net debt was SEK 46.5 million (12.9).

Review report, etc.

The interim report has not been reviewed by the company's auditors. This report has been prepared in both Swedish and English versions. In the event of discrepancies between the two versions, the Swedish version shall prevail. Rounding-off differences may exist.

Accounting policies

This interim report is presented in accordance with IAS 34, Interim Financial Reporting, and RR 31, Interim Financial Reporting for Groups. The accounts of the Parent Company have been prepared in accordance with RR 32:06, Reporting for Legal Entities. The applied accounting policies and valuation methods are the same as those used in the 2007 annual report.

Accounting estimates and assumptions

When preparing the financial statements in accordance with IFRS, the company's Board of Directors and management are required to make certain estimates and assumptions that affect the application of the company's accounting policies and the reported amounts of assets and liabilities on the balance sheet date, as well as the amounts of income and expenses during the period. Actual outcomes may differ from these estimates and assumptions.

Forward-looking statements reflect the Board of Directors present expectations and beliefs about future events. Forward-looking information is always associated with risks and uncertainties that can influence the actual outcomes.

Financial calendar

Interim report Jan-June	17 July 2008
Interim report Jan-Sept	23 October 2008
Year-end report 2008	5 February 2009

Subsequent events

The Annual General Meeting on 3 April 2008 resolved unanimously, in respect of the Swedish Financial Supervisory Authority's ongoing investigation, not to discharge Board members Nils Ljung, Hagge Rilegård, Lars Byström, Lars Grönberg and Stefan Lövblom from liability for their management during the financial year from 1 January to 31 December 2007. Furthermore, Hagge Rilegård and Lars Byström were not granted discharge from liability in their capacity as CEO and Executive Vice President. However, the AGM resolved unanimously to grant discharge from liability to Tom Ekevall Larsen, who took over as CEO on 20 August 2007.

The AGM also re-elected the Board of Directors that took office on 20 March.

Assurance of the Board and CEO

The Board of Directors and the CEO give their assurance that this interim report provides a true and fair picture of the business activities, financial position and results of operations of

the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Sollentuna, 24 April 2008
Värmekyl Grossisten Scandinavia AB (publ)

Ole Oftedal
Board Chairman

Patrik Gransäter
Board member

Fredrik Mannerheim
Board member

Gunnar Mannerheim
Board member

Bertil Persson
Board member

Tom Ekevall Larsen
President & CEO

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Värmekyl Grossisten Scandinavia AB (publ) is Sweden's leading provider of energy saving products and services, with around 200 employees. VKG offers a comprehensive range of HVAC/indoor climate products, as well as installation and service, to consumers and corporate customers. The VKG share is quoted on the First North marketplace of the OMX Nordic Exchange Stockholm since 1 March 2006. The company's Certified Adviser is Stockholm Corporate Finance. For more information visit www.vkg.se

Consolidated income statement (Amounts in SEK 000s)	2008 Jan-Mar	2007 Jan-Mar	2007 Jan-Dec
Net sales	55,441	74,287	307,690
Capitalized work for own use	-	215	215
Other revenue	14	-	783
Goods for resale	-22,904	-37,591	-145,820
Other external expenses	-21,135	-19,391	-97,037
Staff costs (1)	-27,501	-21,387	-106,724
Depreciation/amortization and impairment of tangible and intangible assets	-2,017	-1,497	-19,017
Other operating expenses	-519	-2,467	-11,792
Operating profit	-18,621	-7,831	-71,702
Net financial items	-885	-745	-3,626
Profit before tax	-19,506	-8,576	-75,328
Income tax expense	259	2,445	12,984
Profit for the period	-19,247	-6,131	-62,344
Profit attributable to:			
Equity holders of the Parent Company	-19,247	-6,131	-62,344
Minority interests	-	-	-
Earnings per share, SEK			
- undiluted	-1.13	-0.38	-3.86
- diluted	-1.13	-0.38	-3.86
Calculation of earnings per share			
Profit attributable to equity holders of the Parent Company	-19,247	-6,131	-62,344
Average undiluted number of shares, thousands	16,977	16,155	16,155
Average number warrants, thousands	12,111	375	975
Average diluted number of shares, thousands	29,088	16,530	17,130
Margins (%)			
Operating margin	-33.6%	-10.5%	-23.3%
Financial net margin	-1.6%	-1.0%	-1.2%
Profit margin	-35.2%	-11.5%	-24.5%
Tax margin	0.5%	3.3%	4.2%
Net margin	-34.7%	-8.3%	-20.3%

1, The Extraordinary General Meeting in July 2007 approved the introduction of an employee share option program. The program is divided into a 1-year and a 2-year program, below named Program 1 and Program 2. The share option program is open to all permanent employees in the Group.

Calculation of theoretical value on the date of grant is based on the following assumptions:

	Program 1	Program 2
Volume-weighted average price on date of grant, SEK	24.50	24.50
Exercise price, SEK	35.82	35.82
Assumed volatility	74%	74%
Assumed average maturity	0.8 years	1.8 years
Assumed dividend yield	0%	0%
Risk-free rate of return	3.59%	4.22%
Theoretical value on date of grant, SEK	3.68	7.19
Number of employee share options granted	115 167	250 333

Consolidated balance sheet (Amounts in SEK 000s)	2008 31 Mar	2007 31 Dec
Assets		
Goodwill	43,410	42,358
Intangible assets	6,212	6,689
Tangible assets	20,141	21,813
Deferred tax asset	9,800	9,800
Total	79,563	80,660
 Inventories	 24,106	 28,564
Trade receivables and other receivables	49,721	63,956
Cash and cash equivalents	11,466	9,572
Total current assets	85,293	102,092
Total assets	164,856	182,752
 Equity		
Share capital	849	849
Other contributed capital	90,810	90,556
Retained profit including profit for the period	-74,869	-55,622
Total equity	16,790	35,783
 Liabilities		
Interest-bearing non-current liabilities	22,274	15,208
Deferred tax liabilities	2,580	2,578
Other provisions	2,988	8,747
Total non-current liabilities	27,842	26,533
 Trade payables and other liabilities	 72,123	 73,018
Current tax liabilities	-	-
Interest-bearing current liabilities	41,802	42,553
Other provisions	6,299	4,865
Total current liabilities	120,224	120,436
Total liabilities	148,066	146,969
Total equity and liabilities	164,856	182,752
 Equity/assets ratio, %	 10.2%	 19.6%
Net debt/equity ratio (times)	3.1	1.3
Net debt	52,610	48,189

Cash flow statement (Amounts in SEK 000s)	2008 Jan-Mar	2007 Jan-Mar	2007 Jan-Dec
Profit before financial items	-18,621	-7,832	-71,702
Interest income received	-	-	335
Financial expenses paid	-868	-662	-3,164
Adjustment for non-cash items	2,527	1,497	20,219
Income tax paid	-1,178	-348	-2,944
Cash flow from operating activities before changes in working capital	-18,140	-7,345	-57,256
Cash flow from changes in working capital			
Change in inventories	4,458	8,543	-3,610
Change in operating receivables	20,511	-25,983	-18,374
Change in operating liabilities	-5,868	-2,661	57,022
Cash flow from operating activities	961	-27,446	-22,218
Investing activities			
Acquisition of operations (1)	-5,437	-12,374	-13,374
Acquisition of tangible and intangible assets	-162	-3,402	-8,592
Sale of tangible assets	241	-	804
Cash flow from investing activities	-5,358	-15,776	-21,162
Financing activities			
Proceeds from issuance of new share after issue expenses	-	28,298	28,298
Proceeds from issuance of subscription warrants	-	10,463	10,463
Loans raised	7,199	11,474	13,854
Repayment of debt	-908	-2,407	-6,961
Cash flow from financing activities	6,291	47,828	45,654
Cash flow for the period	1,894	4,606	2,274
Cash and cash equivalents at beginning of period	9,572	7,298	7,298
Cash and cash equivalents at end of period	11,466	11,904	9,572

(1), Acquired net assets and goodwill

FMT Vent AB

Purchase price

Cash consideration	7,199
Unsettled additional purchase price commitment	903
Direct costs in connection with the acquisition	264

Total purchase price **8,366**

Fair value of acquired net assets -3,000

Goodwill **5,366**

The following assets and liabilities were included in the acquisition:

	FMT Vent AB	
	Fair value	Carrying amount
Tangible assets	141	141
Other receivables	5,847	5,847
Cash and cash equivalents	2,976	2,976
Deferred tax liabilities	-146	-146
Other liabilities	-5,818	-5,818
Acquired net assets	3,000	3,000

Changes in the Group's cash and cash equivalents arising from acquisitions are presented below:

	Fmt Vent AB	Net assets
Total purchase price settled in cash	-7,463	-950
Cash and cash equivalents in acquired subsidiary	2,976	-
Change in the Group's cash and cash equivalents arising from the acquisition	-4 487	-950

Consolidated statement of changes in equity
(Amounts in SEK 000s)

Closing balance, December 31, 2006	39,307
Issuance of new shares less issue expenses	47,657
Issuance of subscription warrants	10,463
Profit for the period	-6,131
Closing balance, March 31, 2007	91,296
Profit for the period	-7,986
Closing balance, June 30, 2007	83,310
Profit for the period	-21,634
Incentive scheme	548
Closing balance, September 30, 2007	62,224
Profit for the period	-26,593
Incentive scheme	152
Closing balance, December 31, 2007	35,783
Profit for the period	-19,247
Incentive scheme	254
Closing balance, 31 March 2008	16,790

Business Area Consumer Market (Amounts in SEK 000s)	2008 Jan-Mar	2007 Jan-Mar	2007 Jan-Dec
External revenue	19,588	56,540	186,321
Sales within the business area	1,285	2,872	16,532
Sales between business areas	343	578	25,017
Other revenue	12	215	716
Total revenue	21,228	60,205	228,586
Operating profit	-17,321	-7,940	-77,752
Operating margin, %	-81.6%	-13.2%	-34.0%

Business Area Corporate Market (Amounts in SEK 000s)			
External revenue	35,853	17,747	121,369
Sales within the business area	5,451	773	914
Sales between business areas	2,725	452	2,972
Other revenue	2	-	282
Total revenue	44,031	18,972	125,537
Operating profit	-1 301	108	6 050
Operating margin, %	-3.0%	0.6%	4.8%

Parent Company condensed income statement (Amounts in SEK 000s)	2008 Jan-Mar	2007 Jan-Mar	2007 Jan-Dec
Net sales	15,208	47,688	155,965
Operating expenses	-31,286	-52,732	-217,060
Operating profit	-16,078	-5,044	-61,095
Net financial items	-665	-596	-16,402
Profit before tax	-16,743	-5,640	-77,497
Income tax expense	-	-	13,462
Profit/loss for the period	-16,743	-5,640	-64,035

Parent Company condensed balance sheet (Amounts in SEK 000s)	2008 31 Mar	2007 31 Dec
Assets		
Intangible assets	2,861	3,064
Tangible assets	1,663	1,787
Financial assets	70,087	76,881
Total non-current assets	74,611	81,732
Current assets	34,888	53,865
Total assets	109,499	135,597
Equity		
Restricted equity	4,004	4,004
Non-restricted equity	15,384	31,873
Total equity	19,388	35,877
Non-current liabilities	11,975	17,979
current liabilities	78,136	81,741
Total equity and liabilities	109,499	135,597