ANNUAL REPORT

2016

FAGERHULT

THREE PRODUCT AREAS

INDOOR

Interior lighting for offices, schools, healthcare and other demanding indoor environments such as industrial manufacturing and transport sectors.

SHARE OF SALES

66 %

For more info, see pages 18–21

RETAIL

Lighting solutions for retail concepts and environments which highlight, strengthen and promote the retail brand whilst enhancing the customers merchandise.

SHARE OF SALES

25 %

For more info, see pages 22–25

OUTDOOR

Outdoor lighting that contributes to safe and secure urban environments with a focus on streets, parks, footpaths and cycle paths, as well as lighting for architectural effects.

SHARE OF SALES

9 %

For more info, see pages 26–29

TEN STRONG BRANDS

FAGERHULT | ateljé Lyktan | Whitecroft lighting | eaglelightingaustralia | LTS® LICHT & LEUCHTEN

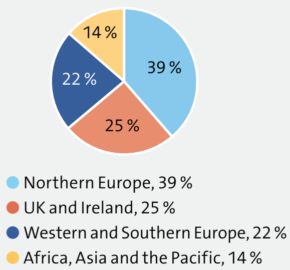
designplan LIGHTING | i VALO | ARLIGHT | LIGHTING INNOVATIONS | LED LINEAR lighting solutions

INTERNATIONAL PRESENCE

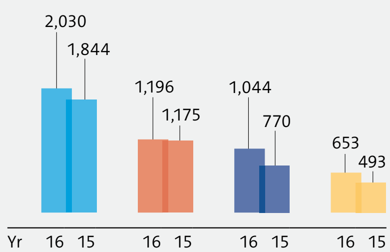
The Fagerhult Group is one of Europe's leading lighting companies and the largest in the Nordic region. The Group's largest markets are the Nordics and the UK with strong positions in Germany, Australia, Turkey and South Africa as well as many countries in Western Europe. During the year, the acquisition of LED Linear GmbH increased our presence in Germany as well as globally through an extensive distribution network.

With subsidiaries in a total of 24 countries, business operations are divided into four geographical areas. Marketing and sales activities are primarily performed locally through our subsidiaries and also via agents and distributors thus giving Fagerhult access to more than 40 markets. Production units are located in Sweden, Finland, the UK, Germany, Australia, Turkey, South Africa and China.

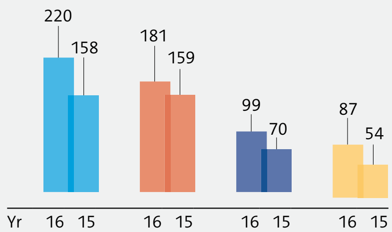
SALES PER BUSINESS AREA 2016



NET SALES PER BUSINESS AREA, MSEK



OPERATING PROFIT PER BUSINESS AREA, MSEK



GEOGRAPHICAL BUSINESS AREAS Northern Europe, UK and Ireland, Western and Southern Europe, Africa, Asia and the Pacific

VISION

Fagerhult is to become a leading global lighting solutions provider.

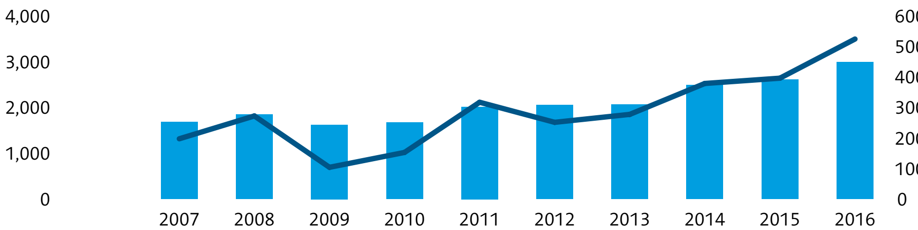
MISSION

To create a globally knitted together, customer insight driven company that leverages the Group's size and competencies while preserving the entrepreneurial culture in our local organisations.

A HISTORY ROOTED IN VÄSTERGÖTLAND, SWEDEN

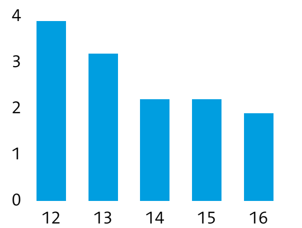
Fagerhult was founded in 1945 by Bertil Svensson and achieved sales of SEK 13,000 in its first year. A few years later, the first factory was built in Fagerhult, at that time with six employees and sales amounting to SEK 53,000. This factory, which has now been joined by the Group's other manufacturing units, currently has around 650 employees and has been extended some 40 times.

TRENDS FOR SALES AND OPERATING PROFIT, MSEK



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	2,527	2,770	2,436	2,506	3,023	3,085	3,095	3,736	3,909	4,491
Operating profit	198	272	104	153	317	252	278	379	396	524

DIVIDEND YIELD, %



12	13	14	15	16
3.9	3.2	2.2	2.2	1.9

CONTENTS

The official Annual Report which has been examined by the company's auditors comprises pages 40–81.

Together, Fagerhult's Annual Report and Sustainability Report should be viewed as the company's summary for 2016. The Sustainability Report is presented separately and follows the guidelines in GRI G4, level G4 Core, and has been externally reviewed. More information is available at www.fagerhultgroup.com/sv/hallbarhet.

Fagerhult is one of Europe's leading lighting companies with a total of 2,800 employees in 24 countries. Fagerhult develops, manufactures and markets innovative and energy-efficient lighting solutions for professional indoor and outdoor environments. The company offers a wide range of products and solutions developed using expertise and insight into the positive impact of light on people in a variety of environments. Over the years, Fagerhult has added several strong brands through acquisitions. Fagerhult's share is listed on Nasdaq Stockholm.

FINANCIAL HIGHLIGHTS FOR 2016

- Order intake amounted to MSEK 4,653.0 (4,113.4), corresponding to year-on-year growth of 9.4 per cent, after adjustment for currency effects and acquired units.
- Net sales amounted to MSEK 4,490.7 (3,909.4), corresponding to year-on-year growth of 10.3 per cent, after adjustment for currency effects and acquired units.
- Operating profit recorded a year-on-year increase of MSEK 128.2 to MSEK 524.2 (396.0) resulting in an operating margin of 11.7 per cent (10.1).
- The second and third quarters of the year were back to back the best ever for the Group with operating profits at 153.5 and 165.4 MSEK respectively.
- For 2016 as a whole, the LED lighting share of net sales was 77 per cent and for Q4 the figure was in excess of 83 per cent, demonstrating the continued strong delivery of increased LED sales and justifies the continued investments in development, manufacturing and marketing of LED luminaires.
- Acquisition of 100 per cent of the shares in LED Linear GmbH, located in Neukirchen-Vluyn, Germany, was completed in March.
- In December Fagerhult signed an agreement to acquire 100 per cent of the shares in WE-EF, the successful outdoor lighting group based in Bispingen, Germany and the transaction is expected to close and complete in the first quarter of 2017.

Uniqlo, England

NET SALES

MSEK **4,491**

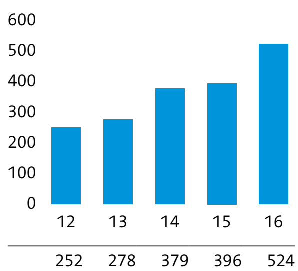
OPERATING PROFIT

MSEK **524**

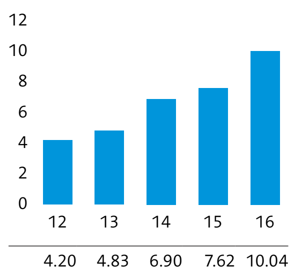
KEY PERFORMANCE INDICATORS

	2016	2015
Net sales, MSEK	4,491	3,909
Operating profit, MSEK	524	396
Profit after financial items, MSEK	515	377
Earnings per share, SEK	10.04	7.62
Sales growth, %	14.9	4.6
Operating margin, %	11.7	10.1
Net debt/EBITDA ratio	1.9	1.9
Equity/assets ratio, %	34	38
Return on capital employed, %	16.8	14.4
Return on equity, %	24.9	20.9
Net debt, MSEK	1,222	937
Net investments in non-current assets, MSEK	169	118

OPERATING PROFIT, MSEK



EARNINGS PER SHARE, SEK



Q1

- The Group posted a strong first quarter which considerably outperformed the first quarter of 2015.
- Order intake increased 18.5 per cent to MSEK 1,142.0 and net sales were up 15.9 per cent to MSEK 1,031.5, both figures are after adjustments for currency effects and acquired units.
- Healthy market growth in several of the Group's largest markets.
- The acquisition of LED Linear GmbH based in Neukirchen-Vluyn in Germany was announced on 15 March. The company's development and manufacturing of linear LED lighting fixtures is world leading.

Q2

- The healthy order intake continued and, for the third consecutive quarter, surpassed SEK 1 billion.
- Order intake for the quarter rose 6.9 per cent year-on-year to MSEK 1,207.5 adjusted for currency effects and acquisitions.
- Net sales amounted to MSEK 1,141.1, up 13.4 per cent, after adjustment for currency effects and acquisitions.
- Operating profit for the quarter amounted to MSEK 153.5 (88.2), corresponding to an operating margin of 13.5 per cent (9.2).
- The result of the UK's EU Referendum had an immediate currency impact of circa MSEK 2 on earnings in June.

Q3

- Order intake rose 9.0 per cent year-on-year to MSEK 1,088.7 after adjusting for currency effects and acquisitions.
- Net sales amounted to MSEK 1,144.1, up 7.2 per cent year-on-year, after adjustment for currency effects and acquisitions.
- Operating profit increased 30.6 per cent to MSEK 165.4, corresponding to an operating margin of 14.5 per cent.
- The negative effect of sterling was checked by the positive earnings in Euro, Australian dollar, the Norwegian and Danish kronor and the Russian rouble.

Q4

- The order intake in Q4 was MSEK 1,214.8 (1,098.1), an increase of 5.1 per cent after adjusting for acquisitions and currency effects and establishes a new record level.
- Net sales for the fourth quarter were MSEK 1,173.7 (1,033.1), which represents an increase of 5.5 per cent after adjusting for acquisitions and currency effects.
- The operating profit in the quarter was MSEK 119.9 (108.5), a 10.5per cent increase, delivering an operating margin of 10.2 (10.5) per cent. MSEK 21.4 one-off none-comparable M&A related items were charged in full to the operating result in the quarter.
- Order intake levels have exceeded SEK 1 billion during each quarter of the year.

"Fagerhult is a company with a solid foundation that is ready to embrace a new year by consistently adhering to an established strategy."

FOR MORE INFO, SEE PAGES 4–5

CONSISTENT STRATEGY BEHIND THE YEAR'S RECORD-BREAKING RESULTS

Results posted by Fagerhult Group are the best to date – 2016 was a record year with an operating profit of SEK 524.2 million. In other words, Fagerhult is a company with a solid foundation that is ready to embrace a new year by consistently adhering to an established strategy; and with value generation for our customers as a focal point, we will continue to grow, organically and through acquisitions.

With an operating profit of SEK 524.2 million, earnings per share of SEK 10.04 and an EBIT margin of 11.7 per cent, 2016 was the Fagerhult Group's most successful year to date. Furthermore, I am convinced that it is the effect of our entrepreneurial company culture, in combination with a decentralised business model, which provides the right conditions for enabling us to quickly meet customer requirements in line with new technological developments. On the whole, the Group's companies have posted excellent results while at the same time, they are gaining market shares and thus strengthening their positions.

Naturally, the general political uncertainty and economic developments are factors that we have to continuously analyse and take a stand on. A specific example of this is the Group's Turkish company Arlight, where a volatile home market has been offset by increased exports.

THE STRATEGY FOR 2020 FOLLOW ON FROM PREVIOUS PLANS

The Group's overall strategy was updated in 2016. This updated version is mainly based on previously established plans, but the structure has been streamlined to better suit external conditions and our business model. The strategy for 2020 is based on three product areas Indoor, Retail and Outdoor, complemented by the technical area, Controls & Connectivity. Our assessment is that development within the technical area is pivotal for all the subsidiaries.

TWO ACQUISITIONS THAT LOOK PROMISING FOR THE FUTURE

The Fagerhult Group acquired the German company LED Linear during the spring. This is an acquisition that not only provides access to new geographical markets but also to world-leading expertise in linear LED technology. LED Linear has mastered each step of its flexible, linear LED products — from development and manufacture to installation and use — which adds value to all three of Fagerhult's product areas.

The declared plan for our smallest product area, Outdoor, is that it will grow through acquisitions and organically. Regarding organic growth, during the year we have seen favourable developments in our own proprietarily developed luminaires for street and park lighting, Vialume, Evolume and Lunova. In 2016, new variants were launched that are adapted to larger road networks and now contribute to a product portfolio that has great potential to continue gaining market shares. Additionally, during the last few days of the year, Fagerhult signed an agreement to acquire the German company WE-EF, specialised in high quality outdoor luminaires for public spaces. WE-EF is a global operation with manufacturing units in Germany and Thailand together with assembly facilities in Australia and France, including distribution and sales channels in a number of markets. Pursuant to organic growth and the acquisition of WE-EF, Outdoor will be able to achieve total sales that will exceed a billion SEK on a yearly basis.

The process of integrating both companies is taking place in a manner similar to earlier acquisitions. Put simply, this means that the company is continuing its operations exactly as it did prior to the

"The acquisition of LED Linear not only provides access to new geographical markets but also to world-leading expertise in linear LED technology."

Johan Hjertonsson, *President and CEO*

acquisition, but with the addition that it now also has access to Fagerhult's Group-wide resources and can make use of our business synergies, such as in purchasing and product development.

TOGETHER WE ARE TAKING ADDITIONAL STEPS TOWARDS OUR VISION

2016 was, without a doubt, the Group's most successful year to date and I want all employees to feel proud in having helped contribute to the fantastic result. We have achieved this by virtue of a shared vision and a consistent strategy such as our brands, for which there is leeway for adjustment to best meet the needs of customers. Combining the local entrepreneurial drive with economies of scale comprises the foundation of Fagerhult's ability to meet a changing business environment and to allow us to reach our desired position little by little as a leading global provider of lighting solutions.

Habo, January 2017

Johan Hjertonsson
President and Group CEO

TEN STRONG BRANDS

These ten strong brands play a central role in the Group's growth strategy for increasing our market shares and achieving broader market coverage. A shared advantage for all of the companies is their strong positions in their respective home markets.

FAGERHULT

1945
Head office: Fagerhult, Sweden
Product areas: Indoor, Retail, Outdoor
Fagerhult's birthplace and main brand, which accounts for the largest part of the Group's total sales. The strongest positions are in the Northern European markets.

Whitecroft lighting

2005
Head office: Manchester, England
Product areas: Indoor, Retail, Outdoor
The Group's second largest brand in terms of total sales. Also the second largest player in the UK market which accounts for about 96 per cent of Whitecroft's sales.

LTS

2010
Head office: Tettnang, Germany
Product areas: Indoor, Retail
With its quality focus, LTS occupies a strong position primarily in the German market, where the company is a prominent player in the area of lighting solutions for retail concepts.

VALO

2013
Head office: Iittala, Finland
Product areas: Indoor, Outdoor
Lighting solutions for demanding industrial environments. Holds a leading position in the Finnish market together with sales in France, Germany, Russia and Sweden, among other countries.

LIGHTING INNOVATIONS

2015
Head office: Port Elizabeth, South Africa
Product areas: Indoor, Retail
Lighting Innovations occupies a strong position in the South African market and, moreover, offers interesting growth possibilities in the dynamic sub-Saharan region.

ateljé Lyktan

1974
Head office: Åhus, Sweden
Product areas: Indoor, Outdoor
A design-focused brand that, with a premium position, offers products with Swedish design for public places and customers with stringent requirements. Strongest position in the Swedish market.

eaglelightingaustralia

2007
Head office: Melbourne, Australia
Product areas: Indoor, Retail, Outdoor
One of the major brands in the Australian and New Zealand markets. The offering also includes lighting solutions from Fagerhult and Designplan.

designplan

2011
Head office: Sutton, England
Product areas: Indoor, Outdoor
With lighting solutions for weather and vandal-proof environments, Designplan has a niche position in the UK market. The company also has sales in the German, Australian, Middle Eastern and Nordic markets.

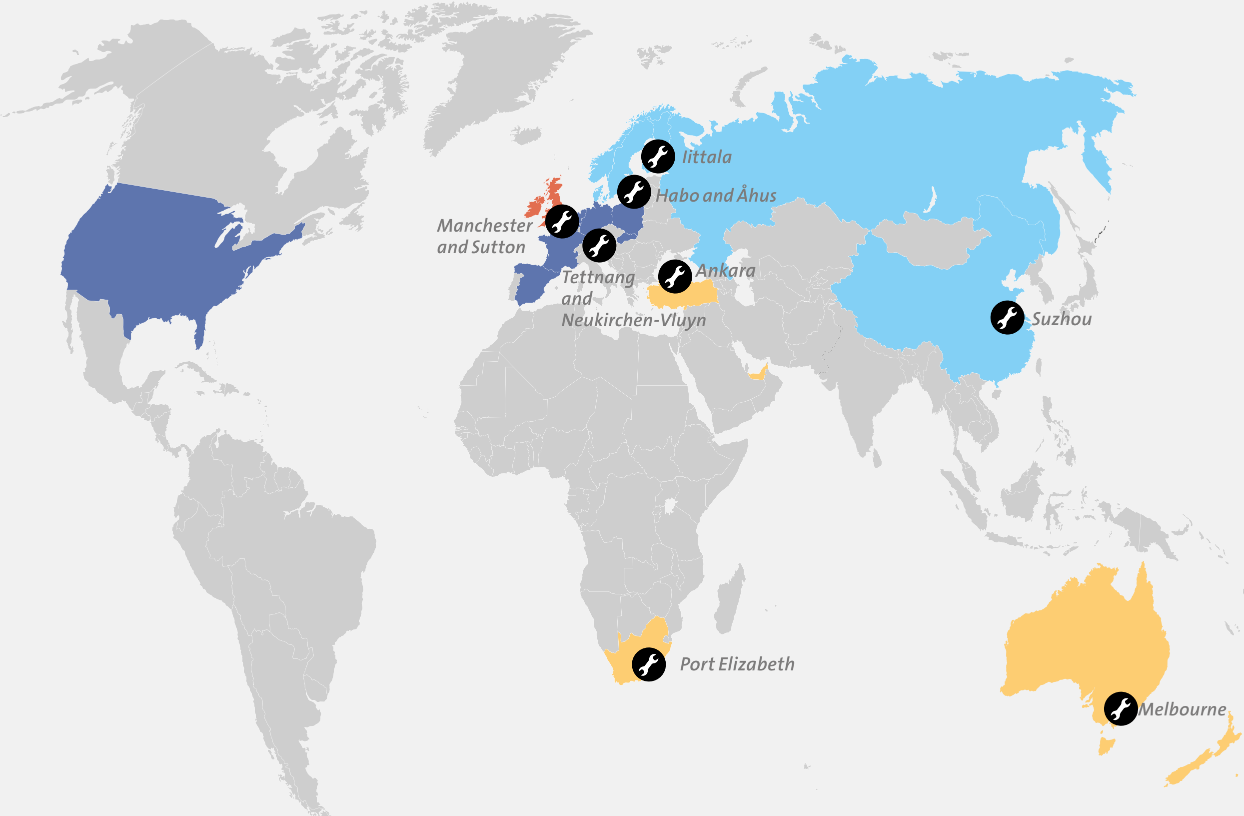
ARLIGHT

2014
Head office: Ankara, Turkey
Product areas: Indoor, Retail
Arlight has a strong position in the Turkish market for indoor lighting. The company's low-cost production comprises a key complement to the other companies' product portfolios.

LED LINEAR

2016
Head office: Neukirchen-Vluyn, Germany
Product areas: Indoor, Retail, Outdoor.
LED Linear, develops and manufactures linear LED luminaires primarily for professional environments. Its operations include an established global sales network in Europe, North America and Asia.

FAGERHULT'S BUSINESS AREAS



MANUFACTURING

NORTHERN EUROPE

Sweden, Norway, Finland, Denmark, Estonia, China and Russia

SALES:

39%

MANUFACTURING:
Habo, Åhus, Iittala and Suzhou

UK AND IRELAND

UK and Ireland

SALES:

25%

MANUFACTURING:
Manchester and Sutton

WESTERN AND SOUTHERN EUROPE

Belgium, France, the Netherlands, Poland, Slovakia, Spain, Germany and the USA

SALES:

22%

MANUFACTURING:
Tettnang and Neukirchen-Vluyn

AFRICA, ASIA AND THE PACIFIC

South Africa, Australia, United Arab Emirates, New Zealand and Turkey

SALES:

14%

MANUFACTURING:
Port Elizabeth, Melbourne and Ankara

FAGERHULT'S VALUE CREATION AND BUSINESS MODEL

Fagerhult creates stable and long-term values for shareholders, customers, suppliers, employees and local communities. The model for value creation illustrates the input resources required by operations, and the values created for stakeholders.

The business model, which comprises the core of the value creation process, is built on a strongly decentralised structure. This provides the Group's ten brands with clear mandates to take the decisions to optimally adapt the business, products and sales channels to local market conditions. This structure also provides extensive opportu-

INPUT RESOURCES

Motivated and competent employees
2,800 knowledgeable, committed and motivated employees with a mandate to make decisions in close partnership with customers.

Strong local and niche brands
Well-established brands that provide strong positions in their respective markets.

Adapted sales models
Provide customer insight and adapted solutions for every market and product area.

Manufacturing facilities
Production plants with high quality, efficiency and the ability to deliver close to our main markets. Input materials such as electronic components, metal and plastic for the manufacturing of products.

Financial means
Capital to finance the operating activities and to invest in growth, organic or through acquisitions, and in efficiency enhancements.

BUSINESS MODEL

Group-wide functions, support and resources

Finance, M&A and HR
Fagerhult Lighting Academy

A decentralised model for the ten brands that generate value through local decision-making and execution

FAGERHULT designplan LIGHTING eaglelightingaustralia ateljé Lyktan Whitecroft lighting

PURCHASING
- Suppliers
- Partners

RESOURCES
- Product development
- Manufacturing

Indoor

Retail

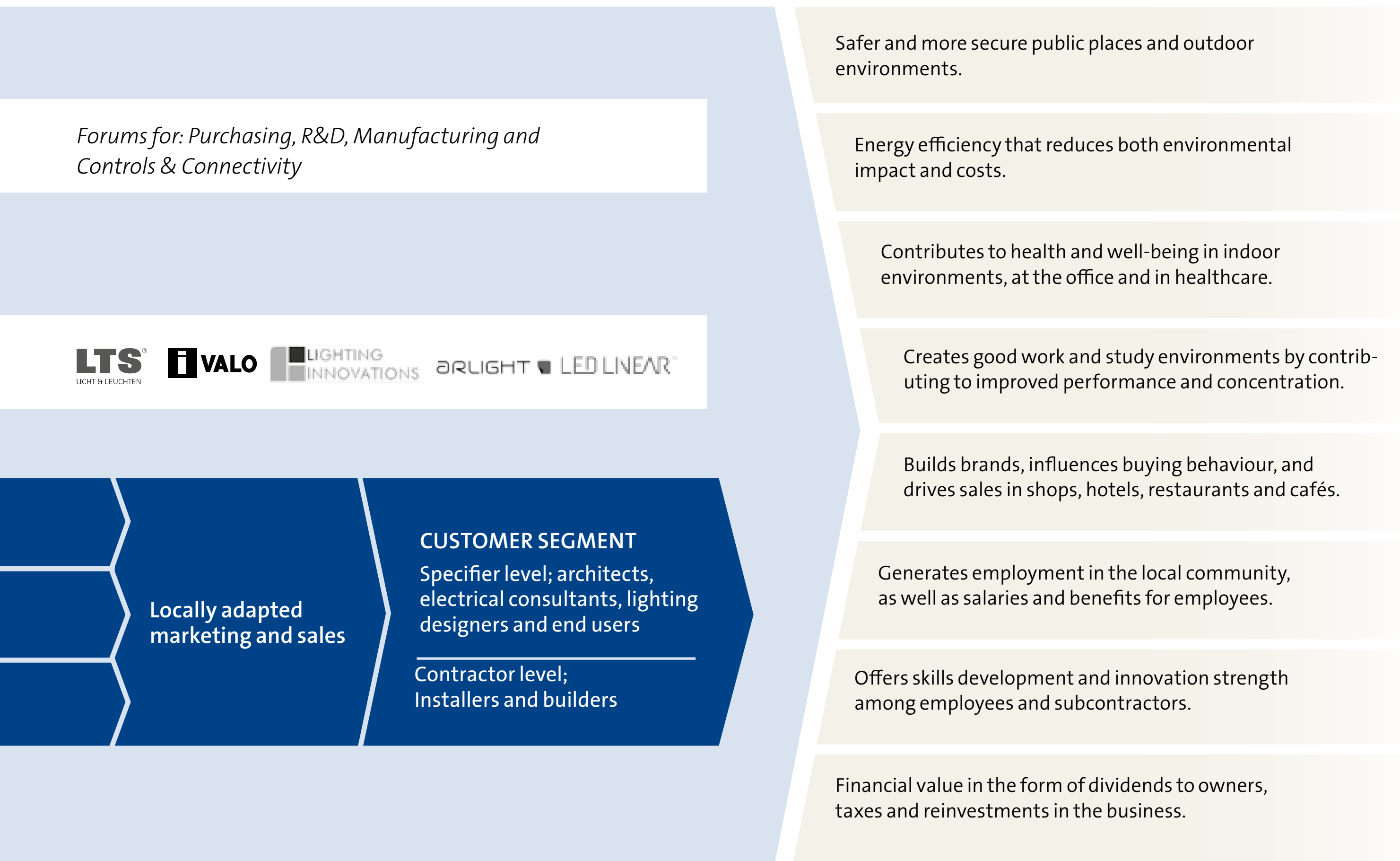
Outdoor

nity to combine local entrepreneurial perspectives with the advantages of economies of scale.

A number of Group-wide functions and resources have been formed to capture, concentrate and realise the economies of scale that the Group's size offers, particularly in terms of skills, purchasing and product and technology development.

The Group management is responsible for the overall financial governance and control, as well as for M&A, which form a key element of Fagerhult's innovation and internationalisation strategy.

OUTPUT VALUE



A CONSTANTLY CHANGING BUSINESS ENVIRONMENT

GLOBAL TRENDS

DIGITISATION

Digitisation impacts essentially all parts of society and provides completely new preconditions for what is possible, such as using more channels to grow existing businesses, acting as a catalyst for new business ideas and quickly reaching a broader target group. The trend is not only redrawing the map for how we interact, it is also challenging companies' ability to rapidly reorganize processes and develop new business models. One critical success factor is having the right skills in place to develop new products and services in line with new technology.

BUSINESS POSSIBILITIES

Fagerhult has considerable possibilities for capitalising on the digital transformation. The essence is to offer lighting that can be easily adapted to business conditions and individual needs, in pace with technological developments. New business possibilities are arising in step with the continued development of the Internet of Things, in particular the capacity to link together luminaires with other types of services. The main challenges are: to have the right skills and technology in place; and to strengthen the market position when the competitive landscape expands with new types of competitors.

DEMOGRAPHIC CHANGES

Over a 50-year perspective, population increases are mainly expected in the older age groups. An aging population will place intense pressure on a number of societal functions which will, in turn, need to identify new solutions that better equip the welfare system to meet growing needs and demand for alternative housing, neighbourhood services, geriatric care and medical care.

BUSINESS POSSIBILITIES

The business possibilities of a focus on the healthcare sector are in the capacity to contribute to well-lit care environments that ensure clinical environments for optimal care quality and to create environments that positively impact well-being and recovery. The use of lighting that casts an intense artificial light and a feeling of daylight also opens possibilities to promote working environments that make care professionals feel more alert and less stressed.

URBANISATION

The transition from countryside to city-living is a fact and in fifty years' time, 75 per cent of the world's population is expected to live in urban environments, compared with about 50 per cent today. Strong population growth centred on the cities will, in turn, need to meet requirements for sustainable growth in terms of infrastructure and buildings as well as safe and attractive city environments where the key factors are the right timing and amount of lighting.

BUSINESS POSSIBILITIES

In many ways, a lighting company such as Fagerhult is part of the cities' solution to growing needs for more and more energy-efficient lighting. Energy-efficient LED lighting reduces costs and the carbon footprint, and when combined with lighting control, new possibilities are opened to link together luminaires with other types of services. Fagerhult also helps create outdoor lighting environments that provide increased traffic safety, security and attractive meeting places.

Globalisation, urbanisation, demographic changes, digitisation, a shifting competitive landscape – in all trends, there is something that can be translated into a business opportunity for Fagerhult.

INDUSTRY-SPECIFIC DRIVERS

LED AND LIGHTING CONTROL PROVIDE VALUABLE SYNERGIES

LED technology provides very low power consumption, generates little heat, has a long life and allows colour variations that mean the technology shift is moving faster than expected. Another driver is the continued development of the technology itself. Efficiency will soon pass the 200 lumens per watt with a potential to continue upwards by 5 per cent per annum in parallel with declining production costs. New builds and renovations account for a key portion together with the need to change lighting in existing buildings to LED.

BUSINESS POSSIBILITIES

LED now accounts for 83 per cent of Fagerhult's sales and the target for 100 per cent LED sales is set for not later than 2020. The flexibility of LED technology gives rise to new innovative products and solutions, of which LED Linear's flexible and linear LED strips are an excellent example. Considerable growth possibilities have also been identified in the development of LED technology in combination with digital controls and online services.

INNER CITY BEAUTIFICATION WITH CUSTOMIZED OUTDOOR LIGHTING

There are many more benefits to be gained from outdoor lighting than simply ensuring visibility and security on city streets and in other public places, which is something that an increasing number of municipal authorities have come to realize. The growing trend of customizing the lighting for the exterior of buildings, statues and public places, enables the unique character of each specific part of a city to be highlighted and enhanced. It's all about inner city beautification, and the more welcoming and safe an urban area feels, the more people will come to enjoy and spend time in it – even at night time. While socializing and taking in the sights, these people also will contribute to the economic development of the area.

BUSINESS POSSIBILITIES

In recent years the Fagerhult Group has strengthened its position in the outdoor lighting market. With the addition to the Group of WE-EF's offering, complemented by our own portfolio of professional outdoor luminaires, we can embrace the growth of outdoor lighting, offering a wide variety of solutions from close-to-house, city centres and parks to streets and major road networks.

CONTINUOUSLY SHIFTING COMPETITIVE LANDSCAPE

The lighting industry operates in a relatively mature market, which is currently driven by the shift to LED technology. Generally, ongoing acquisition activity is relatively high, in parallel with some shifting industry boundaries in the form of new global participants, primarily from the electronics industry, who are establishing themselves as the business opportunities with LED technology become apparent. The majority of the market participants face a challenge in handling earlier investments in T5 luminaires, which are rapidly declining in value in pace with the entry of LED technology.

BUSINESS POSSIBILITIES

A key success factor in the continuously shifting competitive landscape is a strong understanding of and knowledge about local market conditions. One of Fagerhult's most important competitive advantages is the decentralised business model with local autonomy and close customer relations. Moreover, LED lighting's share of the Group's total sales is slightly more than 83 per cent in the fourth quarter, which indicates the success of investment in product development and manufacture of LED luminaires.

OUR CONSISTENT STRATEGY IN A NEW LIGHT

The Group's overall strategy was reviewed in 2016 and resulted in a strategy for profitable growth that largely follows the previously established successful path. The structure of the strategy has been refined to better match the macro environment and Fagerhult's business model.

A compiled view of developments over the last five years in the European lighting market shows that Fagerhult stands out as one of the more successful lighting companies. During this five year period the Group's growth has averaged 6–7 per cent per year and the operating margin has increased to 11.7 per cent in 2016. Naturally, the acquisitions made during the period have contributed to growth and earnings, however other success factors have also contributed. The lighting market is often described as local, where strong local roots and detailed customer knowledge are viewed as a requirement for success. What sets Fagerhult's business model apart is its strongly decentralised structure that provides the respective companies extensive decision-making power and flexibility based on local market conditions. In parallel, it is a structure that allows the possibility of gathering and realising the economies of scale that the Group's size generates in terms of expertise, product development, sourcing and manufacturing.

STRATEGY FOR 2020

The review of the Group's overall strategy during the year resulted in a version that largely follows the previously established successful path. Organic growth and acquisitions will continue to drive profitable growth. The structure of the strategy has been refined to better match the macro environment and Fagerhult's business model. The strategy for 2020 is based on three business pillars complemented by one technology area with relevance for all brands.

PRECONDITIONS FOR THE GROUP

The strong positions of the ten brands in their respective local markets, with close, long-term relations with customers and specifiers comprise some of Fagerhult's strengths for realising this strategy. Often, relations have been built through solid expertise and the company's broad product portfolio, which provides excellent capacity to meet customers' varied prerequisites and needs with standard products and tailored lighting solutions. The decentralised business model is another factor that furnishes the company with flexible decision-making based on local conditions and changed customer needs. The business model also helps strengthen delivery capacity as local manufacturing enables short delivery times to customers. In addition, irrespective of economic conditions, the Group has continuously invested in product development and innovation.

"Organic growth and acquisitions will continue to drive profitable growth."

The strategy of reducing business risks primarily pertains to achieving an enhanced spread between the dominant sales markets and other markets, and striving toward a higher degree of equally sized product areas in terms of sales. A central aspect is also the attraction, development and retention of key expertise to thereby remain at the cutting edge of technology.

GROUP-WIDE STRATEGY FOR 2020

The four strategic pillars: Indoor, Retail, Outdoor and Controls & Connectivity comprise the areas where the Group has identified excellent possibilities for profitable growth. Technology developments in Controls & Connectivity are assessed as becoming increasingly important for all product areas and, accordingly, important for each company in the Group. The next step for the ten brands is to formulate a business and product strategy that contributes to the overall aims of the Fagerhult Group.

FAGERHULT 2020
THE GROUP'S STRATEGIC FRAMEWORK

VISION

Fagerhult is to become a leading global lighting solutions provider

FAGERHULT'S FOUR STRATEGIC INITIATIVES 2020

The four strategic initiatives provide the framework for continuing to manage and grow the Group's strong brand positions though until 2020.

INDOOR

Secure a strong position for continued profitable growth.

- Stable, underlying market growth provides the opportunity to further increase penetration by winning market shares in Fagerhult's key markets.
- Establish Fagerhult in complementary business segments and add new product categories and application areas.
- Strengthen the Group's presence in fast-growing metropolitan and geographic areas through close specifier level connections.

OUTDOOR

Investments that lay the foundations for a leading position.

- Expand our proprietarily developed product portfolio under the Fagerhult brand through organic growth.
- Secure a continued strong position in close-to-house luminaires.

RETAIL

Grow Retail profitably.

- Ensure the right customer offering to establish long-term relationships and grow the business.
- Growth requires concentration on focus markets clearly aimed at defined customer segments.

CONTROLS & CONNECTIVITY

Develop a broad customer offering.

- Ensure that products and solutions are adapted to/compatible with market standards and systems.
- Build internal competence to strengthen the customer offering.
- Create possibilities for upselling through customer-specific solutions that demonstrate customer benefits and value-creation over time.

FOUR STRATEGIC FOUNDATIONS

Lighting expertise	Broad product portfolio	Delivery capacity through a strong supply chain	High level of product service

HOW WE WORK

An entrepreneurial culture with strong core values.
Leverage Group scale and knowledge. Attract, grow and retain the best competence.

MISSION

To create a globally knitted together, customer insight driven company that leverages the Group's size and compentencies while preserving the entrepreneurial culture in our local organisations.

FAGERHULT'S NEW BRAND LED LINEAR GMBH

The acquisition of LED Linear GmbH enables Fagerhult to strengthen its strategic position in the global professional lighting market at the same time as it broadens its customer offering with world-leading LED technology.

Fagerhult's growth in the international market and its journey toward becoming a global player has been largely realised through acquisitions. General criteria for acquisition candidates, in addition to historically healthy profitability, entail that the candidate will broaden the Group's operations in terms of geographic markets, products and/or technology. The acquisition is also normally organised under at least one of the product areas: Indoor, Retail or Outdoor.

A TYPICAL EXAMPLE OF FAGERHULT'S ACQUISITION MODEL

Over the ten years of its existence, LED Linear has consistently reported strong financial results and, most recently in 2016, organic growth exceeded 40 per cent. The acquisition provides the Fagerhult Group with access to new geographic markets and a strong position in the German market. In addition, it adds world-leading expertise, technology and manufacturing of products. LED Linear which has mastered each step of its flexible, linear LED products – from development and manufacture to installation and use – are not limited to a specific area. It contributes LED technology that adds value to all three of Fagerhult's product areas: Indoor, Outdoor and Retail.

AN ACQUISITION WITH MANY SYNERGIES

The new business opportunities represented by the consolidation of LED Linear into the Fagerhult Group include increased sales of LED Linear's products both internally and externally through the Group's distribution channels, together with access to the company's manufacturing and cutting-edge expertise in linear LED technology. LED Linear also has an established sales presence in the North American market, which will now become a sales channel for other Group companies.

LED Linear GmbH was consolidated into the Fagerhult Group as of 1 April 2016. As part of the transaction, the joint venture partner in LED Linear USA exercised its option to sell the remaining shares in LED Linear USA, which means that the US subsidiary's results are also consolidated in the Fagerhult Group.

Fagerhult paid MEUR 40, on a cash and debt free basis, on the transfer of possession. A MEUR 21 earn-out may be paid until 2018 and is tied to the company's performance.

LED LINEAR™
lighting solutions

LED Linear's successful journey of innovation started in 2006 and, right from the start, focused on developing LED technology for professional environments. The company manufactures linear LED luminaires, and LED modules and components for indoor and outdoor luminaires. The primary environments for the brand's luminaires include hotels, restaurants, retailers, exclusive housing and infrastructure. LED Linear has built an extensive global sales organisation which contributes to more than 50 per cent of the company's net sales being generated in the North American, Asian and Middle East markets.

LED Linear is based in Neukirchen-Vluyn in Germany and had 149 employees at the end of 2016.

Stålgården Nord, Norway

THREE PRODUCT AREAS FOR PROFESSIONAL ENVIRONMENTS

Indoor, Retail and Outdoor are Fagerhult's three product areas that offer a wide range of products and lighting solutions for professional environments, both indoor and outdoor.

INDOOR

References:

Cubus, Sweden

RETAIL

References:

Vargön, Sweden

OUTDOOR

References:

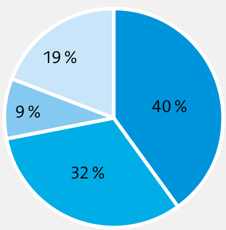
INDOOR

Indoor is Fagerhult's largest product area and accounts for two thirds of the total sales. All of the Group's brands develop and market lighting solutions for indoor use.

INDOOR'S SHARE OF THE GROUP'S TOTAL NET SALES

66 %

INDOOR'S A SALES SPECIFIED PER BUSINESS AREA



- Northern Europe, 40 %
- UK and Ireland, 32 %
- Western and Southern Europe, 9 %
- Africa, Asia and the Pacific, 19 %

Indoor lighting is the common denominator for Fagerhult's ten brands and lighting solutions for professional indoor environments are offered in all markets. Energy-efficient LED technology is the largest driver in the market for indoor lighting, and when combined with lighting control creates additional customer value.

INDOOR'S PERFORMANCE IN 2016

During the year, Indoor increased net sales 7 per cent. Above all, the Nordic, UK and Australian markets stand out out both in terms of sales and higher market shares.

Given the stable, underlying growth in Fagerhult's key markets, possibilities are assessed as favourable for increasing market shares and strengthening positions.

There is also the ambition of establishing Fagerhult in complementary business segments, which will provide further growth opportunities.

LOCAL NEEDS SHAPE THE SALES MODEL

The main professional environments for lighting solutions are:
- Modern office environments with the possibility of directing and controlling lighting.
- Educational premises.
- Retirement homes.
- Luminaires for hospital environments, wards and examination rooms.
- Industrial and institutional environments needing vandalism-proof luminaires.

The sales model for Indoor is adapted to the local market and the customer segments' needs. Sales are direct to end customers and indirectly at the specifier level, which for Indoors primarily comprises lighting designers, architects, electrical consultants and property companies.

ONE LOVE LANE, ENGLAND

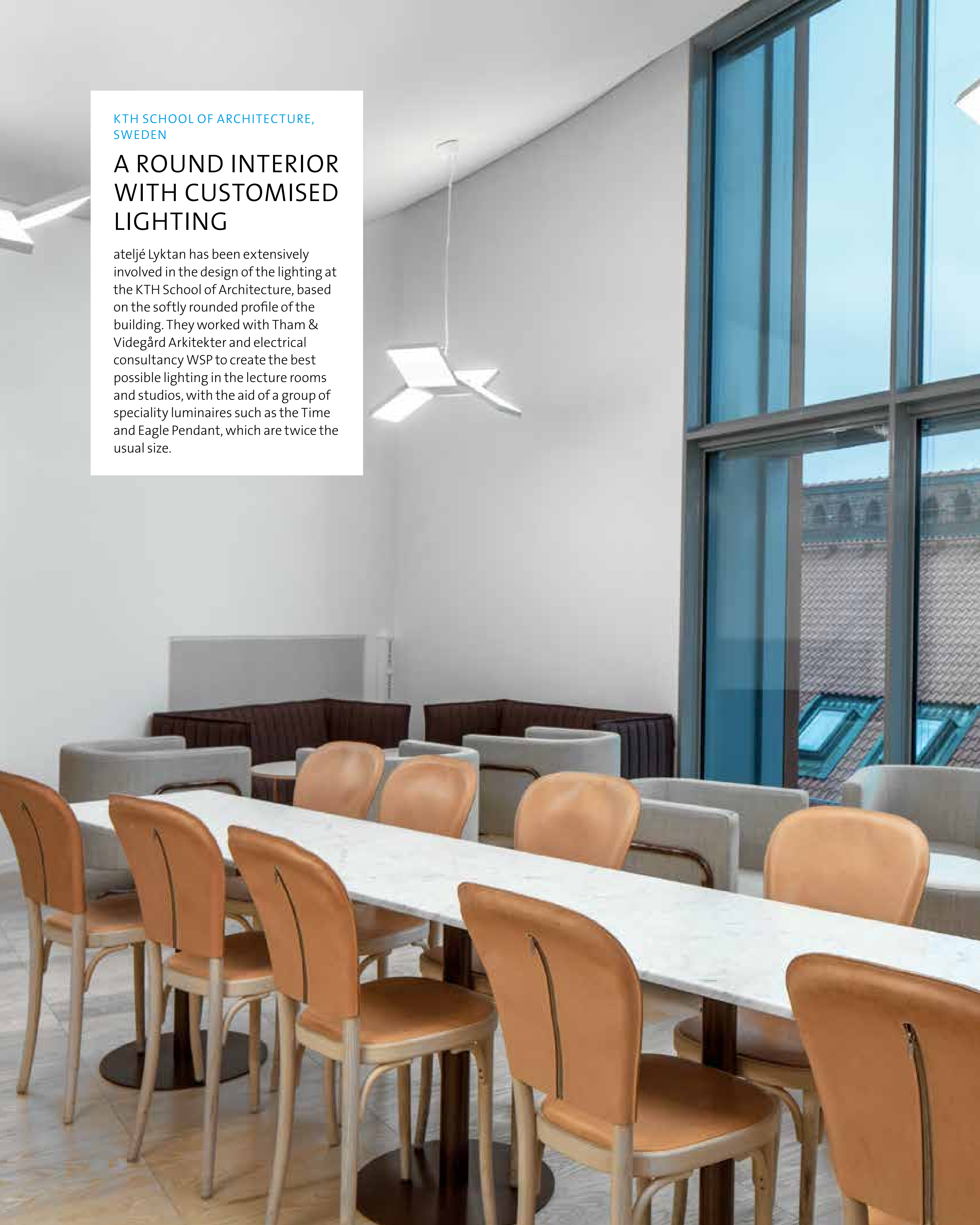
LIGHT IS ONE LOVE LANE'S BIG LOVE

One Love Lane is a modern office block building located in the heart of London. It required a modern lighting scheme to fit in with its proposition as an attractive workspace in the centre of the city. Fagerhult was chosen as the sole supplier, for its ability to deliver all solutions under one roof. In the reception pendant Riff Puck from ateljé Lyktan has been installed. The popular Notor was used in both pendant and recessed forms, with the recessed being developed especially for the project. Pleiad G3 compliments the Notors, with the whole lighting scheme being controlled by DALI.

KTH SCHOOL OF ARCHITECTURE, SWEDEN

A ROUND INTERIOR WITH CUSTOMISED LIGHTING

ateljé Lyktan has been extensively involved in the design of the lighting at the KTH School of Architecture, based on the softly rounded profile of the building. They worked with Tham & Videgård Arkitekter and electrical consultancy WSP to create the best possible lighting in the lecture rooms and studios, with the aid of a group of speciality luminaires such as the Time and Eagle Pendant, which are twice the usual size.



LINKÖPING UNIVERSITY HOSPITAL, SWEDEN

LIGHTING ADAPTED TO THE TIME OF DAY FACILITATES HOSPITAL CARE

Fagerhult had the task of supplying no less than 1,300 Eira luminaires as part of the renovation of the Linköping University Hospital. Fagerhult's turnkey solution also includes advanced lighting control with 300 Epsilon, customized luminaires that conform to the new DALI standard Tunable White. This lighting solution can be adjusted according to the time of day, thus contributing to well-being by ensuring that circadian rhythms are maintained even in rooms with limited access to daylight.

UNIVERSITY OF EAST ANGLIA, ENGLAND

LIGHTING UP THE GREENEST BUILDING IN THE UK

The Enterprise Centre at the University of East Anglia is a feat of sustainable construction and is now recognised as the 'greenest commercial building in the UK'. It received the coveted Passivhaus and BREEAM accreditations, as well as a number of industry awards, for its focus on wellbeing and sustainable, long lasting design.

The lighting scheme was simple and intended to harness daylight as well as darkness not only to achieve an energy efficient building, but also one that feels comfortable to spend time in. A number of custom made LED as well as T5 solutions were used to achieve the brief.

Fagerhult UK was directly involved as a design partner and was chosen as the supplier for its ability to supply all products, technology and support under one roof by using the Group's brands Fagerhult, atelje Lyktan and LTS.

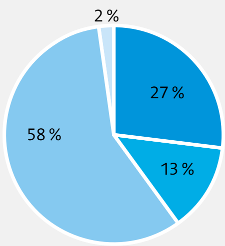
RETAIL

With retail lighting that creates attractive and inviting retail environments, Retail offers excellent possibilities for retail chains wishing to strengthen their brands and stimulate buying behaviour.

RETAIL'S SHARE OF THE GROUP'S TOTAL NET SALES

25 %

RETAIL'S NET SALES SPECIFIED PER BUSINESS AREA



- Northern Europe, 27 %
- UK and Ireland, 13 %
- Western and Southern Europe, 58 %
- Africa, Asia and the Pacific, 2 %

Retail's lighting solutions are marketed primarily under the Fagerhult and LTS brands, which are principally aimed at larger well-known chains in fashion and food retailing. Whitecroft in the UK and Arlight in Turkey also offer retail lighting solutions.

RETAIL'S PERFORMANCE IN 2016

In line with the Group´s strategy, Retail has strengthened its market position within its product application area and during the year increased net sales 18 per cent compared with 2015. Above all, the Swedish, German, Spanish and UK markets stand out both in terms of sales and higher market shares. Next is to ensure the right customer offering to establish long-term relationships and further strengthen its position in retail lighting.

CLOSE CLIENT RELATIONS DEVELOP THE SALES MODELS

Today, sales and relationship building is aimed at concept managers with major international fashion chains since retail lighting is a key element of stores' design concept. A critical factor for growth is the possibility to grow in pace with the expansion of a store chain. Retail lighting solutions are offered in a majority of the Group's markets. LTS is a strong player in the German market, while the Fagerhult brand has a strong position in the Nordic market and favourable positions in Russia, the UK, France and the Netherlands. In markets where the Fagerhult brand is used, sales are mostly direct to end customers, while LTS in Germany mainly sells indirectly through wholesalers.

UNIQLO FLAGSHIP STORE, ENGLAND

A COLOUR PALETTE OF LIGHT

Uniqlo is characterised by the vivid colour palette of its clothing range and its flagship store in Oxford Street was lit with CRI 90 spotlights to really emphasize this vibrancy. While the design concept called for a brightly lit space, it was equally important to avoid the store appearing too uniform. By mixing different beam angles within the same product family, a greater level of contrast was achieved without impacting the visual consistency within Uniqlo stores. Both Fagerhult and LTS products were used to complete the lighting scheme.

O2'S STORE OF THE FUTURE, ENGLAND

VISUAL VARIATIONS THAT REINFORCE THE CONCEPT

The O2 concept store in Westfield, designed by Dalziel & Pow, reinvents what you expect from a mobile phone store. From technical expertise and technology showcase to lounge areas with hot drinks, engagement and interaction are at the forefront of O2's new design proposition.

The lighting within the store had to not only provide the contrast and visual variation the concept demanded, but also a visual environment suitable for workshops, perusing and relaxing. Fagerhult's Marathon and iTrack were used to achieve the scheme.

L'ORÉAL, FRANCE

THE POWER OF BEAUTY

L'Oréal´s NYX is a global brand of professional cosmetic shops focusing on teenagers and is now established in over 70 countries. Throughout 2016 the NYX branded outlets increased significantly across Europe, and Fagerhult France was chosen to support L'Oréal on that journey by providing lighting solutions for each outlet. Today Fagerhult has completed approximately 50 projects around Europe.

With a focus on beauty and providing professional cosmetics at affordable prices the NYX brand image is one of a dark and contrasting shop concept with a discreet design of the lighting solution. Black LED spotlights of the efficient Marathon G2 model were chosen because of the contemporary fixture design that blends with and matches the dark interior and contrasting colourful points of sale.

To enhance the customer's merchandise barndoors accessories were used to direct and cut off the light, giving a comfortable yet enhancing light to the colourful cosmetic displays.

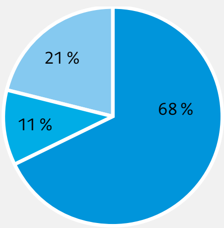
OUTDOOR

In 2016, Outdoor increased its net sales substantially as an effect of the aggressive investment in the outdoor lighting market and the strategic acquisition of LED Linear.

OUTDOOR'S SHARE OF THE GROUP'S TOTAL NET SALES

9 %

OUTDOOR'S NET SALES SPECIFIED PER BUSINESS AREA



- Northern Europe, 68 %
- UK and Ireland, 11 %
- Western and Southern Europe, 21 %
- Africa, Asia and the Pacific, 0 %

Fagerhult offers lighting for a wide variety of outdoor environments, everything from facades and roofs to footpaths and cycle paths, car parks, streets and major road networks. Outdoor lighting solutions are primarily offered by the Fagerhult, ateljé Lyktan, LED Linear and Designplan brands. The latter also offers robust products adapted to withstand harsh weather conditions and vandalism. Towards the end of 2016 Fagerhult signed an agreement to acquire 100 per cent of the shares in WE-EF, a German designer and manufacturer of outdoor lighting fixtures for a wide range of lighting application sectors. An acquisition that takes the Group's sales in the outdoor segment to a run-rate exceeding 1 BSEK.

OUTDOOR'S PERFORMANCE IN 2016

During the year, Outdoor increased net sales 6 per cent on a like-for-like basis compared with 2015. Above all, the Swedish, Norwegian, Danish, UK and German markets stand out both in terms of sales and higher market shares. Possibilities for expansion to more markets are strengthened by the Fagerhult brand's proprietarily developed product families: Vialume and Evolume with variants for lighting streets and major road networks, and Lunova for park lighting, for example. Moving forward, the ambition is to secure a strong position in close-to-house luminaires and acquisitions are viewed as one method of accelerating growth.

LOCAL CONDITIONS SHAPE THE SALES MODELS

Outdoor lighting solutions are offered in all of the Group's geographic markets but, thus far, sales efforts have been focused on the Nordic market. The sales model is adapted entirely to local conditions. Public procurements are a key sales channel in Scandinavia together with direct contacts with end customers, for example, municipalities with regard to lighting for parks and streets. Indirect sales are through the specifier level, such as consultants and landscape architects.

ORMHUSET, SWEDEN

LIGHTING THAT PRODUCES SECURE AND ATTRACTIVE ENVIRONMENTS

The Ormhuset (Snake House) residential area in the city of Jönköping has been equipped with dynamic lighting as part of its focus on creating a residential environment that is both secure and attractive. The lighting was consistently designed to help residents perceive their surroundings more easily – the location of entryways and communal spaces, and the direction of pedestrian paths. The courtyard has dynamic lighting with both high and low light points thanks to the rugged Lunova omnidirectional park luminaire. Vialume 1 wide-beam asymmetric street lighting, provides even and uniform lighting of parking areas and pedestrian paths.

GÄVLE E-SENSE MOTION, SWEDEN

MOTION-ACTIVATED LIGHTING IN PUBLIC SPACES

There is often less need for fully illuminated pedestrian and cycle paths, streets and other outdoor environments in the late evening and night time. The energy-efficient e-Sense Motion control system has been used in the city of Gävle to adapt lighting based on the needs of people moving through the area. For example, if someone is moving along a pedestrian path, the presence detector causes a specific number of luminaires to become brighter up to a predetermined light level, to remain lit for period of time and then dim again. There are significant opportunities to save energy while preserving a feeling of security and suitable visual comfort.

CANARY WHARF CROSS RAIL, ENGLAND

ENLIGHTENS THE TRACKS FOR THE LONDONERS

Crossrail is currently Europe's largest construction project for completion during 2018. The purpose is to expand passenger capacity across the Eastern to Western regions of London. The project includes the construction of eight major new sub-ground stations in London. Designplan Lighting worked collaboratively with all stakeholders at Canary Wharf – the first Crossrail station to be completed.

In partnership with the design team the Terminus range of downlighters utilising a new reflector in combination with a patterned glass diffuser to provide wide light output and uniformity of light was developed. To ensure a homogenous effect for the linear fittings, our continuous Flair luminaire was designed, incorporating T5 lamps. In total 3,000 luminaires were installed: Flair, Tube, Terminus Downlighters and Platform Edge Screen (PES) light boxes was installed. Among product innovations one can find New range (Terminus) and bespoked PES LED light boxes.

VIALUME, VARBERG, SWEDEN

A FLEXIBLE LIGHTING SOLUTION WITH VISUAL COMFORT

In central Varberg, Östra Vallgatan is the main artery in the heart of the city. The street serves two purposes; a route for motorised transport and secondly a pedestrian/cyclist thoroughfare. These two distinctly different modes of transport created a demand for a flexible lighting solution that emphasises visual comfort. Three alternative luminaires were selected for trial installation and ultimately the city authorities chose Fagerhult's Vialume luminaire with a 3000k colour temperature and a variety of optical solutions to control and guide the light output. Visual comfort is one of the great advantages of Vialume and the luminaire works well at different heights and improves visibility for bus drivers, motorists as well as pedestrians and cyclists in their separate lanes. The timeless, appealing design of the luminaire makes it an excellent alternative for the future.

CITY OF LIGHT – A MIRROR THAT REFLECTS THE BRAND

"City of Light will allow us to construct professional environments that truly demonstrate our outstanding expertise and creativity in the field of lighting solutions," says Anders Mårtensson, Marketing Director of the Fagerhult brand.

City of Light is now emerging in the former office and warehouse space at Fagerhult's facility in Habo, Sweden. A flexible office environment that promotes creativity and facilitates work flows among co-workers in different departments is being fashioned in the industrial premises. There is also room for large spaces shared by customers, where professional indoor environments equipped with the very latest lighting can be created.

"We create wonderful functional environments for customers with the aid of professional lighting every day. City of Light gives us the opportunity to practice what we preach and create environments that truly reflect the brand. Environments that evolve and change along with product development and launches, to show how we can use innovative methods to customise lighting based on every situation and need," said Anders Mårtensson.

The first stage of City of Light was completed in 2016, and the process of transforming the office space and main entrance is continuing in 2017.




THE COLOUR TEMPERATURE FORMS THE CHARACTER OF THE LIGHT

Can lighting influence our emotions? “Absolutely,” say Fagerhult’s experts. The answer lies in the light’s colour temperature — warm light soothes us and helps us to relax, while cold light infuses with energy and activates us.

“The connection between light and well-being has been scientifically documented, and is a matter of how the intensity of light is able to impact our biology and daily rhythms. It is crucial to keep these factors separate when we now describe the benefits and possibilities of colour temperatures. In this case, it is about the emotions and atmosphere that warm and cold light generate with us,” says Henrik Clausen, Director of the Fagerhult Lighting Academy.

“We have listened to our customers’ needs, for example, to light an indoor environment and give the feeling of daylight. Or in the care sector, to provide patients with greater ability to adapt lighting to their emotional state.”

PAUL CASSIDY, COMMERCIAL DIRECTOR AT WHITECROFT

YET ANOTHER DIMENSION WITH TUNABLE WHITE

Colour temperature defines a light as cold or warm. When described in terms of wavelengths, warm light is defined as long wavelengths toward the orange/red end of the spectrum, while cold light is defined as short wavelengths toward the opposite or blue side of the spectrum. To be called white, light must comprise all of the wavelengths.

“When we work with product development, colour temperature can be used to add another dimension for tailoring lighting to specific needs. Traditionally, lighting design has involved the location of light sources and possibilities for varying their intensity using controls. The Tunable White function adds a third dimension that makes it possible to vary the luminaire’s colour temperature and, thereby, adjust lighting to the mood we are trying to create,” says Paul Cassidy, Commercial Director at Whitecroft.

ABILITY TO ALLOW THE SITUATION TO DETERMINE THE CHARACTER OF LIGHT

It has long been possible to control light’s intensity, but its colour temperature has often been fixed. Colour temperature adds functions to create certain moods, for example, to start the day with warm light in the morning to then increase levels of colder light toward lunchtime and then to slowly return to lower levels and warm light in the afternoon and evening.

“We create lighting for people — based on situations and their needs. If we wish to create the preconditions for relaxing or having conversations, warm lighting can help bring people closer to each other from a purely physical aspect. On the other hand, cold light promotes energy and contributes to the ability to solve important tasks. By working with colour temperature, we can create lighting solutions that provide unexpected added value,” explains Henrik Clausen.

Whitecroft’s product range now includes a number of luminaires that have the Tunable White function with the possibility of selecting the colour temperature that best matches needs – *Tegan, Cityline, Mirage, Cascade and Careline.*

AN EMPLOYER WHO AIMS TO ATTRACT AND RETAIN THE BEST SKILLS

Fagerhult's decentralised model for governance and decision making provides each company with the possibility to build a unique organisation model that generates results, participation, commitment and satisfaction. Parallel efforts are ongoing with developing a leadership that constitutes the bridge between the Group's collective skills and the local entrepreneurial spirit.

The employees' contributions in the form of expertise, commitment and innovation form the basis of Fagerhult's ability to achieve both shared and local business targets. Through the acquisition of LED Linear, the Group expanded with the addition of 149 skilled employees, which means that at the end of 2016, a total of 2,824 people worked for the Fagerhult Group.

STRENGTHENED LEADERSHIP

In the spring, a third round of Bright Leaders, the group's management programme, specially adapted to Fagerhult's decentralised business model, was conducted. To date, some 50 members of the Group's senior management have participated in the programme, which has the primary aim of strengthening their ability to lead in a high-performance organisation and equip employees with the self awareness and tool kit needed to grow in their roles. The aim is to form a leadership that constitutes the crucial bridge between the Group's collective skills and the companies' individual needs for such skills. The management programme is also an excellent opportunity to build networks with key people in other Group companies.

SUCCESSFUL TRAINEE PROGRAMME

For a knowledge-based company such as Fagerhult with its need to continuously broaden and renew existing competence, skills supply is a critical success factor. Making contacts with future talents is a must and, accordingly, Fagerhult participates in a range of external activities and job market days at selected universities to increase interest in the lighting industry in general and Fagerhult in particular. The two-year trainee programme, Bright Prospect, that Fagerhult introduced in autumn 2015 has proven successful in a number of ways. The setup with a rotation of half-year projects around the Group's companies with breaks for training weeks has been well-received by all participants. In addition, matching skills with needs has had favourable results. The trainees have been given a combination of complex and advanced projects, where they have performed excellently and have in turn been able to deliver valuable insights and results.

The trainee programme will probably be a recurring activity with a new programme due to start in autumn 2017.

NEW AND SHARED SKILLS GENERATE BUSINESS ADVANTAGES

The acquisition of LED Linear in spring 2016 enriched the Group in numerous ways: 149 new employees, a strong presence in the German market and access to new markets. Beyond the business benefits, LED Linear also contributes world-leading expertise in linear LED technology and electronics, which opens new perspectives and brings technical expertise of considerable value for all product and development areas.

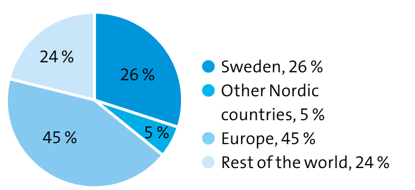
Fagerhult's acquisitions also create excellent development opportunities for employees who are interested in new challenges. The management has expressed a clear ambition for greater job rotation where, for example, one step is for all jobs to be made transparent through announcement on the Group-wide intranet. Initiatives are also ongoing with matching employees' expertise and experience with the companies' needs in various projects. This has resulted in a number of employees being offered opportunities to participate in temporary exchanges with one of the other companies. The building of a culture that values increased exchange of knowledge and experience is continuing in pace with the Group's growth.

A RESPONSIBLE ENTERPRISE

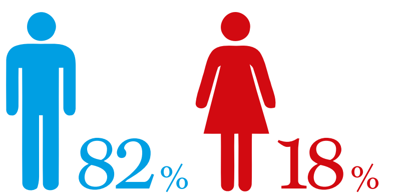
Being a part of the Fagerhult Group means that the guidelines for responsible enterprise must be followed strictly. It is all formulated as a Code of Conduct in which the Group's view on areas including working conditions, diversity and equal opportunities are set forth. The Code also regulates our relations with suppliers and customers in regard to gifts, entertainment and sponsorship, as well as our approach to environmental responsibility and local differences in legislation.

The whistle-blower function complements the Code of Conduct and comprises an important channel for individuals to alert the company of any deviations from the Code of Conduct and any irregularities in our business. The function is managed by the Group's HR function and whistle-blowers can remain anonymous.

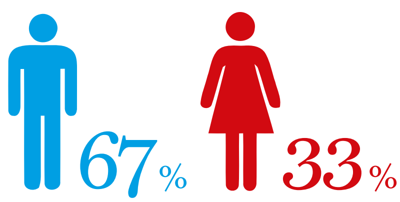
PERCENTAGE OF EMPLOYEES PER GEOGRAPHICAL MARKET



MEMBERS OF THE BOARD AND SENIOR MANAGEMENT BY GENDER



EMPLOYEES BY GENDER



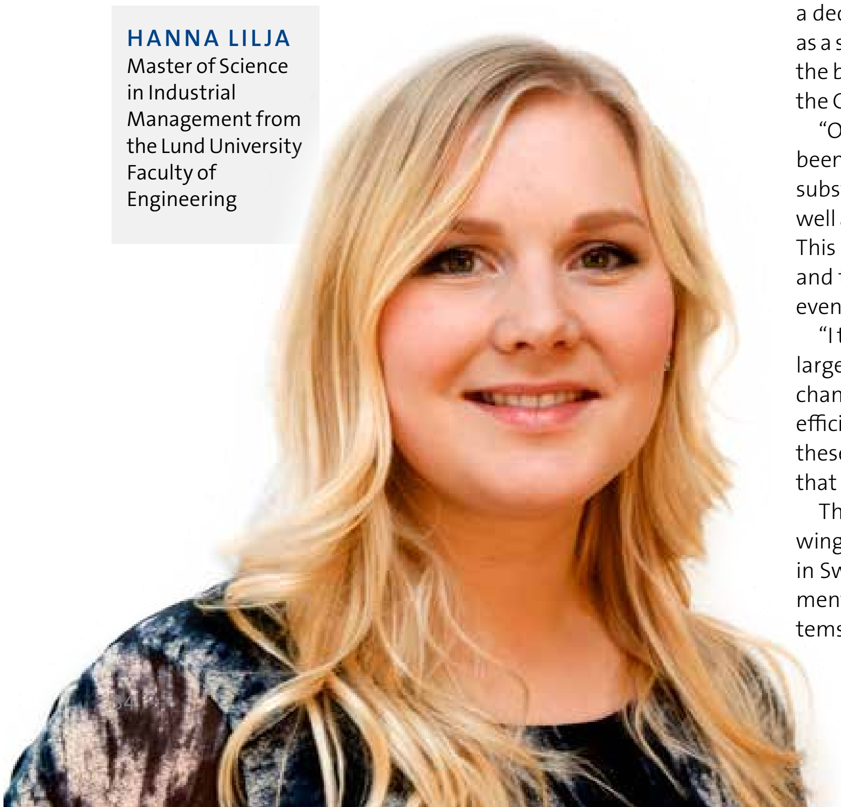
THE TRAINEE PROGRAMME – AN ATTRACTIVE PATHWAY INTO THE GROUP

The opportunity to try out different fields of activity, work abroad for a while and build up a broad network of contacts in a global Group – starting out as a trainee can be a great start to a career in many ways.

As this is being written, the first stream of Bright Prospects, the trainee programme started by Fagerhult in the Autumn of 2015 is drawing to a close. As Hanna Lilja, Martin Carlestav and André Martinsson – who were chosen from a field of over 400 applicants – look back on their time so far at the Group, they can report that it has been intense, broadening and extremely instructive.

"One lasting impression from my first experiences with the company was how they treated me with respect and genuine interest in finding out what I personally could contribute with. This has also been consistent throughout my time with the Group: a desire to match my skills and ambition with the companies' needs, in order to create an interchange that is as rewarding as possible for all parties," said Martin Carlestav.

HANNA LILJA
Master of Science in Industrial Management from the Lund University Faculty of Engineering



In addition to the obvious goals of the programme, was there anything more that attracted you to a trainee position with Fagerhult?

"Of course the global Group's ability to offer projects abroad is attractive to most young people. There's also the chance to be involved right now as the industry undergoes a dramatic transition in technology to LED," said Hanna Lilja.

For a knowledge intense company such as Fagerhult, the trainee programme is an important part of the Group's effort to maintain a supply of skilled employees and an opportunity to bring young talent into the Group. A structured programme that is well thought through is fundamental. In Fagerhult's case, this means three six-month project periods at three different group companies in more than one country, alternating with briefer theoretical training courses. Everyone is based at one of the Swedish companies, and the programme concludes with a permanent job offer. Every trainee has a dedicated mentor throughout the entire programme who serves as a sounding board, and the HR function provides support in finding the best match between the person's skills and ambitions as well as the Group's needs.

"One consistent element throughout my projects is that there has been a true need for and interest in my contribution. I've been given substantial individual responsibility to drive the projects forward, as well as a great deal of influence over work approaches and methods. This has definitely helped me to grow through these assignments, and their great confidence in me lets me dare to challenge myself even more," said Hanna Lilja.

"I think they've shown a lot of confidence in our ability to manage large-scale projects. In my case for example, this meant driving change processes in an organisation in order to make work more efficient. This isn't something you learn in school – you can only gain these skills on the job. I view it as an extremely important experience that I will benefit greatly from in the future," said André Martinsson.

The three trainees have really had the chance to try out their wings with a variety of assignments all over, with companies located in Sweden, UK, Germany, China and the Netherlands". The assignments have included everything from implementing business systems and designing processes for customised products, to contri-

MARTIN CARLESTAV
Master of Science in Industrial Management from Umeå University Faculty of Science and Technology

buting to co-creating a new Group strategy and how to improve our lighting planning offering. All three are enriched by new experiences, knowledge and contacts, and they feel that they have more or less arrived at the field of work within the Group that they are most interested in right now, and where they will continue in a permanent position.

A NEW ROUND IN AUTUMN 2017

All of the trainees agree that Fagerhult's strength as an employer is reflected in many ways in the factors that are also the foundation for its business successes: the combination of a pronounced entrepreneurial approach and local decision-making with the strengths of the global Group.

"Fagerhult's values and shared strategy contribute to a sense of belonging, and serve as a common denominator for collaboration. In general, there is also a great willingness to cooperate, where we are united in a common drive forward while at the same time every company gets to do what they do best. What I've encountered is a healthy performance culture, where every company sees its part in the whole and works hard to deliver strong results," said André Martinsson.

Fagerhult is planning a new trainee programme for autumn 2017, and all three think that Fagerhult's brands should take the opportunity to benefit from someone who comes in from the outside and can look at the business from a new perspective.

"As a trainee you're really eager to work and contribute as much as possible. The companies that take on a trainee can be sure to get a 200-per cent return on their investment, in terms of both commitment and innovative proposals for new solutions," said Martin Carlestav.

Paul Cassidy, Commercial Director at Whitecroft Lighting and Martin Carlestav's sponsor during his project at Whitecroft, agreed, adding:

"If a trainee period is to be valuable for both parties, this primarily depends on two things: a meaningful project with a well-defined set of objectives for the expected delivery, and a trainee who can take on and complete the project with the right attitude and motivation. I think this combination has been reflected in Martin's contributions during his time with us – he took on the project enthusiastically and completed it successfully, earning great appreciation from his new colleagues along the way!"

ANDRÉ MARTINSSON
Master of Science in Industrial Management from Linköping University

THE FAGERHULT SHARE

Fagerhult's share was listed in May 1997 and is traded on the Mid Cap list of the Nasdaq, Stockholm. Market capitalisation at year end totalled about SEK 9 billion.

SALES AND TRADING

The share symbol is FAG and its ISIN code is SE0005935558. One trading lot corresponds to one share. In 2016, total turnover for the share on Nasdaq in Stockholm was 1.9 million shares, at a combined value of SEK 373 million, which corresponded to approximately 100 per cent of share turnover. Average share turnover per trading day was about 7,423, representing a value of SEK 1,474,000. An average of approximately 54 trades were made per trading day.

LIQUIDITY GUARANTEE

In 2015, an agreement, under the framework of Nasdaq Stockholm's liquidity guarantee system, was signed with ABG Sundal Collier Norge ASA aimed at increasing turnover in Fagerhult's share.

SHARE PRICE TREND

At 31 December 2016, the closing price for Fagerhult's share was SEK 233.50 per share, corresponding to a market capitalisation of approximately SEK 9.0 billion. The price of the Fagerhult share rose 48 per cent in 2016. Over the same period, the Nasdaq Stockholm PI rose 6 per cent. The highest closing price of SEK 278.50 was noted on 31 August and the lowest on 8 February at SEK 134.25. The average share price for the year was SEK 195.

Total shareholder return for the Fagerhult share, defined as the price trend including reinvestment of the dividend of SEK 3.50, was 51 per cent.

SHARE CAPITAL

At year end, Fagerhult's share capital amounted to MSEK 65.5 (65.5), allocated over 38,550,000 shares with a quotient value of SEK 1.70 per share. All shares have equal voting rights and an equal participation in the company's earnings and capital.

At the Annual General Meeting (AGM) on 21 April 2016 also resolved that the company be permitted to buy back its own shares. This option was not exercised in 2016. In connection with the allocation of shares tied to the Group's share-savings plan, treasury shares were used. The number of treasury shares totalled 610,677 (686,949) after allocation and the number of shares outstanding was 37,939,323. The percentage of shares held as treasury shares was 1.6 per cent. The Board of Directors proposes that the AGM resolve to grant the Board the continued right to buy back the company's shares until the next General Meeting.

SHARE SPLIT

The Board of Directors proposes that the AGM resolves to increase the number of shares in the Company by splitting each share into three shares, a 3:1 share split. To facilitate the 3:1 share split, the Board of Directors also proposes that the AGM resolves to amend the Articles of Association by increasing the authorised number of shares from between 10 million to 40 million to between 30 million and 120 million.

OWNERSHIP STRUCTURE

At year end, Fagerhult had 4,779 (4,038) shareholders. The largest single shareholder was Investment AB Latour, in which the Douglas family are the main shareholders, with combined holdings of 49.1 per cent (48.9) of the share capital and votes in the company, based on the number of shares outstanding. The eight largest shareholders accounted for 83.0 per cent (82.9) of the share capital and voting rights of the shares outstanding. The proportion held by shareholders outside of Sweden was 13.4 (14.1) per cent.

DIVIDEND

Over the long-term, Fagerhult intends to distribute 30–50 per cent of consolidated net profit. At this dividend level, the Board is of the opinion that there is sufficient cash flow to finance expected future investments. The Board proposes to the AGM a dividend of SEK 4.50 (3.50) per share, representing a dividend yield of 1.9 per cent (2.2) based on the share price on 31 December 2016.

OWNERSHIP STRUCTURE (AT 31 DEC. 2016)

Shareholder	No. of shares	Share capital and voting rights, %
Investment AB Latour	18,620,400	48.3%
SSB CL Omnibus AC, USA	3,145,597	8.2%
The Svensson, family, foundation and company	2,836,875	7.4%
Lannebo Funds	2,470,274	6.4%
Robur Small business funds	1,535,756	4.0%
SEB Funds	1,107,248	2.9%
The Palmstierna family	1,006,200	2.6%
Nordea Funds	750,948	1.9%
Swedish National Pension Fund	590,589	1.5%
NTC Fidelity Funds	590,203	1.5%
Handelsbanken Funds	255,706	0.7%
Johan Hjertonsson	255,479	0.7%
Other owners with more than 20,000 shares (46 owners)	1,698,872	4.4%
Other owners with 10,001 – 20,000 shares (33 owners)	445,965	1.2%
Other owners with 1,001 – 10,000 shares (614 owners)	1,629,870	4.2%
Other owners with up to 1,000 shares (4,073 owners)	999,341	2.6%
AB Fagerhult, treasury shares	610,677	1.6%
Number of shares at year end	**38,550,000**	100.00%

SHARE TURNOVER

Year	2012	2013	2014	2015	2016
Volume of shares traded, millions	2.4	2.1	2.3	1.9	1.9
Value of traded shares, MSEK	150	129	373	275	373
Average volume of shares traded/trading day	10,098	8,229	9,255	7,607	7,423
Average value per trading day, SEK thousand	601	517	1,505	1,098	1,474
Turnover rate, %	7	5	6	5	5
Highest price paid during the year, SEK	73.17	75.67	151.50	168.00	278.50[1]
Lowest price paid during the year, SEK	51.67	55.00	71.50	128.50	134.25[2]

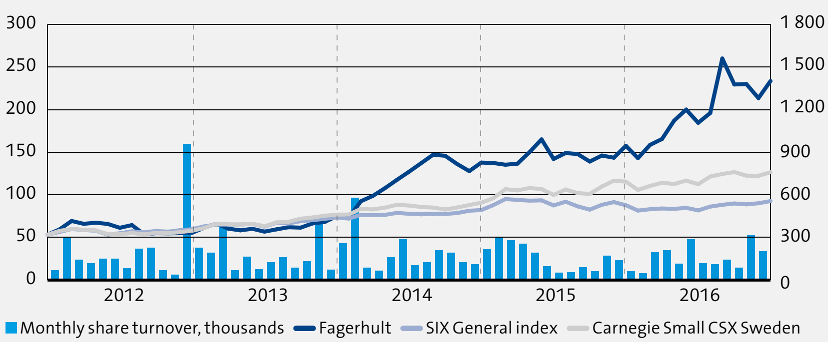
1) Paid 31 August 2016
2) Paid 8 February 2016

DATA PER SHARE

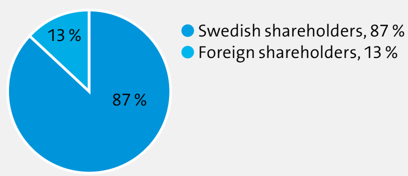
Year	2012	2013	2014	2015	2016
Earnings per share before dilution, SEK	4.20	4.83	6.90	7.62	10.04
Dividend per share, SEK	2.17	2.42	3.00	3.50	4.50[1]
Share price 31 Dec, SEK	55.33	74.83	137.75	157.50	233.50
Dividend yield, %	3.9	3.2	2.2	2.2	1.9
Equity per share, before dilution, SEK	24.52	27.22	35.13	37.98	42.89
Cash flow per share, before dilution, SEK[2]	6.27	5.84	10.33	11.72	10.23

1) Proposed dividend
2) Cash flow from operating activities

FIVE-YEAR SHARE PRICE TREND



OWNERSHIP DISTRIBUTION



FINANCIAL INFORMATION

FIVE-YEAR OVERVIEW

Income Statements (MSEK)	2012	2013	2014	2015	2016
Net sales	3,085	3,095	3,736	3,909	4,491
(of which outside Sweden)	(2,302)	(2,369)	(2,930)	(3,040)	(3,516)
Cost of goods sold	–2,108	–2,087	–2,524	–2,612	–2,917
Gross profit	**977**	**1,008**	**1,212**	**1,297**	**1,574**
Selling expenses	–580	–560	–636	–678	–783
Administrative expenses	–178	–184	–220	–246	–316
Other operating income	32	14	23	23	49
Operating profit	**251**	**278**	**379**	**396**	**524**
Financial income	4	2	2	5	17
Financial expenses	–41	–33	–33	–24	–26
Profit after net financial items	**214**	**247**	**348**	**377**	**515**
Balance-sheet items (MSEK)					
Intangible assets	975	1,048	1,448	1,466	2,069
Property, plant and equipment	339	333	387	392	448
Financial assets	23	23	26	35	34
Inventories, etc.	445	525	574	602	685
Trade receivables	495	577	676	678	761
Other current assets	89	66	68	94	86
Cash and cash equivalents	**257**	**249**	**353**	**472**	**731**
Total assets	**2,623**	**2,821**	**3,532**	**3,739**	**4,814**
Equity	928	1,030	1,329	1,437	1,627
Pension liabilities	60	62	66	66	68
Deferred tax liabilities	60	64	65	63	131
Other non-current interest-bearing liabilities	953	1,013	1,267	1,341	1,752
Other non-current non-interest-bearing liabilities			37	53	239
Current interest-bearing liabilities	117	59	60	1	133
Current non-interest-bearing liabilities	505	594	708	778	864
Total equity and liabilities	**2,623**	**2,821**	**3,532**	**3,739**	**4,814**
Key performance indicators and data per share					
Sales growth, %	2.1	0.3	20.7	4.6	14.9
Increase/decrease in operating profit, %	–20.8	10.3	36.5	4.6	32.4
Increase/decrease in operating profit after financial items, %	–25.3	15.5	40.9	8.4	36.5
Operating margin, %	8.2	9.0	10.1	10.1	11.7
Profit margin, %	6.9	8.0	9.3	9.6	11.5
Liquid ratio, %	41	38	46	61	73
Net debt/EBITDA	2.6	2.4	2.2	1.9	1.9
Equity/assets ratio, %	35	37	38	38	34
Capital employed, MSEK	2,058	2,163	2,723	2,846	3,581
Return on capital employed, %	12.2	13.3	15.6	14.4	16.8
Return on equity, %	17.8	18.7	22.1	20.9	24.9
Net debt, MSEK	874	885	1,040	937	1,222
Net investments in non-current assets, MSEK	92	65	110	118	169
Depreciation/amortisation of non-current assets, MSEK	85	88	95	107	121
Number of employees	2,192	2,204	2,370	2,451	2,787
Equity per share, SEK	24.52	27.22	35.13	37.96	42.89
Earnings per share, SEK	4.20	4.83	6.90	7.62	10.04
Dividend per share, SEK	2.17	2.42	3.00	3.50	4.50[1]
Cash flow per share, SEK[2]	6.27	5.84	10.33	11.72	10.23
Number of shares outstanding, thousands	37,836	37,836	37,836	37,863	37,939
Average number of shares outstanding, thousands	37,836	37,836	37,836	37,856	37,920

1) Proposed dividend.
2) Cash flow from operating activities.

ADMINISTRATION REPORT

The Board of Directors of AB Fagerhult (publ), Corporate Identity Number 556110-6203, hereby present the Annual Report for the Group and the Parent Company for the year 2016.

Operations

The Fagerhult Group is one of Europe's leading lighting groups and the largest in the Nordic region. We develop, manufacture, and market professional lighting systems for public environments with a focus on design, function, flexibility and energy-efficient solutions. The Group has sales companies in more than 20 countries with 7 manufacturing facilities in Europe and factories also in Turkey, China, South Africa and Australia.

Fagerhult's shares are listed on the Nasdaq, Nordic Exchange, Mid Cap list in Stockholm.

Changes in the Group

In March 2016, Fagerhult acquired 100 per cent of the shares of LED Linear GmbH based near Dusseldorf, Germany with its registered office at Neukirchen-Vluyn. As part of the transaction the joint venture partner, LED Linear USA exercised the option to sell the remaining 50 per cent of shares to LED Linear GmbH. The results of LED Linear GmbH and its USA subsidiary have been consolidated in the Fagerhult Group from 1 April 2016. With the acquisition of LED Linear GmbH, Fagerhult strengthened its LED technology capability and we see several attractive growth opportunities including synergies across the Group's brands and sales regions. LED Linear GmbH has established a global sales presence with more than half of the net sales outside Europe. The company also has shares in 6 international joint ventures acting as sales companies.

In December 2016, Fagerhult signed an agreement to acquire 100 per cent of the shares of WE-EF based in Bispingen, Germany. The agreement was subject to German competition authority approval, which was granted in January 2017 and closing of the deal is expected to take place during the first quarter of 2017. The WE-EF group companies included in the transaction are; WE-EF Leuchten GmbH, WE-EF Leuchten GmbH & Co. KG, WE-EF Trading & Design GmbH, all based in Germany, WE-EF Lumiere S.a.r.l, France, WE-EF Lighting Co. Ltd, Thailand, WE-EF Helvetica SA, Switzerland, WE-EF Lighting Ltd, UK, WE-EF Lighting Pty. Ltd, Australia and WE-EF Lighting USA LLC, USA. In addition and as part of the transaction, Fagerhult will also acquire 100 per cent of the shares in Flux Eclairage S.A.S. based in Lyon, France. The results of the WE-EF companies and Flux will be consolidated in the Fagerhult Group from quarter one 2017 and included in the business area Western and Southern Europe (formerly Other Europe). The addition of WE-EF to the Fagerhult Group will significantly strengthen the Group's position in the global outdoor lighting market.

Sales and earnings

For most of the Group's main markets growth has been strong during the year with stable growth rates in many other of the Group's regions. Sweden and the UK continue to exhibit the most favourable market activity while Germany, with the addition of the LED Linear acquisition performed well. Growth in Turkey has slowed during the year due to its political situation, but this has been overcome by strong performances in many other markets, most of which with higher than average growth and profitability rates.

2016 was another strong year for Fagerhult. Our largest markets delivered record performances, many other markets have increased sales and profitability and the acquisition and integration of LED Linear provided, and will continue to provide enhanced results. In financial terms, 2016 has been Fagerhult's best year to date for order intake, sales, operating profit and earnings per share, surpassing the previous records set in 2015.

The Group's order intake totalled MSEK 4,653.0 (4,113.4), adjusted for currency effects of MSEK –156.5 and acquisitions of MSEK 308.8, order intake increased 9.4 per cent year-on-year. Net sales totalled MSEK 4,490.7 (3,909.4), which is an increase of 10.3 per cent, adjusted for currency effects of MSEK –149.9 and acquisitions of MSEK 328.6.

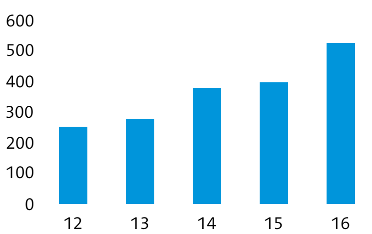
Operating profit recorded a year-on-year increase of MSEK 128.2 to MSEK 524.2 (396.0). One-off none-comparable M&A related items of MSEK 21.4 were charged to the profit and loss account in the fourth quarter.

Financial items amounted to a negative MSEK 9.5 (negative 18.8). The improvement was mainly attributable to lower interest expenses (due to lower interest rates) and currency gains.

Earnings per share for 2016 was SEK 10.04 (7.62).

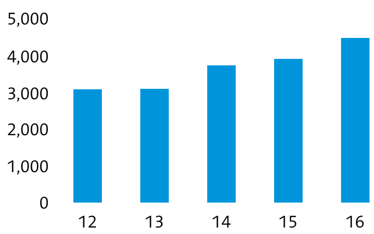
Our decentralised business model combined with a high degree of cross Group collaboration and a leading LED product offer have been the prime reasons behind the Group's positive development. Capital investment across the operational footprint remains at a high level and supports the design, marketing and sales activities in the business areas. Sales of LED products increased again during the year and

OPERATING PROFIT, MSEK



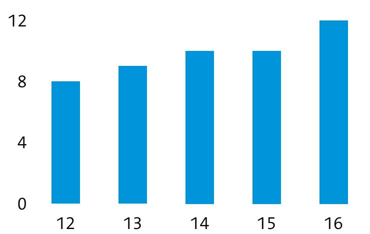
251.5	277.5	378.7	396.0	524.2

SALES, MSEK



3,085	3,095	3,735	3,909	4,490

OPERATING MARGIN, %



8.2	9.0	10.1	10.1	11.7

accounted for approximately 77 per cent of the total sales for the whole year with the fourth quarter LED sales accounting for 83 per cent.

Sales for Indoor Lighting increased 7 (1) per cent, sales in Retail Lighting increased 18 (decrease 8) per cent and Outdoor Lighting increased 6 (24) per cent, all changes are adjusted for currency effects and acquisitions.

BUSINESS AREAS

Fagerhult has chosen to divide its operations into four business areas based on geographical regions and one business area covering other activities:
– Northern Europe
– UK and Ireland
– Western and Southern Europe (formerly Other Europe)
– Africa, Asia and the Pacific
– Other

In accordance with IFRS 8, the external reporting has been adapted so that segment reporting reflects the Group's operative leadership structure. The reporting procedure also includes disclosures regarding the development of the previous business areas: Indoor, Retail and Outdoor Lighting segments.

Northern Europe

The business area comprises the Group's operations in the Nordic and Baltic countries, and Russia. The Group's factory in China, including manufacturing and purchasing, is also part of the business area. Development, manufacturing and sales are conducted in Sweden and Finland, while operations in other markets, with the exception of China, engage only in sales.

Net sales were MSEK 2,029.5, up from MSEK 1,844.2 last year, adjusted for currency effects net sales increased 10.7 per cent compared with 2015. The operating profit for the period was MSEK 220.0 (157.7) and the operating margin 10.8 (8.6) per cent. The increase in operating profit was mainly as a result of the net sales increase and improved gross margins.

UK and Ireland

The business area comprises our companies in the UK and Ireland. The dominant unit is Whitecroft Lighting and both Whitecroft and Designplan engage in the development, manufacture and sale of lighting systems, while the Fagerhult branded businesses in the UK and Ireland engage in sales.

Net sales in 2016 were MSEK 1,195.7 compared with MSEK 1,175.2 in 2015, adjusted for currency effects, this represents a 13.0 per cent growth rate. All business units contributed to the strong result for net sales and profitability for the business area. The operating profit for the period was MSEK 180.9 (159.1) and the operating margin 15.1 (13.5) per cent. The improvement was mainly due to an improved gross margins across all companies.

Western and Southern Europe

This business area comprises the operations in Germany, the Netherlands, France, Spain, Slovakia and Poland. In Germany the Group's business units are LTS Licht & Leuchten and LED Linear, both of which engage in the development, manufacture and sales of lighting systems with LED Linear having a 100 per cent focus in LED systems. The results of LED Linear have been consolidated from the second quarter and contribute MSEK 228 in net sales.

Cumulative net sales for the year were MSEK 1,044.4, up from MSEK 770.3 the year earlier and excluding acquisitions and currency effects, sales grew 3.2 per cent compared with 2015. The operating profit for the same period was MSEK 99.1 (69.9), where the MSEK 29.2 increase was attributable to; the acquisition of LED Linear; a strong result in Spain and improved positions in both France and the Netherlands.

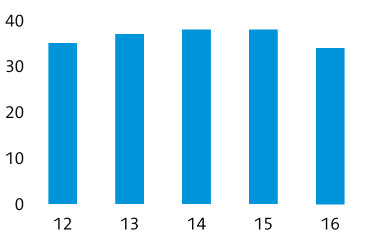
Africa, Asia and the Pacific

This business area comprises our operations in South Africa, Turkey, the United Arab Emirates, Australia and New Zealand. The operations in Australia, South Africa and Turkey develop, manufacture and sell lighting systems while the operations in the UAE and New Zealand conduct sales. Net sales for the period were MSEK 652.8, compared with MSEK 492.8 in the preceding year.

Adjusted for currency effects and acquired units, sales grew by 14.6 per cent, which was largely attributable to Australia and the UAE.

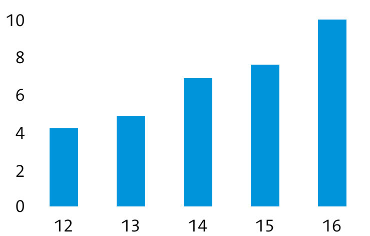
The operating profit was MSEK 86.8 (54.0) and the operating margin 13.3 (11.0) per cent.

EQUITY/ASSETS RATIO, %



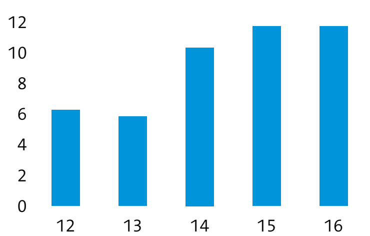
35	37	38	38	34

EARNINGS PER SHARE, SEK



4.20	4.83	6.90	7.62	10.04

CASH FLOW FROM OPERATING ACTIVITIES PER SHARE, SEK



6.27	5.84	10.33	11.72	10.23

Financial position

The Group's equity/assets ratio at the end of the year was 34 (38) per cent. Cash and bank balances at year end amounted to MSEK 731.6 (471.9) and consolidated equity totalled MSEK 1,627.1 (1,437.1).

Net debt amounted to MSEK 1,222 (937).

Cash flow from operating activities for the year totalled MSEK 387.8 (443.5). The decrease of MSEK 55.7 was due to an investment of MSEK 30,7 in working capital to fund the growth as well as an increase of MSEK 49.0 in taxes paid. Pledged assets and contingent liabilities were MSEK 7.3 (7.3) and MSEK 1.5 (2.2), respectively.

Employees

In 2016, the average number of employees increased by 336 to 2,787 (2,451). Adjusted for acquired units, the average number of employees increased by 224 people, or 9.1 per cent. The quarter four 2015 acquisition of Lighting Innovations accounts for 200 of the 224 headcount increase. The number of employees in the Group's foreign companies amounted to 2,049 (1,704), which corresponded to 74 (70) per cent of the total number of employees. The proportion of women during the year amounted to 33 (32) per cent of all employees. To strengthen the Group's knowledge capital, the established goals for individual and organisational development have increased as a priority.

The company's health care initiatives have focused on preventative measures and healthy living to reduce absence due to illness. For information on salaries and remuneration; refer to Note 2.

Guidelines for remuneration to senior management

Remuneration to the CEO and other senior management consists of basic salary, variable remuneration, company car benefits and pensions. Annual variable remuneration is based on achieved goals and is maximised at 30–50 per cent of the basic salary.

These guidelines are also proposed for future years.

In 2012, a long-term incentive scheme was introduced in the form of a performance-based share-savings plan for senior management. The first scheme was in place between 2012 and 2015. The AGMs in 2013, 2014, 2015 and 2016 resolved to approve additional share-savings plans that each extended over three years.

For additional information; see Note 2.

Investments

The Group's gross investments in property, plant and equipment amounted to MSEK 116 (88), and primarily pertained to machinery and equipment.

Investments in subsidiaries amounted to SEK 342 million (93). At year end, current investments amounted to MSEK 23 (15).

Gross investments in intangible assets amounted to MSEK 53 (30), excluding acquisitions of subsidiaries. Current investments amounted to MSEK 0 (17).

Depreciation/amortisation for the year amounted to MSEK 121 (107), of which property, plant and equipment accounted for MSEK 94 (88).

Product development

Continuous product development is undertaken within the Fagerhult Group across each of the brands. The aim is to improve existing products, as well as developing new products. A basic principle is that development efforts should be carried out close to the markets and in collaboration with customers and end users. From an international perspective, Fagerhult holds a prominent position within the lighting design and technology field. Collaboration with the leading manufacturers of controls technologies, light sources and components is essential. Fagerhult's engineering centre, Teknik Centrum, includes one of Northern Europe's best equipped laboratories, where we can test the safety and performance of and approve our own products.

Development costs of MSEK 13 (14) were capitalised in the balance sheet for the year. Other costs are expensed as they arise.

For additional information; see Notes 10 and 26.

Environmental impact

With the technology shift towards LED and intelligent controls, Fagerhult is contributing to significant improvements in energy efficiency in our customers' lighting solutions. Investment in product development as part of the shift toward LED technology continues. The proportion of total sales accounted for by LED products increased during the year to 77 per cent and in the fourth quarter this amounted to 83 per cent. The Group's ambition is to become 100 per cent LED within the current strategy period.

The Group's operations impact the external environment primarily through CO_2 emissions from our production facilities and from transportation. Continuous efforts are ongoing to reduce the Group's total environmental impact by using different initiatives. These efforts focus on reducing total energy consumption and increasing the share of renewable energy at our production plants. The Group's largest factory at Habo, Sweden and the new Designplan factory in Sutton, in the UK both hold a carbon-neutral status. Both the Habo plant and the Åhus plant source their heat from district heating plants mainly fuelled by biomass and all electricity is hydroelectric. Initiatives to increase energy efficiency are ongoing at all facilities with the long-term aim to achieve CO_2-neutral production as a Group. The Company's production facilities in Manchester and Sutton in the UK, Suzhou in China and Habo, Åhus and Bollebygd in Sweden are environmentally certified under ISO 14001.

Further information is provided in the Group's Sustainability Report.

Share buybacks

The AGM on 21 April 2016 authorised the Board to buy back the company's own shares. No shares have been bought back. In connection with the allocation of shares tied to the Group's share savings plan, treasury shares were used. The number of treasury shares totalled 610,677 (686,949) after the allocation and the number of shares outstanding was 37,939,323 (37,863,051). The percentage of shares held as treasury shares was 1.6 per cent. Of treasury shares, 158,974 have been reserved for acquisition of WE-EF.

The Board of Directors proposes that the AGM resolve to grant the Board continued authorisation, until the next AGM, to buy back the company's own shares. As treasury shares are not entitled to dividends, they are excluded from the total number of shares in the proposed appropriation of profits stated below.

Risks

A review of potential risks, including the manner in which these are managed, is found in Note 32.

The Fagerhult share

There are no limitations on the transferability of shares (pre-emption clause). Nor are there any limitations as to the number of votes which each shareholder can exercise at general meetings. The company is not aware of any agreements between shareholders which could involve limitations on the right to transfer shares.

Share split

The Board of Directors proposes that the AGM resolves to increase the number of shares in the Company by splitting each share into three shares, a 3:1 share split. To facilitate the 3:1 share split, the Board of Directors also proposes that the AGM resolves to amend the Articles of Association by increasing the authorised number of shares from between 10 million to 40 million to between 30 million and 120 million.

Appointment and removal of Board members

There are no separate provisions in the Articles of Association regarding the appointment or removal of Board members.

Parent Company

AB Fagerhult's operations comprise Group Management, financing and the coordination of marketing, production, business and strategy development. The company's net sales amounted to MSEK 18.0 (20.1) for the period. Profit after financial items was MSEK 22.8 (23.0). The number of employees during the period was six (seven).

Outlook for 2017

Over the past two years, organic and acquisitive growth has led to a strong positive sales and earnings trend for the Group.

During this period, the Group has, and will for the foreseeable future, continue to; capitalise on its brand strategy, invest in research and development of luminaires and lighting controls and increase the operational capacity and capabilities. The Group has established a strong position in all of its main markets and increased its market share during this period.

For 2016, the Group's main markets have displayed steady growth and management expects this situation to continue for the majority of 2017. The Group enters the new year with a stronger order book than it entered 2016.

We intend to continue making significant investment in product development, sales and marketing, as well as increased internationalisation.

We estimate that it is possible to continue strengthening the Group's market share and further grow its position in Indoor, Retail and Outdoor lighting.

Proposed appropriation of profits

The Group's retained earnings according to the consolidated balance sheet amount to MSEK 1,495.2 (1,244.8).

The following profits are at the disposal of the AGM:	
Profit brought forward	187.0 MSEK
Net profit for the year	157.3 MSEK
Profit carried forward	344.3 MSEK

The total number of dividend-bearing shares on 7 March 2017 amounted to 37,939,323. The Board of Directors proposes that the profit be appropriated as follows:

To be distributed as dividends to shareholders:	
SEK 4.50 per share	170.7 MSEK
To be carried forward	173.6 MSEK
Total	**344.3 MSEK**

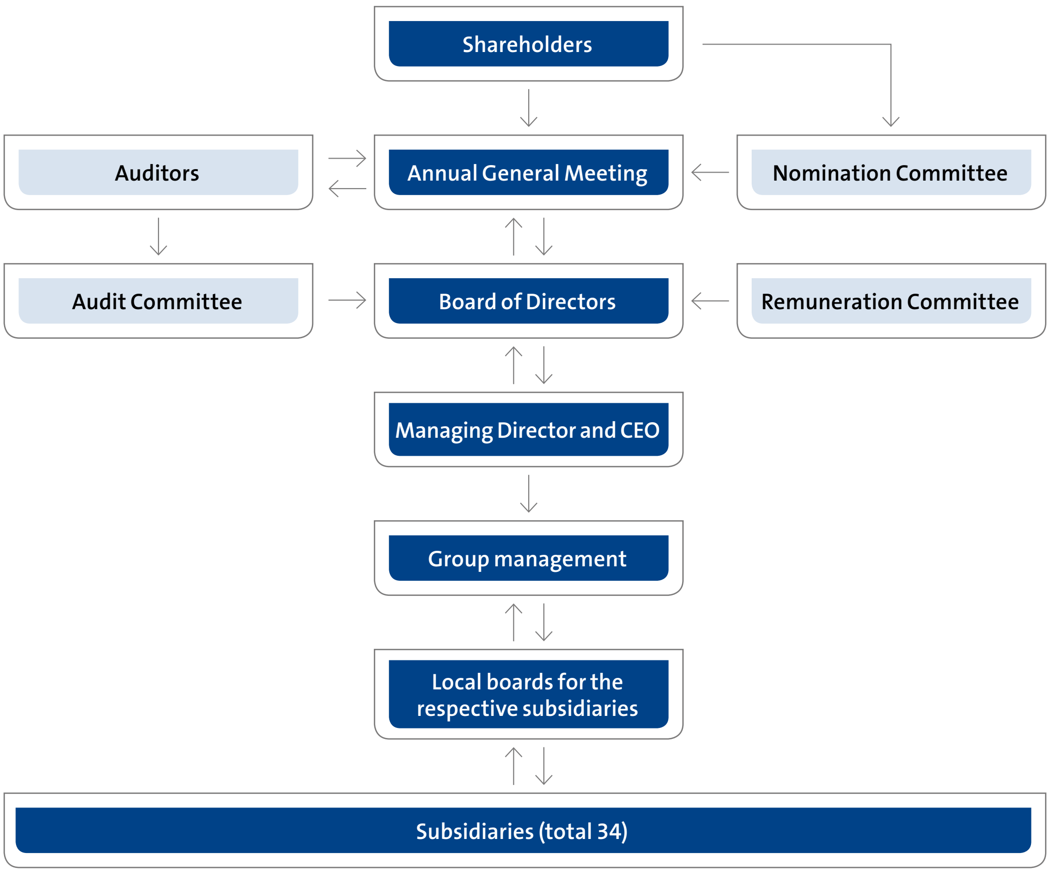
Board of Directors' statement regarding the proposed dividend

It is the opinion of the Board of Directors that the proposed dividend will not prevent the company from fulfilling its short or long-term obligations, nor will it prevent the company from making the necessary investments. Accordingly, the proposed dividend can be justified pursuant to the provisions of the Swedish Companies Act, Chapter 17, Section 3, paragraphs 2–3.

Considering that the operations of the Company continue to be profitable, the equity/assets ratio is at a satisfactory level. It is the Company's assessment that liquidity can be maintained at a similarly satisfactory level.

CORPORATE GOVERNANCE

Decentralised governance and decision-making is one of Fagerhult's strengths, and permeates the entire organisation. The objective of corporate governance is to ensure that this is conducted in a clear, effective, reliable and business-oriented manner. Corporate governance is designed to support the company's long-term strategies, market presence and competitiveness. At the same time, it should help maintain confidence in Fagerhult among stakeholders, such as shareholders, customers, suppliers, capital markets, society and employees.



KEY EXTERNAL REGULATIONS

- Swedish Companies Act
- Nasdaq Stockholm's Issuer Rules
- Swedish Corporate Governance Code (the Code)
- Accounting rules and regulations

KEY INTERNAL REGULATIONS

- Articles of Association
- Formal work plan for the Board of Directors and terms of reference for the CEO
- Guidelines for remuneration to senior management
- Various policy documents and instructions (such as the Group's Code of Conduct)

Shareholders and general meetings of shareholders

The shareholders' rights to decide on Fagerhult's affairs are exercised at the Annual General Meeting (AGM), or if appropriate, the extraordinary general meetings, which is the company's highest decision making body. The AGM is to be held no later than six months after the end of the financial year and is usually held in April. At the AGM, the shareholders elect the company's Board of Directors and appoint external auditors, and decide on their fees. Furthermore, the AGM resolves on whether to adopt the income statements and balance sheets, to approve the appropriation of the company's profit and to discharge the Board and CEO from liability. The AGM also resolves on the composition of the Nomination Committee and its work, and makes decisions on principles for remuneration and other terms of employment for the CEO and other senior management.

The number of shareholders at year end was 4,779 (4,038). The largest individual shareholder is Investment AB Latour, in which the Douglas family are the main shareholders and hold a total of 48.3 per cent (49). For more information on the ownership structure, share capital, share price development, etc., please refer to the section on the Fagerhult share on pages 36–37 and to Note 30.

2016 Annual General Meeting

The 2016 AGM was held on 21 April in Habo. A total of 104 shareholders were present at the meeting, representing 74.6 per cent of the votes. Minutes from the AGM can be found on Fagerhult's website. All resolutions were passed with the required majority. Below is a selection of the resolutions passed at the meeting:

– Resolution on the distribution of a dividend of SEK 3.50 per share.
– Eric Douglas, Cecilia Fasth, Catherina Fored, Björn Karlsson, Fredrik Palmstierna, Johan Hjertonsson and Jan Svensson were re-elected to the Board of Directors.
– Jan Svensson was re-elected Chairman.
– Jan Svensson was re-elected to the Nomination Committee and he was also granted the authority to appoint three additional members, one each representing the three largest shareholders and for the details of this to be published no later than in connection with the Company's third quarter report.
– The AGM resolved to introduce a performance-based share-savings plan for senior management.
– The AGM resolved to grant the Board of Directors authorisation to buy back the company's own shares, corresponding to a maximum of 10 per cent of total share capital, for the period until the date of the next AGM.

Nomination Committee

The Nomination Committee is to be formed after the Chairman of the Board has identified the three largest shareholders in the Company in terms of the number of votes that are to make up the Nomination Committee along with the Chairman. The identity of these shareholders is to be based on the shareholders' register and list of nominees maintained by Euroclear Sweden AB and refer to those shareholders registered under their own names or as members of an owner group as per 30th September 2016.

Largest shareholders as per 30th September 2016

Name	No. of shares	Share capital and voting rights, %
Investment AB Latour	18,620,400	48.3%
SSB CL Omnibus AC, USA	3,007,979	7.8%
The Svensson, family, foundation and company	2,836,875	7.4%
Lannebo Funds	2,473,632	6.4%
Robur Small business funds	1,565,601	4.1%

The Nomination Committee consists of the following individuals together with the names of the shareholders that they represent; Jan Svensson as Chairman of the Board of AB Fagerhult, Eric Douglas representing Investment AB Latour, Gunnar Lindberg representing the Svensson Family and Göran Espelund representing Lannebo Funds. The Nomination Committee for the 2017 AGM is also described in the following table.

The Committee's representatives have broad and extensive experience of Board work and work on Nomination Committees.

The work of the Nomination Committee takes place during the end of the financial year and at the start of the new financial year. Prior to an AGM at which auditors are to be appointed, the Nomination Committee collaborates with the Audit Committee, which works with the evaluation of the work of the auditors. The Nomination Committee is to observe the guidelines that apply to independent Board members under the Swedish Corporate Governance Code when making nominations to the AGM. Shareholders have the opportunity to submit written proposals to the Nomination Committee.

The Nomination Committee ahead of 2017 AGM comprises:

Member of the Nomination Committee	Representing	Participation/votes:	Member of the Nomination Committee since
Jan Svensson	Investment AB Latour	48.3 %	2008
Gunnar Lindberg	Familjen Svensson	7.4 %	2016
Eric Douglas	Investment AB Latour	48.3 %[1]	2015
Göran Espelund	Lannebo Fonder	6.4 %	2004

1) Holding through Investment AB Latour, where Eric Douglas with family and companies are the main owners.

External auditors

The company's auditor, elected at the AGM, examines Fagerhult's annual report and consolidated accounts, the administration of the company by the Board of Directors and the CEO, and the annual accounts of subsidiaries, and submits an audit report.

The audit is conducted in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden.

At the 2016 AGM, Öhrlings PricewaterhouseCoopers were re-appointed as auditors, with Peter Nyllinge as the Auditor-in-Charge. Among his major auditing assignments, Peter Nyllinge also has Electrolux and SEB.

The auditor participated at the Board and Audit Committee meeting in February 2016 and then reported on the notes from the 2015 audit.

Auditing of the Group's companies around the globe is coordinated by Öhrlings PricewaterhouseCoopers. All of the activities of companies with a significant scope of operations are audited by Pricewaterhouse-Coopers in the respective country. For a number of smaller companies, the audit is performed by other accounting firms.

THE BOARD OF DIRECTORS

Board members

The Board of Directors determines issues concerning the Group's strategic focus, finances, investments, acquisitions, sales, organisational matters and rules and policies. The Board of Directors is kept abreast of the company's operations through monthly reports provided by Group Management. The Board of Directors currently consists of seven members elected by the general meeting, as well as two Board members and two deputy members elected by the trade unions. Four (four) of the Board members represent ownership participations equivalent to 59 per cent (60) of the company's share capital and votes. The CEO is one of the members elected at the annual general meeting. With the exception of the trade union representatives, the CEO is also the only Board member employed by the Company. Company employees participate in Board meetings in a reporting capacity. The company's Chief Financial Officer serves as the Board's secretary.

For further information concerning the Board members elected at the company's general meeting, refer to the section concerning the Board of Directors on pages 50–51 of this annual report.

The work of the Board

The Board's work is regulated by the Swedish Companies Act, the Articles of Association and the formal work plan adopted by the Board.

Among other things, the Board's work plan contains rules stipulating the number of Board meetings to be held each financial year, the issues to be addressed at the meetings, and the division of duties between the Board of Directors and the CEO. The CEO's terms of reference set out the CEO's duties and obligation to report to the Board.

Normally, five Board meetings are held each year and one statutory Board meeting. Four of these meetings address quarterly reports and the year-end report. At least one of the Board meetings takes place in conjunction with a visit to, and an in-depth review of, one of the Group's companies. One Board meeting per year is assigned additional time, and at this meeting a specific focus is placed on strategic issues. The auditor of the company is present at Board meetings when needed, normally once a year. Notices and supporting documents are sent to the Board one week in advance of the Board meetings. When issues are to be decided upon, the Board usually receives supporting documents concerning these issues well in advance.

The Board appoints two different committees annually – the Audit Committee and the Remuneration Committee. The aim of these committees is to enhance and facilitate the Board's work, and to address matters related to each area.

Board of Directors' independence

Fagerhult's Board meets the stipulation in the Code that a majority of the elected members are independent of the company and its management, and that at least two of the members are independent in relation to major shareholders (that is, ownership exceeding 10 per cent). See the table below. The Chairman of the Board, Jan Svensson, as well as Fredrik Palmstierna, are not considered independent, as they represent the company's main shareholder in their roles as CEO and major shareholder in Investment AB Latour, respectively. Eric Douglas represents the Douglas family. With the exception of the President and CEO Johan Hjertonsson, no members of the Board are employed by the Group. The Nomination Committee's assessment regarding whether each proposed member meets the independence requirements is announced in connection with the Committee's proposal. The CEO owns 255,479 shares in the company, corresponding to 0.7 per cent of the shares, which is stated in the presentation of the Board and man-

Board of Directors elected by the AGM	Elected	Born	Fee	Number of shares /votes	Independent in relation to the owners	Independent in relation to the Company	Number of meetings participated in
Chairman, Jan Svensson	2007	1956	500,000	18,629,400[1]	No	Yes	6
Vice Chairman, Eric Douglas	1993	1968	375,000	120,000	No	Yes	5
Board Member, Cecilia Fasth	2014	1973	250,000	1,500	Yes	Yes	6
Board Member, Björn Karlsson	1997	1961	250,000	2,836,875[1]	Yes	Yes	5
Board Member, Catherina Fored	2013	1964	250,000	3,000	Yes	Yes	5
Board Member, Fredrik Palmstierna	1992	1946	250,000	1,006,200[1]	No	Yes	6
CEO, Johan Hjertonsson	2009	1968	–	255,479	Yes	No	6
Total			1,875,000	22,852,454 (60%)	4 (57 %)	6 (86 %)	6

1) Sum total of directly and indirectly held shares and shares representing other owners.

agement on pages 50–53. The holding is not classified as significant and the CEO has no partnership in companies that have significant business relationships with companies in the Fagerhult Group.

The work of the Board in 2016

The Board met six times during the year, held one statutory meeting and one per-capsulam meeting. Apart from one Board meeting when one Board member was absent, and another Board meeting where two Board members were absent, all members of the Board were present at the other meetings including the statutory meeting and per-capsulam meeting. The company's auditor was present at one of the Board meetings. This was the Board meeting that addressed the annual accounts and, during which, the auditor submitted his findings. Important matters dealt with during the year included, amongst other things:

- Long-term operational goals
- The strategic focus of the operations
- Business plans, financial plans and forecasts
- Major investments
- Decisions on long-term financing
- Policies and instructions
- Review of the Group's risk management
- Interim reports and annual accounts
- Reports by the Board's committees
- Review of the Group's CSR position and developments
- Follow-up of the external audit

Evaluation of the work of the Board

The Board will ensure that its work is continuously evaluated through a systematic and structured process. This evaluation is initiated by the Chairman of the Board. Among other things, the process includes a questionnaire in which Board members have the opportunity to express their opinion of the Board's work and to propose ways to improve it. The results of the evaluation are disclosed to the Board, followed by discussions and decisions regarding changes in working methods.

The Board continuously evaluates the work of the CEO and Group Management.

The Audit Committee

The main duty of the Audit Committee is to audit the Group's accounting and financial reporting, as well as to remain in continuous contact with the auditors and review their work plan and fees. Furthermore, the Committee is to assist the Nomination Committee in its choice of auditors and their fees prior to those AGMs at which the appointment of auditors takes place.

In 2016, the Audit Committee comprised the entire Board, with the exception of the CEO. Over the year, the Committee has had one meeting with the company's auditor. Except for one member, all Board members were present at the meeting.

The Remuneration Committee

The work of the Remuneration Committee is, on behalf of the Board, to prepare and negotiate issues concerning the salary and other remuneration to the CEO, and to approve the CEO's proposals for salaries and remuneration for the other members of senior management.

Its duties also include examining the fees to Board members in the event that they are engaged as consultants by the company's management. The Committee also addresses any Group-wide bonus system and option programmes.

Decisions concerning remuneration for the CEO are determined by the Board.

The Remuneration Committee consists of Jan Svensson (Chairman of the Board) and Eric Douglas (Vice Chairman of the Board). The Committee has had two meetings during the year, at which both members were present.

CEO and Group Management

Fagerhult's President and CEO is responsible for leading and developing operating activities pursuant to the guidelines and instructions issued by the Board. The framework is provided by the terms of reference issued to the CEO, which are determined annually by the Board.

The CEO is assisted by Group Management, consisting of the heads of business areas and staff units. In consultation with the Chairman, the CEO compiles the necessary information and documentation which provides the basis for the Board's work and for the Board to make informed decisions. The CEO is responsible for bringing matters to the attention of the Board and for motivating proposed decisions.

CODE OF CONDUCT

Our global presence demands that our employees and business partners take responsibility for themselves and for each other. Therefore, we have created a regulatory framework, our Code of Conduct.

Our Code of Conduct should be followed by everyone included in our Group, employees as well as the Board and Management. We also communicate our Code of Conduct to our business partners, with the expectation that it is complied with.

Our Code of Conduct states, amongst other things, that we will act as a reliable and honest Group that lives up to its commitments. We believe in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

The CEO is responsible for and reports on an ongoing basis to the Board on the company's development. In addition, the CEO leads the work of the Group Management and makes decisions in consultation with other members of management.

During the year, the Group Management comprised the CEO, the Group's CFO, two managers with responsibility for the regional business areas, two managers with functional responsibility for human resources and sustainable development, and production and logistics and until 18 July 2016 the manager with functional responsibility for marketing and product development.

Group Management has at least five meetings per year during which it follows up operations, discusses matters affecting the Group and drafts proposals for strategic plans and budgets, which the CEO presents to the Board for decision. One longer meeting per year is held, during which the operations are planned and discussed in more detail.

Management of subsidiaries

Fagerhult's operations are organised into four business areas. These include 34 subsidiaries. The operations of the respective subsidiaries are controlled by their Boards. The Boards of the subsidiaries consist of, among others, the managing director of the subsidiary, at least one business area manager and, in most cases, the Group's CEO and Group's CFO. A formal work plan is established annually for each subsidiary, in which responsibilities and authorities are clearly delegated and where the work of the subsidiary's Board is governed.

Fagerhult has a decentralised structure, with a strong focus on responsibility and performance, which combines with clear, Group-wide processes to realise synergies. The Company's senior managers and specialists meet continuously to reach a broad consensus on important issues.

Fagerhult's Code of Conduct and Fagerhult's global presence demand that our employees and business partners take responsibility – for themselves and for each other. The Code clarifies Fagerhult's position on issues related to human rights, labour conditions, the environment, business ethics and communication. The Code applies to all Fagerhult employees regardless of their position. The Board and Group Management have a particular responsibility to promote the application of the Code of Conduct. The Code is also communicated to all of Fagerhult's business partners with the expectation that it is complied with. Fagerhult acts as a reliable and honest Group that lives up to its commitments.

Fagerhult believes in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

The Code of Conduct is available in its entirety at:
http://www.fagerhultgroup.com/en/sustainability

REMUNERATION TO THE MANAGEMENT AND BOARD

Guidelines for remuneration

Remuneration to the CEO and other senior management consists of basic salary, variable remuneration, other benefits and pensions. The balance between basic salary and variable remuneration is to be in proportion to the employee's responsibilities and authority.

For the CEO, annual variable remuneration is capped at six months salary. The variable salary is based on the Group's earnings per share. For other senior management, annual variable remuneration is capped at 30–40 per cent of basic salary. Variable remuneration is typically based on improvement, compared to the previous year, in terms of each individual's respective responsibility for operating profit, the Group's earnings per share and the outcome of individual activity plans. These guidelines are also proposed for the coming year.

Long-term incentive scheme

In 2012, a long-term incentive scheme was introduced in the form of a performance-based share-savings plan for senior management. The first plan was approved by the 2012 AGM and runs from 2012 to 2015. The AGMs in 2013, 2014, 2015 and 2016 resolved to approve additional share-savings plans that each extended over three years.

For further information on guidelines for remuneration, please refer to the material enclosed with the notice of the AGM. For additional information; see Note 2.

Remuneration to the Board

Fees payable to Board members are determined annually by the AGM. Board members who are also employees of the company receive no Board fees. No separate fees are payable for work on the committees other than the standard Board fee. In 2016, remuneration was paid in accordance with the table on page 46.

Remuneration to the auditors

In 2016, remuneration was paid in accordance with Note 24 on page 76.

INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control aims to ensure accurate and reliable financial reporting and accounting in line with applicable laws and regulations, accounting standards and other requirements for listed companies.

Control environment

The control environment comprises the values and ethics which the Board of Directors, Audit Committee, the CEO and Group Management communicate and operate under. The basis of internal control for financial reporting consists of the control environment together with the organisation, decision-making paths, authorities and responsibilities which are documented and communicated in governing documents. One example is the division of responsibilities between the Board and the CEO and instructions regarding the delegation of authority, as well as instructions applying to the accounting and reporting. Important internal control instruments include Fagerhult's Code of Conduct and values. The Code includes principles governing how business is to be conducted. These values represent a long-term commitment and a shared base connected to the business concept and strategies guiding employees in daily operations.

Fagerhult is characterised by a decentralised organisation based on goal-oriented management, where good performances are rewarded.

Financial reporting to the Board

The CEO is responsible for ensuring that the Board receives the reports required for its ongoing assessment of the company's and the Group's financial positions. Fagerhult's Board receives monthly financial reports and the Group's financial situation is addressed at each Board meeting.

Risk assessment

Regarding financial risk assessment, the risks are assessed as mainly relating to the potential for material misstatement in the reporting of the company's financial position and performance. To minimise these risks, governing documents have been established for accounting, for procedures for annual reporting and for follow-up of reported annual accounts. A shared system for reporting annual accounts has also been implemented. Fagerhult's Board regularly assesses reporting from a risk perspective. As a support for these assessments, profit/loss items and balance-sheet items are compared with previous reports as well as budgets and forecasts. The risks identified in the financial reporting are managed through the Group's control structure.

In addition to assessing the risks in the financial reporting, the Board and management work continuously to identify and manage significant risks affecting Fagerhult's business from an operational and financial perspective. Read more about risks on page 79.

Control activities and follow-up

Control activities involve all levels of the organisation and concern the measures selected to manage the Group's risks. To ensure completeness and accuracy in the financial reporting, instructions and guidelines are in place that have been communicated to the relevant personnel. The activities also limit risk from the identified risks. The Group's central control function analyses and monitors budget deviations, prepares forecasts, monitors significant variations between periods, and reports these to others within the organisation, thereby minimising the risk of errors in the reporting. Control activities also include follow-up and comparisons of earnings trends or significant individual items, account reconciliations and balances, and the approval of all proxy and attestation instructions, as well as accounting and valuation principles.

Monitoring of the effectiveness and compliance with these control activities takes place through programmed controls and through individually established procedures. The Group has a shared reporting system in which all reporting is carried out. Financial follow-up is carried out by Group Management in conjunction with regular visits to the subsidiaries, in parallel with development of the control function.

Information and communication

Fagerhult continuously provides information about the Group's performance and financial position to the market. The quality of external financial reporting is ensured through various activities and procedures. The CEO is responsible for the accuracy and high quality of all information provided, for example, financial press releases and presentation materials for various meetings with the media, shareholders and investors. An information policy applies for external communication that provides guidelines to the presentation of such information. The policy is intended to ensure that Fagerhult's information requirements are met in an accurate and complete manner. The most important governing documents, in the form of policies and instructions, are kept up-to-date and are communicated via the appropriate channels, mainly electronically.

Internal information and communication is about creating awareness among the Group's employees about external and internal governing instruments, including authorities and responsibilities. Fagerhult's whistle-blower policy means that each employee has the right to report suspected breaches of laws or regulations without fear of reprisal.

Evaluation of the need for a separate audit function

The Board and management have determined that a separate internal audit function will not be established in the Fagerhult Group. The Group's Finance department continually monitors compliance with the company's governance model, reporting principles and policies. In addition, the Finance department conducts ongoing analyses of the company's reporting and financial results to gain assurance regarding the trend.

Together with the controls implemented by the Group's management and the different business areas' existing control functions, discussions with the company's external auditors concerning the audit approach, as well as the auditing firm's extensive organisation are assessed as providing a satisfactory level of assurance. This means that a separate internal audit function is not considered necessary.

Activities in 2016

During the year, focus has been on integrating the recently acquired companies Lighting Innovations, LED Linear and Arlight in the Group's internal control and on inventory valuation and inventory control linked to the shift to LED technology. Following the issue of the Minimum Control Requirements, follow up work has been performed to improve the internal control in some businesses and the process was discussed at many other subsidiary company board meetings, this work continues. The Minimum Control Requirement document and process is based on the COSO framework and the follow-up of internal control pursuant to these guidelines has become an integrated part of Group governance.










JAN SVENSSON

Chairman

Born: 1956

Mechanical Engineer and M.Sc. in Business Administration.

Managing Director and Board Member of Investment AB Latour. Chairman of Oxeon AB, Nederman Holding AB and Tomra Systems ASA and Troax Nordic AB. Board Member of Loomis AB, Assa Abloy AB.

Board Member of Fagerhult since 2007.

Shares in AB Fagerhult: 18,629,400 (including Investment AB Latour)

ERIC DOUGLAS

Vice Chairman

Born: 1968

Certified Economist at high school level and 3 years of studies at Lund University within “Economics for Entrepreneurs”.
Self-employed since 1992.

Chairman of the Board of Pod Investment AB and Sparbössan Fastigheter AB. Board Member of, amongst others, Investment AB Latour.

Board Member of Fagerhult since 1993.

Shares in AB Fagerhult: 120,000

CECILIA FASTH

Born: 1973

M.Sc. Engineering

President and CEO of Castellum

region West

Board Member of Fagerhult since 2014.

Shares in AB Fagerhult: 1,500

CATHERINA FORED

Born: 1964

Arkitekt MSA.

Architect MSA.

Head of Urban Planning and Development ByggVesta. Board Member of Brunnberg & Forshed Arkitektkontor and Reomti Bygg AB.

Board Member of Fagerhult since 2013.

Shares in AB Fagerhult: 3,000

JOHAN HJERTONSSON

Managing Director and CEO of AB Fagerhult

Born: 1968

M.Sc. in Business Administration

Board member of Nord-Lock International AB and Sweco AB.

Board Member of Fagerhult since 2009.

Shares in AB Fagerhult: 255,479

BJÖRN KARLSSON

Born: 1961

MBA.

Managing Director of Vasterhuset AB and Ekhammars Lantbruk AB. Board member of Krafthagen AB. Board Member of Fagerhult since 1997.

Shares in AB Fagerhult: 2,836,875 (including family and companies)

FREDRIK PALMSTIERNA

Born: 1946

MBA.

Board Member of Nobia AB and The Viktor Rydbergs Schools Foundation.

Board Member of Fagerhult since 1992.

Shares in AB Fagerhult: 1,006,200 (including family and companies)

MAGNUS NELL

Born: 1964

Employee Representative

Shares in AB Fagerhult: 0

PATRIK ARALDSSON

Born: 1984

Deputy

Shares in AB Fagerhult: 0

BEATRICE SJÖBLOM

Born: 1984

Deputy

Shares in AB Fagerhult: 0

LARS-ÅKE JOHANSSON

Born: 1961

Employee Representative

Shares in AB Fagerhult: 0

(Picture missing)






JOHAN HJERTONSSON

Managing Director and Group CEO

Born: 1968

M.Sc. in Business Administration

Employed since: 2009

Shares in Fagerhult: 255,479

FRANK AUGUSTSSON

Regional Manager

Born: 1965

Technical College Graduate

Employed since: 1986–2001, 2004

Shares in Fagerhult: 10,333

ANDERS FRANSSON

Managing Director Fagerhults Belysning AB

Born: 1969

M.Sc. Engineering

Employed since: 2005

Shares in Fagerhult: 5,782

PAUL BARTON

Regional Manager

Born: 1953

Engineer and Economic studies

Employed since: 2005

Shares in Fagerhult: 5,701

JENNY EVELIUS

Head of Human Resources

Born: 1969

M.Sc. in Business Administration

Employed since: 2013

Shares in Fagerhult: 9,244

MICHAEL WOOD

Chief Financial Officer

Born: 1964

Chartered Accountant ACMA

Employed since: 2005

Shares in Fagerhult: 0

INCOME STATEMENTS

MSEK	Note 1	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Net sales	1	4,490.7	3,909.4	18.0	20.1
Cost of goods sold		–2,917.1	–2,612.4	–	–
Gross profit		**1,573.6**	**1,297.0**	**18.0**	**20.1**
Selling expenses		–783.4	–678.0	–1.6	–2.9
Administrative expenses		–315.7	–245.9	–52.8	–48.8
Other operating income		49.7	22.9	–	–
Operating profit	**2, 7, 20–27**	**524.2**	**396.0**	**–36.4**	**–31.6**
Financial income and expenses					
Income from shares in subsidiaries	6	–	–	46.9	49.5
Interest income and similar profit/loss items	3	16.8	4.9	32.2	27.5
Interest expenses and similar profit/loss items	4	–26.3	–23.7	–19.9	–22.4
Total financial items		–9.5	–18.8	59.2	54.6
Profit after financial items		**514.7**	**377.2**	**22.8**	**23.0**
Group contributions received		–	–	166.0	95.0
Tax on profit for the year	8, 9	–133.8	–88.6	–31.5	–17.2
Net profit for the year		**380.9**	**288.6**	**157.3**	**100.8**
Net profit for the year attributable to shareholders of the Parent Company		380.9	288.6		
Earnings per share, based on earnings attributable to shareholders of the Parent Company during the year:					
Earnings per share before dilution, SEK		10.04	7.62		
Earnings per share after dilution, SEK		10.04	7.62		
Average number of shares outstanding before dilution, thousands		37,920	37,856		
Average number of shares outstanding after dilution, thousands		37,920	37,856		
Number of shares outstanding, thousands		37,939	37,863		

STATEMENT OF COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

MSEK	Note 1	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Net profit for the year		380.9	288.6		
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurements of pension plans		–0.8	–		
Items that may be reclassified to profit or loss:					
Translation differences	32	–60.4	–69.8		
Other comprehensive income for the period, net after tax		**–61.2**	**–69.8**		
Total comprehensive income for the year		**319.7**	**218.8**		
Total comprehensive income attributable to shareholders of the Parent Company		**319.7**	**218.8**		

Comprehensive income for the Parent Company is equivalent to net profit for the year.

BALANCE SHEETS

MSEK	Note	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
ASSETS					
Non-current assets					
Intangible assets	10				
Goodwill		1,626.1	1,257.8	–	–
Brands		335.2	154.5	–	–
Other intangible assets		107.4	35.9	–	–
Construction in progress and advance payments		–	17.5	–	–
		2,068.7	**1,465.7**	**–**	**–**
Property, plant and equipment	11				
Land and buildings		112.0	96.4	–	–
Plant and machinery		208.0	193.0	–	–
Equipment, fixtures and fittings		105.1	88.4	–	–
Construction in progress and advance payments		22.6	14.6	–	–
		447.7	**392.4**	**–**	**–**
Financial assets					
Shares and participations in subsidiaries	13,28	–	–	616.6	616.3
Other shares and participations	12	11.8	9.2	–	–
Receivables from subsidiaries		–	–	1,913.6	1,458.5
Deferred tax assets	9	20.9	23.5	–	–
Other non-current receivables	12	1.3	2.7	–	–
		34.0	**35.4**	**2,530.2**	**2,074.8**
Total non-current assets		**2,550.4**	**1,893.5**	**2,530.2**	**2,074.8**
Current assets					
Inventories, etc.	15				
Raw materials and consumables		260.5	240.0	–	–
Work in progress		41.9	35.4	–	–
Finished products and goods for resale		350.2	295.8	–	–
Advance payments to suppliers		32.1	31.1	–	–
		684.7	**602.3**	**–**	**–**
Current receivables					
Trade receivables	5	761.3	678.5	–	–
Current tax assets		3.7	9.6	–	–
Other receivables		23.2	38.1	–	15.6
Receivables from subsidiaries		–	–	45.1	23.7
Prepaid expenses and accrued income	14	59.3	45.5	7.8	5.3
		847.5	**771.7**	**52.9**	**44.6**
Cash and cash equivalents/Cash and bank balances		*731.6*	*471.9*	*184.8*	*49.8*
Total current assets		**2,263.8**	**1,845.9**	**237.7**	**94.4**
TOTAL ASSETS		**4,814.2**	**3,739.4**	**2,767.9**	**2,169.2**

BALANCE SHEETS

MSEK	Note	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
EQUITY (Group/Parent Company[1]					
Capital and reserves attributable to shareholders of the Parent Company					
Share capital	29	65.5	65.5	65.5	65.5
Other contributed capital		159.4	159.4	–	–
Translation differences/Statutory reserve		–93.0	–32.6	159.4	159.4
Retained earnings incl./excl. net profit for the year		1,495.2	1,244.8	187.0	217.0
Net profit for the year, Parent Company		–	–	157.3	100.8
		1,627.1	**1,437.1**	**569.2**	**542.7**
Untaxed reserves					
Transfer to tax allocation reserve		–	–	8.6	8.6
LIABILITIES					
Non-current liabilities					
Borrowings	16	1,752.1	1,340.9	1,742.3	1,321.1
Provisions for pensions and similar commitments	20	68.3	66.4	–	–
Other provisions	28	238.5	53.3	–	–
Liabilities to subsidiaries		–	-	1.7	1.7
Deferred tax liabilities	9	131.1	63.0	–	–
		2,190.0	**1,523.6**	**1,744.0**	**1,322.8**
Current liabilities					
Borrowings	16	133.2	1.3	133.0	–
Advance payments from customers		16.1	25.7	–	–
Trade payables		354.1	297.4	–	–
Current tax liabilities		53.5	53.3	11.3	21.7
Other liabilities		85.2	87.0		0.4
Liabilities to subsidiaries		–	–	286.0	253.0
Accrued expenses and deferred income	17	355.0	314.0	15.8	20.0
		997.1	**778.7**	**446.1**	**295.1**
Total liabilities		**3,187.1**	**2,302.3**	**2,190.1**	**1,617.9**
TOTAL EQUITY AND LIABILITIES		**4,814.2**	**3,739.4**	**2,767.9**	**2,169.2**

1) Restricted equity: share capital and statutory reserve. Non-restricted equity: retained earnings and net profit for the year.

CHANGES IN EQUITY

GROUP	Note	Share capital	Other contributed capital	Translation	Retained	Total equity
Equity at 1 January 2015		**65.5**	**159.4**	**37.2**	**1,067.1**	**1,329.2**
Net profit for the year		–	–	–	288.6	288.6
Net investment hedges	27	–	–	–4.0	–	–4.0
Other comprehensive income		–	–	–65.8	–	–65.8
Comprehensive income for the period		–	–	– 69.8	288.6	218.8
Performance-based share-savings plan	2	–	–	–	2.6	2.6
Dividend, SEK 3.00 per share	31	–	–	–	–113.5	–113.5
Equity at 31 December 2015		**65.5**	**159.4**	**–32.6**	**1,244.8**	**1,437.1**
Net profit for the year		–	–	–	380.9	380.9
Net investment hedges	27	–	–	16.3	–	16.3
Other comprehensive income		–	–	–76.7	–0.8	–77.5
Comprehensive income for the period		–	–	–60.4	380.1	319.7
Performance-based share-savings plan	2	–	–	–	2.8	2.8
Dividend, SEK 3.50 per share	31	–	–	–	–132.5	–132.5
Equity at 31 December 2016		**65.5**	**159.4**	**–93.0**	**1,495.2**	**1,627.1**

PARENT COMPANY	Note	Share capital	Translation	Retained	Total equity
Equity at 1 January 2015		**65.5**	**159.4**	**329.7**	**554.6**
Performance-based share-savings plan	2	–	–	0.8	0.8
Net profit for the year		–	–	100.8	100.8
Dividend, SEK 3.00 per share	31	–	–	–113.5	–113.5
Equity at 31 December 2015		**65.5**	**159.4**	**317.8**	**542.7**
Performance-based share-savings plan	2	–	–	1.7	1.7
Net profit for the year		–	–	157.3	157.3
Dividend, SEK 3.50 per share	31	–	–	–132.5	–132.5
Equity at 31 December 2016		**65.5**	**159.4**	**344.3**	**569.2**

CASH-FLOW STATEMENTS

		GROUP		PARENT COMPANY	
MSEK	**Note**	**2016**	**2015**	**2016**	**2015**
Net profit for the year		**380.9**	**288.6**	**157.3**	**100.8**
Tax	8,9	133.8	88.6	31.5	17.2
Group contributions received		–	–	–166.0	–95.0
Income from shares in subsidiaries	6	–	–	–46.9	–49.5
Interest income	3	–16.8	–4.9	–32.2	–27.5
Interest expenses and similar profit/loss items	4	26.3	23.7	19.9	22.4
Operating profit		**524.2**	**396**	**–36.4**	**–31.6**
Adjustments for non-cash items:					
Depreciation/amortisation		121.2	107.3	–	–
Profit/loss on the sale of property, plant and equipment		4.1	3.0	–	–
Items in equity		2.0	2.6	1.7	0.8
Exchange-rate differences		–71.6	13.8	4.2	2.6
		579.9	**522.7**	**–30.5**	**–28.2**
Interest received		1.8	2.1	28.0	24.7
Interest paid		–19.4	–24.6	–19.9	–22.2
Income tax paid		–143.8	–94.8	–41.9	–19.8
Cash flow from operating activities before changes in working capital		**418.5**	**405.4**	**–64.3**	**–45.5**
Changes in working capital					
Changes in inventories		–38.6	–3.3	–	–
Changes in receivables		–56.8	–14.2	–8.3	–30.0
Changes in current liabilities		64.7	55.6	28.4	101.9
Cash flow from operating activities		**387.8**	**443.5**	**–44.2**	**26.4**
Investing activities					
Investments in subsidiaries and associated companies		–341.5	–93.4	–0.3	–
Investments in intangible assets		–52.5	–29.8	–	–
Investments in property, plant and equipment		–116.5	–88.1	–	–
Changes in construction in progress and advance payments	11	9.5	–6.9	–	–
Increase in non-current receivables	12	–	–0.4	–455.1	–46.2
Decrease in non-current receivables	12	1.8	–	–	–
Group contributions and dividends received		–	–	212.9	144.5
Cash flow from investing activities		**–499.2**	**–218.6**	**–242.5**	**98.3**
Financing activities					
Repayment of loans	16	–19.6	–1,326.3	–	–1,306.2
Borrowings	16	515.7	1,337.3	554.2	1,321.1
Dividends paid		–132.5	–113.5	–132.5	–113.5
Cash flow from financing activities		**363.6**	**–102.5**	**421.7**	**–98.6**
Change in cash and cash equivalents		**252.2**	**122.4**	**135.0**	**26.1**
Cash and cash equivalents at beginning of the year		471.9	353.1	49.8	23.7
Translation differences in cash and cash equivalents		7.5	–3.6	–	–
Cash, cash equivalents at end of the year		**731.6**	**471.9**	**184.8**	**49.8**

ACCOUNTING POLICIES

The limited liability company's consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR1.

The Parent Company applies the same accounting policies as the Group, except in the instances stated below in the section Parent Company's Accounting Policies. The deviations arising between the Parent Company's and the Group's accounting policies result from limitations in the possibility of applying IFRS in the Parent Company primarily due to the stipulations of the Swedish Annual Accounts Act. The policies applied are unchanged compared with the preceding year.

All amounts are reported in millions of Swedish kronor (MSEK), unless stated otherwise. Assets and liabilities are valued at cost, unless stated otherwise. The amounts reported for financial assets and liabilities comprise an approximation of their fair value.

CONSOLIDATED ACCOUNTS

Subsidiaries

The consolidated accounts include subsidiaries over which the Group has control, that is the right to determine the financial and operating policies, in a manner that generally derives from a shareholding of more than 50 per cent of the voting rights.

Companies acquired during the year are fully consolidated from the date on which control is transferred to the Group. Companies are de-consolidated from the date that control ceases.

The Group applies the acquisition method to recognise the Group's business combinations. The acquisition price paid for a subsidiary is the fair values of the assets transferred, the liabilities incurred and the shares issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each acquisition, the Group determines whether all non-controlling interests in the acquired company are recognized at fair value or at the proportionate share of the acquired company's net assets. The amount by which the consideration, any non-controlling interest and fair value at the acquisition dates of previous shareholdings exceeds the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the consideration transferred is less than the fair value of the acquired subsidiary's net assets, the difference is recognised directly in profit or loss.

Inter-company gains on transactions between Group companies are eliminated in their entirety. There are no minority shareholdings within the Group.

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in SEK, which is the Parent Company's functional and presentation currency.

Transactions and balance-sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange-rate differences attributable to operating activities are recognised in operating profit, while exchange-rate differences attributable to the Group's financing are recognised under financial income and expenses. Exceptions to this include hedging transactions that meet the requirements for the hedge accounting of cash flows or net investments, for which exchange-rate differences are recognised in equity.

Subsidiaries

The results and financial position of all subsidiaries (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the Group's presentation currency as follows:

– assets and liabilities for each balance sheet are translated at the closing rate of exchange,
– income and expenses for each income statement are translated at the respective average exchange rate (unless the average exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the transaction-date rates), and
– all resulting exchange-rate differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

INCOME TAX

Reported income tax includes tax which is to be paid or received for the current year and adjustments pertaining to previous years' current taxes and changes in deferred tax.

The measurement of all income tax liabilities and assets is performed at nominal amounts, applying the tax rates and provisions that have been enacted, or substantially enacted, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

In the case of items recognised in profit or loss, related tax effects are also recognised in profit or loss. The tax effects of items that are recognised directly in equity are also recognised directly in equity.

Deferred tax is calculated using the balance-sheet method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. These temporary differences have primarily arisen through consolidation adjustments and transfers to tax allocation reserves.

Deferred tax assets pertaining to future tax deductions are recognised to the extent that it is probable that such deductions can be netted against surpluses in future taxation. Deferred tax liabilities pertaining to temporary differences attributable to investments in subsidiaries are not recognised in the consolidated accounts as the Parent Company can, in all cases, control the date for a reversal of the temporary differences and it is not assessed as probable that a reversal will take place within the foreseeable future.

The reporting of deferred tax is based on effective tax rates.

INVENTORIES

Inventories are reported using the first-in, first-out method at the lower of cost and net realisable value on the closing date.

The valuation of work in progress and finished products includes design costs, direct labour costs and other direct costs with a reasonable mark-up for indirect costs (based on normal production capacity). This item excludes borrowing costs.

Net realisable value is the estimated selling price in the ongoing course of business, less any applicable variable selling expenses.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade and other receivables are recognised at cost, less any provision for impairment.

A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to receive all amounts due according to the original terms of the receivable. Significant financial difficulties on the part of the debtor, the probability that the debtor will enter into receivership or undergo financial reconstruction and default or late payments are considered indicators that an impairment provision for trade receivables may be required. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced using an impairment allowance account and the loss is recognised in profit or loss under Selling expenses. Recoveries of amounts previously written off are credited against Selling expenses in profit or loss.

REVENUE RECOGNITION

Goods

Sales of goods are recognised upon delivery to customers, in accordance with the conditions of sale. Revenue refers to the fair value of goods sold, excluding VAT and discounts. Inter-company sales are eliminated in the consolidated accounts.

Other operating income

Revenue from activities outside the Group's primary operations has been recognised as Other operating income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Income from dividends is recognised when the right to receive payment has been determined.

INTERNAL TRANSFER PRICING

The pricing of transactions such as intra-Group purchases and sales of goods and services, uses market terms.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the lease term (net of any incentives received from the lessor) are expensed in profit or loss on a straight-line basis.

BORROWING COSTS

The Group capitalises borrowing costs which are directly attributable to the purchase, construction or production of an asset, and where a considerable amount of time is required to prepare the asset for use or sale, as a portion of the asset's cost. Other borrowing costs are recognised as expenses in the period in which they arise.

CASH-FLOW STATEMENT AND CASH AND CASH EQUIVALENTS

The cash-flow statement has been prepared using the indirect method. The recognised cash flow includes only those transactions that have resulted in receipts or payments. Cash and cash equivalents include cash and bank balances as well as short-term financial investments with maturities of less than three months. In both 2016 and 2015, cash and cash equivalents were comprised solely of cash and bank balances.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings comprise, primarily, factories and offices. All property, plant and equipment (PPEs) are measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenses are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is likely that future economic benefits associated with the asset will accrue to the Group, and when the asset's cost can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the period in which they arise.

No depreciation is reported for land. Depreciation on other assets is calculated using the straight-line method to allocate their cost down to their residual values over their estimated -useful lives, as follows:

Buildings	25 years
Permanent equipment, service facilities, etc. in buildings	10–20 years
Land improvements	20 years
Machinery and equipment	5–10 years
Vehicles and IT systems	5 years
Computers and tools	3 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each closing date.

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

INTANGIBLE ASSETS

Research and development

The Group incurs no expenses for research. Expenses arising from development projects (attributable to the development of new luminaires) are reported in the Group as intangible assets when it is likely that the project will be successful, in terms of its commercial and technical possibilities, and when the expenses can be reliably measured. Other development expenses are expensed as they arise. Development expenses previously recognised as an expense are not capitalised as assets in subsequent periods.

Capitalised development expenditure with a limited useful life is amortised on a straight-line basis from the point in time at which commercial production can be initiated. Amortisation is reported during the asset's expected useful life, which is usually three to five years. Amortisation is included in the income statement under the item Cost of goods sold. Capitalised development expenditure is included under the item Other intangible assets.

Goodwill

Goodwill consists of the amount by which the consideration, any non-controlling interest and fair value at the acquisition dates of previous shareholdings exceeds the fair value of the Group's share of identifiable net assets acquired. Goodwill on the acquisition of subsidiaries is recognised as an intangible asset. Goodwill is tested annually to identify any need for impairment and is recognised at cost less accumulated impairment. The gain or loss on the sale of an entity includes the remaining carrying amount for goodwill pertaining to the entity sold.

Goodwill is allocated to cash-generating units, when testing for any impairment requirement. This allocation is made to the cash-generating units (CGUs) which are expected to benefit from the business combination which has given rise to the goodwill item. The Fagerhult Group allocates goodwill to all lines of business.

Brands

This item mainly includes assets in the form of brands, which have arisen in conjunction with the acquisition of subsidiaries. These are valued at the fair value on the acquisition date and, thereafter, less amortisation and impairment. Brands are amortised over their estimated useful lives or, in cases where the brand has an indefinite useful life, an annual impairment test is carried out.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets which have an indefinite useful life are not subject to amortisation and, instead, are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In those cases, in which the carrying amount exceeds the estimated recoverable amount, the carrying amount is immediately impaired down to the recoverable amount. The recoverable amount is the greater of an asset's fair value, less selling expenses and the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate, identifiable cash flows (CGUs).

FINANCIAL INSTRUMENTS

The Group classifies its financial instruments in the categories Financial assets at fair value through profit and loss, Available-for-sale financial assets and Loans receivable and Accounts receivable. The classification depends on the purpose for which the financial assets were acquired. Company management determines the classification of financial assets at initial recognition and, thereafter, re-examines the decision at each reporting occasion.

Financial instruments reported in the balance sheet include cash and bank balances, receivables, borrowings and operating liabilities.

Loans receivable and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. These characteristically arise in conjunction with the Group providing funds, goods or services directly to a customer without the intention to trade in the receivables. These are included in current assets with the exception of items with a maturity date later than 12 months after the closing date, which are classified as non-current assets. Loans receivable and accounts receivable are included in the items Other non-current receivables, Trade receivables and Other receivables in the balance sheet. Loans receivable and Accounts receivable are initially reported at fair value and, thereafter, at amortised cost on the basis of the effective interest method. Where necessary, provisions have been made for impairment.

Financial liabilities are initially valued at fair value, net after transaction costs, and thereafter, at amortised cost.

The category "Financial liabilities" includes the items Borrowings, Trade payables, and Other liabilities.

Purchases and sales of financial instruments are reported on the trade date, that is, the date on which the Group commits itself to purchase or sell the asset. Financial instruments are initially valued at fair value plus transaction costs, which applies to all financial assets which are not valued at fair value in profit or loss. Financial assets at fair value through profit or loss are initially valued at fair value, while applicable transaction costs are recognised in profit or loss. Financial instruments are derecognised when the rights to receive cash flows from the instruments have expired or been transferred, and the Group has substantially transferred all of the risks and rewards associated with ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are recognised after the acquisition date at fair value. Realised and unrealised gains and losses resulting from changes in fair value attributable to the category Financial assets at fair value through profit or loss are included in the income statement in the period during which they arise.

The Group makes an assessment at each closing date as to whether objective evidence exists of an impairment requirement for a financial asset or group of financial assets.

Derivative instruments are reported in the balance sheet on the contract date and are valued at fair value, both initially and following subsequent re-valuations. Derivative instruments are not used for hedge accounting. Changes in fair value are, therefore, recognised immediately in profit or loss under Operating profit.

EQUITY

Transaction costs which are directly applicable to the issue of new shares or share options are recognised, net after tax, in equity, as a deduction from the proceeds of the issue. In the case of a repurchase of shares, retained earnings are reduced by the amount paid for the shares. When treasury shares are sold, retained earnings increase by the amount received.

EMPLOYEE BENEFITS

Pension commitments

Within the Group, there are both defined-contribution plans and defined-benefit plans. A defined-benefit plan is a pension plan stipulating a determined amount of pension benefit which the employee receives after retirement, usually based on several factors, such as age, length of service or salary. A defined-contribution plan is a pension plan according to which the Group pays a fixed amount to a separate legal entity and, therewith, has no obligation to pay additional premiums. Costs for employees' service during current or previous periods impact the Group's earnings.

In defined-benefit plans, benefits to employees and former employees are based on the employee's salary at the retirement date and on the number of years of service. The Group is liable for payment of the benefits.

The liability recognised in the balance sheet pertaining to defined-benefit plans is the present value of the defined-benefit commitments at the closing date and is adjusted for unrecognised actuarial gains/losses for service during previous periods. The defined-benefit commitments are calculated yearly by an independent actuary, applying the projected unit credit method. This method allocates pension costs in pace with the employees' execution of services for the company, which increases their right to future remuneration. The company's commitments are valued at the present value of the expected future payments, utilising a discount rate corresponding to interest on first-class corporate bonds. The most important actuarial assumptions are stated in Note 20.

Actuarial gains and losses may arise on determination of the present value of the commitments. These can arise from actual outcomes deviating from earlier assumptions or from changed assumptions. These items are then reported in Other comprehensive income in the period in which they arise. Costs of employment for previous periods are recognised directly in profit or loss.

For defined-contribution plans, the Group pays premiums into a public or privately administered pension insurance plan on an obligatory, contractual or voluntary basis. The Group has no additional payment obligations when these premiums are paid. The premiums are reported as pension costs when they fall due. Prepaid premiums are recognised as assets to the extent that cash repayment or a decrease in future payments may benefit the Group.

Share-based payments

The Group has a share-savings plan, which is recognised as a plan settled through equity. The cost of the plan is calculated on the basis of the allocated shares' fair value at the time of allocation and is allocated over the term of the plan. In those cases, in which the plan may lead to costs in the form of social security contributions, the Group reserves the social security contributions on an ongoing basis at fair value, allocated over the term of the plan.

Termination benefits

Termination benefits are payable when an employee's employment is terminated prior to the normal pensionable age or when an employee voluntarily accepts termination of employment in exchange for such benefits. The Group reports severance pay when there is a demonstrable obligation to terminate the employment according to a detailed, formal plan with no possibility of reinstatement, or when it is required to provide termination benefits as a result of an offer to encourage employees to leave service voluntarily. Benefits falling due more than 12 months after the closing date are discounted to present value.

PROVISIONS

Provisions for restructuring costs and statutory requirements are recognised when the Group has a legal or informal obligation to do so as a result of previous events, when it is more likely that an outflow of resources will be required to settle the obligation rather than not be required, and when the amount can be reliably calculated.

If there are a number of similar obligations, an assessment is made of the probability that an outflow of resources will be required to settle the entire Group's obligations. A provision is recognised even if the probability of an outflow for a separate item in this group of obligations is minimal.

EARNINGS PER SHARE

Earnings per share are calculated as net profit/loss for the year in accordance with the income statement in relation to the average number of shares outstanding before and after dilution.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments. The Group has identified this function as the CEO who makes the strategic decisions.

Expenses attributable to a particular segment are comprised of both direct expenses and a portion of Group-wide expenses. Unspecified expenses represent Group-wide expenses. The operating segments' assets consist mainly of intangible assets, property, plant and equipment, inventories and trade receivables. Segment liabilities consist mainly of trade payables, and accrual and deferral items.

DIVIDENDS

Dividends to AB Fagerhult's shareholders are recognised as liabilities in the consolidated financial statements in the period in which the dividends were adopted by the Parent Company's shareholders.

PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2. RFR 2 stipulates that, in its annual accounts, the Parent Company is to apply International Financial Reporting Standards (IFRS) as endorsed by the EU, where this is possible within the framework of the Swedish Annual Accounts Act, and with regard to the connection between accounting and taxation. RFR 2 specifies the exceptions and supplements to be applied in relation to IFRS. Identified differences between accounting policies of the Group and the Parent Company mainly refer to IAS 12 Income taxes. The amounts transferred to untaxed reserves constitute taxable temporary differences. Due to the connection between accounting and taxation, deferred tax liabilities applicable to untaxed reserves are not disclosed separately in the Parent Company. Accordingly, these are reported in their gross amounts in the balance sheet. Appropriations are recognised at gross value in profit or loss.

Group contributions are recognised as appropriations.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the annual accounts requires that qualified estimates and assessments be made for accounting purposes. Furthermore, company management exercises its judgement in the application of the Group's accounting policies. Estimates and assessments can affect the income statement and the balance sheet, as well as any additional information which has been reported in the annual accounts. Consequently, changes in valuations and assessments can lead to changes in the annual accounts.

Impairment tests for goodwill

For the Group, it has been determined that the estimates and assessments made in connection with impairment testing of goodwill are of significance for the consolidated accounts. Each year, the Group conducts tests to determine whether any impairment requirement exists for carrying amounts. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations are based on certain assumptions regarding the future which, for the Group, are associated with a risk of material adjustments of carrying amounts during the forthcoming financial year. Significant assumptions and the effects of reasonable changes of such are stated in Note 10.

If the estimated cost of capital applied in determining the pre-tax discount rate for the cash-generating units had been 1 per cent higher (for example 11 per cent instead of 10 per cent) than the management's assessment, this would still not have resulted in any impairment requirement.

APPLICATION OF NEW OR AMENDED STANDARDS

Changes in accounting policies and disclosures
New and amended standards applied by the Group.

The following standards have been applied by the Group for the first time for the financial year beginning on 1 January 2016 and have a material impact on the consolidated financial statements:

The implementation of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities have only had an impact in terms of supplementary disclosures.

Other standards, amendments and interpretations that come into effect for financial years beginning 1 January 2016 have no material impact on the consolidated financial statements.

New standards and interpretations that have not yet been adopted by the Group.

A number of new standards and interpretations come into effect for financial years starting after 1 January 2016, and have not been applied in the preparation of these financial statements. None of these standards or interpretations are expected to have any material impact on the consolidated financial statements, with the exception of the following:

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The final version of IFRS 9 was published in July 2014. IFRS 9 replaces the parts of IAS 39 relating to the classification and measurement of financial instruments. The standard is to be applied to financial years beginning 1 January 2018. Early adoption is permitted. The Group has commenced work on assessing if there are any effects and the initial assessment is that the standard will not have any significant impact. The main change, in which expected losses will be included on financial receivables, is not expected to have any significant effect as the company's receivables generally have short-term maturities. Other changes compared to IAS 39 are not expected to have any material effect.

IFRS 15 Revenue from Contracts with Customers governs how revenue recognition is carried out. The principles on which IFRS 15 is based aim to provide users of financial statements with useful information about a company's revenue. The expanded disclosure requirement means providing information about the revenue's nature, timing of settlement, uncertainty in revenue recognition and cash flows arising from the company's contracts with customers. Under IFRS 15, revenue is recognised when control is passed to the customer of an asset or service and the customer is able to use and obtain the benefits from the asset or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related SICs and IFRICs. IFRS 15 comes in to effect on 1 January 2018. Early adoption is permitted. The Group has commenced efforts in 2016 to evaluate any effects. As the majority of the Group's sales are generated by sales of goods, no initial significant differences have been identified between the Group's adoption of IAS 18 and IFRS 15. Work with implementing the new standard is expected to be completed in the fourth quarter of 2017.

IFRS 16 Leases. In January 2016, the IASB published a new standard for leases that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. This standard requires assets and liabilities attributable to all leases, with a few exceptions, to be recognised in the balance sheet. This recognition is based on the view that the lessee has a right to use an asset during a specific period of time and at the same time an obligation to pay for this right. Recognition for the lessor will essentially be unchanged. The standard is to be applied to financial years beginning on or after 1 January 2019. Early adoption is permitted. The EU has not yet adopted the standard. The Group has commenced an evaluation of the effects on the financial reports and it has become clear that total assets will increase as these must be mirrored in the balance sheet. In addition, the implementation of the standard will have an impact on the income statement as the right of use will be written off and rental payments will be divided up into amortisation and interest expenses instead of being amortised over the term of the rental period on a straight-line basis. No quantitative information on the impact of the standards is available at the time of release of the annual report. See Note 23 for additional information regarding the Group's future obligations with regard to operational leasing agreements. Work on the impact of the Group's financial position will continue during 2017 and 2018.

NOTES

Note 1 | Segment reporting

	Northern Europe		UK and Ireland		Western and Southern Europe		Africa, Asia and the Pacific		Other		Eliminations		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Net sales and income														
Net sales	2,029.5	1,844.2	1,195.7	1,175.2	1,044.4	770.3	652.8	492.8			–431.7	–373.1	4,490.7	3,909.4
(of which internal sales)	*(292.1)*	*(282.1)*	*(54.1)*	*(36.7)*	*(36.9)*	*(21.7)*	*(48.6)*	*(32.6)*			*–(431.7)*	*–(373.1)*	*(0.0)*	*(0.0)*
Operating profit by line of business	220.0	157.7	180.9	159.1	99.1	69.9	86.8	54.0	–62.6	–44.7			524.2	396.0
Unclassified costs													0.0	0.0
Operating profit													**524.2**	**396.0**
Financial income													16.8	4.9
Financial expenses													–26.3	–23.7
Tax expenses for the year													–133.8	–88.6
Net profit for the year													**380.9**	**288.6**
Other disclosures														
Non-current assets	436.0	414.6	409.0	437.0	1,242.0	581.9	456.1	454.4			4.5		2,547.6	1,887.9
Other assets	1,401.7	875.3	659.7	450.5	605.9	273.0	333.7	291.8	43.0	85.8	–781.8	–140.7	2,262.3	1,835.7
Unclassified assets													4.2	15.8
Total assets													**4,814.2**	**3,739.4**
Liabilities	449.2	415.8	282.8	260.9	493.9	168.8	159.5	148.9	17.7	24.0	–154.5	–229.2	1,248.5	789.2
Unclassified liabilities													1,938.6	1,513.1
Total liabilities													**3,187.1**	**2,302.3**
Investments	93.4	55.9	38.8	37.6	17.6	14.7	19.2	9.7					169.0	117.9
Depreciation/amortisation	61.8	60.2	25.0	24.9	24.2	13.7	10.2	8.5					121.2	107.3
External sales per market														
Sweden	966.2	865.4			8.6	4.4							974.8	869.8
UK	6.4	4.7	1,100.9	1,110.4	22.6	7.1							1,129.9	1,122.2
Germany	28.8	22.8	15.4	9.4	338.0	302.3	0.2	0.5					382.4	335.0
Australia	0.5				13.1	6.2	242.8	228.2					256.4	234.4
Norway	223.9	213.4			1.2								225.1	213.4
Finland	164.6	143.6			1.0								165.6	143.6
United Arab Emirates					15.3	7.6	129.1	68.7					144.4	76.3
The Netherlands	6.3	2.8			133.6	125.5	1.4	2.5					141.3	130.8
Denmark	137.0	124.6			1.2		0.1						138.3	124.6
Spain	1.4	0.3			130.6	95.5							132.0	95.8
South Africa					6.7	21.4	121.3	20.9					121.3	42.3
USA	5.7				98.0								103.7	0.0
Russia	93.1	79.7			2.0			0.3					95.1	80.0
Turkey					1.2	0.8	79.9	118.8					81.1	119.6
France	8.5	13.3			71.2	53.2							79.7	66.5
Poland	8.9	13.6		0.2	40.5	39.7							49.4	53.5
Other	86.1	77.9	25.3	18.5	122.7	84.9	29.4	20.3					270.2	201.6
Total	**1,737.4**	**1,562.1**	**1,141.6**	**1,138.5**	**1,007.5**	**748.6**	**604.2**	**460.2**					**4,490.7**	**3,909.4**
Non-current assets per market														
Sweden	302.6	283.5											302.6	283.5
UK			398.6	426.8									398.6	426.8
Germany					1,183.6	523.3							1,183.6	523.3
Turkey							255.6	281.1					255.6	281.1
Australia							100.5	91.8					100.5	91.8
Finland	81.2	79.4											81.2	79.4
China	10.6	10.0											10.6	10.0
South Africa							99.0	80.8					99.0	80.8
Other	41.6	41.7	10.4	10.2	58.4	58.6	1.0	0.7			4.5		115.9	111.2
Total	**436.0**	**414.6**	**409.0**	**437.0**	**1,242.0**	**581.9**	**456.1**	**454.4**			**4.5**		**2,547.6**	**1,887.9**

Fagerhult has chosen to divide its operations into four business areas based on geographical regions and one business area covering other activities:

- **Northern Europe.** The business area comprises the Group's operations in the Nordic and Baltic countries and Russia. The Group's plant in China, including manufacturing and purchasing, is also part of the business area. In Sweden and Finland, operations are comprised of development work, manufacturing and sales, while operations in other markets, with the exception of China, refer only to sales.
- **UK and Ireland.** The business area comprises our companies in the UK and Ireland. Whitecroft Lighting and Designplan Lighting develop, manufacture and sell lighting systems. Other units engage in sales activities.
- **Western and Southern Europe.** This business area includes operations in Germany, the Netherlands, France, Spain, Poland, Slovakia and the US. The company acquired LED Linear during the year which is also included in this segment. The dominant operations are LTS Licht & Leuchten GmbH and LED Linear GmbH in Germany, which develops, manufactures and sells lighting systems. Other units engage in sales activities.
- **Africa, Asia and the Pacific.** The business area comprises the operations in Turkey, the United Arab Emirates (UAE), Australia, New Zealand and South Africa. The Australian, Turkish and South African operations develop, manufacture and sell lighting systems while the operations in the UAE refer to sales.
- **Other.** This business area is mainly comprised of the Parent Company and certain Group-wide functions.

Information per product area

	SALES	
	2016	**2015**
Indoor Lighting	2,979.0	2,656.2
Retail Lighting	1,124.8	965.6
Outdoor Lighting	386.9	287.6
Total	**4,490.7**	**3,909.4**

Indoor Lighting
This product area includes sales of indoor lighting for public environments, such as offices, schools, hospitals, industry, etc.

Retail Lighting
This product area includes sales of lighting systems, light sources and service to retail environments.

Outdoor Lighting
This product area includes sales of outdoor products for the lighting of buildings, parks, recreational areas, pathways, etc.

Note 2 | Salaries, other remuneration and social security contributions

	Salaries and other remuneration		Social security contributions		(of which pension expenses)	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Parent Company	17.3	16.3	13.9	10.6	(4.8)	(3.6)
Subsidiaries	1,005.1	925.2	246.1	229.0	(55.6)	(49.6)
Group	**1,022.4**	**941.5**	**260.0**	**239.6**	**(60.4)**	**(53.2)**

Salaries and other remuneration to Board members, the CEO and senior management

	2016			2015		
	Salaries and other remuneration	(of which variable remuneration)	Pension expenses	Salaries and other remuneration	(of which variable remuneration)	Pension expenses
Parent Company, 11 (10) employees	24.2	(4.7)	2.7	14.3	(2.9)	2.8
Subsidiaries, 28 (26) employees	52.3	(7.7)	4.5	40.2	(5.5)	3.5
Group	**76.5**	**(12.4)**	**7.2**	**54.5**	**(8.4)**	**6.3**

Remuneration to senior management during the year:

	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension expenses	Share-based payments	Total
Parent Company						
Chairman of the Board, Jan Svensson	0.5	–	–	–	–	0.5
Board Member, Eric Douglas	0.4	–	–	–	–	0.4
Board Member, Cecilia Fasth	0.2	–	–	–	–	0.2
Board Member, Bjorn Karlsson	0.2	–	–	–	–	0.2
Board Member, Catherina Fored	0.2	–	–	–	–	0.2
Board Member, Fredrik Palmstierna	0.2	–	–	–	–	0.2
President and CEO	4.2	2.0	0.1	1.5	4.4	13.0
Other senior management (4 individuals)	6.9	2.7	0.1	1.2	1.3	12.4
	12.8	**4.7**	**0.2**	**2.7**	**5.7**	**27.1**
Subsidiaries						
Other senior management (3 individuals)	3.3	1.2	0.2	1.0	1.7	7.4
GROUP	**16.1**	**5.9**	**0.4**	**3.7**	**7.4**	**34.5**

Remuneration to the Board of Directors was determined at the 2016 AGM. No additional remuneration has been paid to the Board of Directors, with the exception of remuneration for travel expenses. Other senior management refers to the Group management and those individuals responsible for the various business areas. Other benefits refer to company cars.

Remuneration policy
The Chairman of the Board and Board members receive Board fees in accordance with the resolutions of the AGM. Remuneration is not paid to members of the Board employed within the Group.

Remuneration to the CEO is determined by the Board on the basis of proposals made by the Remuneration Committee. Remuneration to other senior management has been approved by the Remuneration Committee following proposals from the CEO.

Remuneration to the CEO and other senior management consists of basic salary, variable remuneration, company car benefits and pensions. The balance between basic salary and variable remuneration is to be in proportion to the employee's responsibilities and authority.

For the CEO, annual variable remuneration is maximised at the equivalent of 50 per cent of fixed salary. The variable salary is based on the Group's earnings per share. In addition to the annual bonus, the CEO is covered by the performance-based share-savings plan described below.

For other senior management, annual variable remuneration is capped at 30–40 per cent of basic salary. Variable remuneration is typically based on improvement, compared to the previous year, in terms of each individual's respective responsibility for operating profit, the Group's earnings per share and the outcome of individual activity plans.

Pensions

The retirement age of the CEO and other senior management is 65. Defined-contribution pension insurance corresponding to 35 per cent of the fixed annual salary is paid for the CEO. Pension benefits for other senior management are paid within the framework of the applicable ITP supplementary pension plan.

Severance Pay

For the CEO, the notice period for termination of employment is six months if termination is initiated by the company and six months if initiated by the CEO. If termination is initiated by the company without reason for termination, the CEO is entitled to severance pay corresponding to 12 months' salary. Severance pay is deducted against other earned income.

For other senior management, the notice period is 12 months if initiated by the Company, and six months if initiated by the employee. No separate agreements exist regarding retirement age, future pension or severance pay to Board members and other senior management.

Performance-based share savings plan

The Company's 2013 AGM resolved to implement a performance-based share-savings plan for the CEO, senior management and a number of key employees within the Group. Additional performance-based share-savings plans were then approved by the AGMs in 2014, 2015 and 2016. In the first plan, a total of 29 people were offered the opportunity to participate, of which 20 accepted. In the second plan, 34 people were offered the opportunity to participate, of which 31 accepted. In the third plan, 33 people were offered the opportunity to participate, of which 9 accepted. In the fourth plan, 35 people were offered the opportunity to participate, of which 28 accepted.

Participation in the plan requires a personal investment in Fagerhult shares. Following, under normal circumstances, a three-year vesting period, a cost-free allocation of shares in Fagerhult can be made to the participants, provided that certain conditions are met.

In order for the share awards to be eligible for the allotment of shares, participants are required to remain in employment within the Group and to retain their entire investment in Fagerhult shares acquired within the framework of the plan during the vesting period. Some of the allocated share awards (known as performance share awards) also require meeting a financial performance target related to Fagerhult's average earnings per share. For the plan approved by the 2015 and 2016 AGMs, all share awards are so-called performance share awards, meaning that they are conditional on a financial performance target.

The 2013 plan was concluded in 2016. The conditions for the performance share awards pertaining to average earnings per share for 2013-2014 were fulfilled and 76,272 shares were allocated to the participants.

For the remaining three plans, in accordance with the conditions for the plans, the remaining participants have acquired a total of approximately 34,607 shares in Fagerhult. A total of approximately 117,000 share awards have been allocated to plan participants, of which 21,520 to the CEO and 90,057 to other senior management.

For the 2014 plan, the financial performance target pertains to average earnings per share for the 2014 to 2015 financial years, while the financial performance target for the 2015 plan pertains to average earnings per share for the 2015 to 2016 financial years and the financial performance target for the 2016 plan pertains to average earnings per share for the 2016 to 2017 financial years. For the 2014 plan, the financial performance target was fully achieved, which implied an allocation of 70,118 shares. Based on the profit for the year, this results in an impact of approximately SEK 0.01.

Accordingly, a maximum of about 117,000 Fagerhult shares (including the 2014 plan) can be allocated under the terms of the three remaining plans. The valuation of the allocated share awards is based on the market price of the share at the time of allotment, with a deduction for the lack of dividend.

The total cost in 2016 for all share-savings plans was MSEK 5.4 (5.2) or SEK 0.14 (0.14) per share. Earnings per share at maximum allocation is estimated to be SEK 0.03 based on the profit for the year.

Note 3 | Interest income and similar profit/loss items

	GROUP		PARENT COMPANY	
	2016	**2015**	**2016**	**2015**
Interest income	1.8	2.1	28.0	24.7
Exchange-rate gains	15.0	2.8	4.2	2.8
Total	**16.8**	**4.9**	**32.2**	**27.5**
Of which Group companies			27.9	24.6

Note 4 | Interest expenses and similar profit/loss items

	GROUP		PARENT COMPANY	
	2016	**2015**	**2016**	**2015**
Interest expenses	21.9	20.4	17.1	19.0
Exchange-rate losses	–	–	–	0.2
Other financial expenses	4.4	3.3	2.8	3.2
Total	**26.3**	**23.7**	**19.9**	**22.4**
Of which Group companies			0.6	0.6

Note 5 | Trade receivables

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Maturity analysis of trade receivables outstanding				
Trade receivables, not yet due	482.5	491.2	–	–
Past-due trade receivables with no need for impairment:				
< 3 months	233.8	165.9	–	–
3–12 months	40.2	11.0	–	–
> 12 months	4.8	10.4	–	–
	278.8	187.3	–	–
Past-due trade receivables requiring impairment:				
< 3 months	0.4	0.4	–	–
3–12 months	4.8	8.7	–	–
> 12 months	22.9	14.4	–	–
	28.1	23.5	–	–
Provision for doubtful receivables	–28.1	–23.5	–	–
Carrying amount	**761.3**	**678.5**	**–**	**–**
Change in provision for doubtful receivables				
Opening provision	–23.5	–26.5	–	–
Acquisitions of subsidiaries	–	–0.1	–	–
Confirmed losses	0.6	4.9	–	–
Reversed, unutilised provisions	1.3	2.5	–	–
Provision for the year	–8.0	–6.6	–	–
Translation differences	1.5	2.3	–	–
Closing provision	**–28.1**	**–23.5**	**–**	**–**

Note 6 | Income from shares in subsidiaries

	PARENT COMPANY	
	2016	2015
Dividends received	46.9	49.5
Total	**46.9**	**49.5**

Note 7 | Depreciation/amortisation and impairment

Amortisation of intangible assets in the Group was MSEK 27.2 (19.2) and depreciation of property, plant and equipment totalled MSEK 94.0 (88.1). Impairment amounted to MSEK 0.0 (0.0). Depreciation/amortisation and impairment are specified per function in the income statements as follows:

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Brands				
Cost of goods sold	3.2	3.5	–	–
Total	**3.2**	**3.5**	**–**	**–**
Other intangible assets				
Cost of goods sold	22.9	14.7	–	–
Selling expenses	0.5	0.3	–	–
Administrative expenses	0.6	0.7	–	–
Total	**24.0**	**15.7**	**–**	**–**
Land and buildings				
Cost of goods sold	5.4	4.3	–	–
Selling expenses	0.4	1.1	–	–
Administrative expenses	1.7	1.7	–	–
Total	**7.5**	**7.1**	**–**	**–**

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Plant and machinery				
Cost of goods sold	58.0	51.3	–	–
Total	**58.0**	**51.3**	**–**	**–**
Equipment, fixtures and fittings				
Cost of goods sold	13.2	17.2	–	–
Selling expenses	7.4	5.4	–	–
Administrative expenses	7.9	7.1	–	–
Total	**28.5**	**29.7**	**–**	**–**

Note 8 | Tax on profit for the year

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Current tax	133.7	97.8	31.5	17.2
Deferred tax	0.1	–9.2	–	–
Total	**133.8**	**88.6**	**31.5**	**17.2**
Difference between the Group's tax expense and the tax expense based on current rates				
Reported profit before tax	514.7	377.2	188.8	118.0
Tax according to current tax rates	113.2	83.0	41.5	26.0
Tax effect of non-deductible expenses	11.1	6.7	0.3	2.2
Tax effect of non-taxable income	–7.1	–1.7	–10.3	–11.0
Effect of foreign tax rates	16.6	0.6	–	–
Tax on profit for the year recognised in profit or loss	**133.8**	**88.6**	**31.5**	**17.2**

Note 9 | Deferred tax

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Deferred tax expense/income for the year				
Deferred tax income referring to temporary differences	–14.1	–11.3	–	–
Deferred tax expense referring to temporary differences	14.2	2.1	–	–
Total	**0.1**	**–9.2**	**–**	**–**
Temporary differences				
Temporary differences referring to the following items have resulted in deferred tax liabilities and deferred tax assets. These items have indefinite useful lives.				
Deferred tax liabilities				
Surplus in acquired subsidiaries	104.8	39.7	–	–
Other intangible assets	2.8	3.0	–	–
Buildings	4.3	1.3	–	–
Machinery and equipment	5.1	3.8	–	–
Current receivables	0.1	0.1	–	–
Untaxed reserves	12.3	13.3	–	–
Non-current liabilities	1.7	1.8	–	–
Total deferred tax liabilities	**131.1**	**63.0**	**–**	**–**
Deferred tax assets				
Machinery and equipment	–	0.3	–	–
Other financial assets	–	0.2	–	–
Inventories	6.3	3.4	–	–
Current receivables	0.7	2.5	–	–
Pension provisions	4.2	3.8	–	–
Non-current liabilities	3.0	4.6	–	–
Current liabilities	6.7	8.7	–	–
Total deferred tax assets	**20.9**	**23.5**	**–**	**–**
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised, as a sale would not result in taxation.	1,057.9	894.4	–	–

Note 10 | Intangible assets

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Goodwill				
Opening cost	1,257.8	1,267.9	–	–
Acquisitions of subsidiaries	355.2	59.6	–	–
Translation differences	13.1	–69.7	–	–
Closing accumulated cost	1,626.1	1,257.8	–	–
Opening impairment	0.0	0.0	–	–
Sales and disposals	–	–	–	–
Closing accumulated impairment	0.0	0.0	–	–
Carrying amount	**1,626.1**	**1,257.8**	**–**	**–**
Brands				
Opening cost	189.4	181.5	–	–
Acquisitions of subsidiaries	178.6	16.3	–	–
Translation differences	2.1	–8.4	–	–
Closing accumulated cost	370.1	189.4	–	–
Opening amortisation	–34.9	–30.9	–	–
Amortisation for the year	–3.2	–3.5	–	–
Translation differences	3.2	-0.5	–	–
Closing accumulated amortisation	–34.9	–34.9	–	–
Carrying amount	**335.2**	**154.5**	**–**	**–**
Other intangible assets				
Opening cost	160.5	133.5	–	–
Acquisitions of subsidiaries	45.2	–	–	–
Purchases	52.5	29.8	–	–
Translation differences	1.3	–2.8	–	–
Closing accumulated cost	259.5	160.5	–	–
Opening amortisation	–124.6	–110.7	–	–
Acquisitions of subsidiaries	–1.4	–	–	–
Amortisation for the year	–24.0	–15.7	–	–
Translation differences	–2.1	1.8	–	–
Closing accumulated amortisation	–152.1	–124.6	–	–
Carrying amount	**107.4**	**35.9**	**–**	**–**

The item Brands includes brands with book values of MSEK 306.8 (120.0) and indefinite useful lives. These assets are subject to annual impairment testing. The item Other intangible assets include capitalised expenditure for product development which is internally generated, at a carrying amount of MSEK 13.4 (13.5) and an IT system with a carrying amount of MSEK 50.6 (16.5).

Construction in progress and advance payments				
Opening cost	17.5	6.0	–	–
Land improvements during the year	–	12.3	–	–
Reclassifications	–17.5	–0.7	–	–
Translation differences	–	–0.1	–	–
Carrying amount	**0.0**	**17.5**	**–**	**–**

Impairment testing of Goodwill and Brands with indefinite useful lives
Goodwill and brands (with indefinite useful lives) are distributed among the Group's cash-generating units (CGUs) and identified per segment as below.

	GROUP	
	2016	2015
Northern Europe	151.5	148.3
UK and Ireland	257.9	284.0
Western and Southern Europe	1,127.3	542.0
Africa, Asia and the Pacific	396.0	403.5
Total	**1,932.7**	**1,377.8**

Each year, the Group performs a test for each CGU to assess whether any need for impairment exists for goodwill and brands in line with the applied accounting policies. The recoverable amount for each CGU is determined by value-in-use calculations, which comprise the present value of estimated future payments expected to arise from an asset during its useful life, including the calculated residual value at the end of the asset's useful life. These calculations assume estimated future cash flows based on financial forecasts for the coming five-year period, as approved by management. To extrapolate cash flows beyond this period, a growth rate of 2 per cent (2) has been applied. The cash-flow method has been applied.

Management has designated a budgeted operating margin based on the previous results and on expectations of future market development. The discount rate after tax which has been applied is 10 per cent (10). At present, the risk-free interest rate is historically low. After taking into account the risk-free interest rate and stock market risk premiums, the discount rate has been lowered compared with the year earlier. It is estimated that the discount rate will apply for all segments as the circumstances are, at the moment, similar.

Significant assumptions
Market share and growth
The current market share has been applied to future periods. Forecasts are based on previous experience and on external sources of information. The estimated growth rate used to extrapolate cash flows beyond the budget period was 2 per cent (2).

Expenses
The forecast of personnel costs is based on the expected inflation rate, increases in real salary (historical average) and the planned streamlining of the company's production. The forecast is in line with previous experience and external sources of information.

Exchange rates
Exchange-rate forecasts are based on the current listed exchange rates and on listed forward rates. The forecast is in accordance with external sources of information.

Variables applied
Discount rate before tax of 10.0 per cent (10) for all cash-generating units except Africa, Asia and the Pacific where a rate of 12 per cent (12) is applied.

Exchange rates:
NOK 1.01 (1.06)
EUR 9.44 (9.37)
GBP 11.59 (12.87)

Sensitivity analysis
The recoverable amount exceeds the carrying amounts for goodwill by a significant margin. This also applies to each individual assumption provided that:
– the discount rate before taxes was 1 per cent higher.
– the estimated growth rate used to extrapolate cash flows beyond the budget period was 0 per cent (0).

The most sensitive assumptions are the sales growth and cost trend. A change of these assumptions by 1 per cent would not entail any impairment.

Note 11 | Property, plant and equipment

	GROUP		PARENT COMPANY	
	2016	**2015**	**2016**	**2015**
Land and buildings				
Opening cost	199.4	206.5	–	–
Acquisitions of subsidiaries	2.0	–	–	–
Purchases	21.7	4.9	–	–
Sales and disposals	–	–8.2	–	–
Reclassifications	–	–3.7	–	–
Translation differences	–0.2	–0.1	–	–
Closing accumulated cost	222.9	199.4	–	–
Opening depreciation	–103.0	–105.9	–	–
Acquisitions of subsidiaries	–0.2	–	–	–
Depreciation for the year	–7.5	–7.1	–	–
Sales and disposals	–	8.2	–	–
Reclassifications	–	1.9	–	–
Translation differences	–0.2	–0.1	–	–
Closing accumulated depreciation	–110.9	–103.0	–	–
Carrying amount	**112.0**	**96.4**	**–**	**–**
of which land	3.8	3.8	–	–
Plant and machinery				
Opening cost	824.2	781.8	–	–
Acquisitions of subsidiaries	20.8	17.3	–	–
Purchases	59.7	44.5	–	–
Sales and disposals	–36.0	–10.8	–	–
Reclassifications	–	–0.9	–	–
Translation differences	–12.0	–7.7	–	–
Closing accumulated cost	856.7	824.2	–	–
Opening depreciation	–631.2	–593.4	–	–
Acquisitions of subsidiaries	–2.8	–	–	–
Depreciation for the year	–58.0	–51.3	–	–
Sales and disposals	33.5	8.9	–	–
Reclassifications	–	–0.1	–	–
Translation differences	9.8	4.7	–	–
Closing accumulated depreciation	–648.7	–631.2	–	–
Carrying amount	**208.0**	**193.0**	**–**	**–**

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Equipment, fixtures and fittings				
Opening cost	354.6	353.0	–	–
Acquisitions of subsidiaries	25.1	0.9	–	–
Purchases	35.1	38.7	–	–
Sales and disposals	–6.9	–37.2	–	–
Reclassifications	–	4.7	–	–
Translation differences	–0.1	–5.5	–	–
Closing accumulated cost	407.8	354.6	–	–
Opening depreciation	–266.2	–274.2	–	–
Acquisitions of subsidiaries	–12.1	–	–	–
Depreciation for the year	–28.5	–29.7	–	–
Sales and disposals	5.3	35.8	–	–
Reclassifications	–	–1.9	–	–
Translation differences	–1.2	3.8	–	–
Closing accumulated depreciation	–302.7	–266.2	–	–
Carrying amount	**105.1**	**88.4**	**–**	**–**
Construction in progress and advance payments				
Opening cost	14.6	19.2	–	–
Acquisitions of subsidiaries	–	0.2	–	–
Land improvements during the year	9.1	10.3	–	–
Reclassifications	–1.5	–14.9	–	–
Translation differences	0.4	–0.2	–	–
Carrying amount	**22.6**	**14.6**	**–**	**–**

Note 12 | Financial assets

	PARENT COMPANY	
	2016	2015
Shares and participations in subsidiaries		
Opening cost	616.3	616.3
Acquisitions during the year	0.3	–
Carrying amount	**616.6**	**616.3**
Receivables from subsidiaries		
Opening receivables	1,458.5	1,412.3
Change during the year	455.1	46.2
Closing receivables	**1,913.6**	**1,458.5**

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Other shares and participations				
Opening cost	9.2	9.2	–	–
Acquisitions during the year	2.6	–	–	–
Closing receivables	**11.8**	**9.2**	**–**	**–**
Other non-current receivables				
Opening receivables	2.7	2.2	–	–
New receivables	–	0.5	–	–
Paid receivables	–1.4	–	–	–
Closing receivables	**1.3**	**2.7**	**–**	**–**

The fair values of the Group's financial assets correspond with their carrying amounts.

Note 13 | Shares and participations in subsidiaries

Details of wholly owned subsidiaries, their corporate identity numbers and registered offices.

	Corporate Identity Number	Registered offices	No. of shares	Carrying amount
Subsidiaries:				
Fagerhults Belysning AB	556321-8659	Habo	2,500	200.4
Fagerhult Retail AB	556337-4924	Bollebygd	5,000	137.4
Whitecroft Lighting Holdings Ltd, UK	03848868	Ashton-under-Lyne	11,915	275.6
Elenco Lighting AB	556035-5090	Borås	1,800	2.9
Cloud GmbH	HBR 78293	Düsseldorf	1	0.3
Sub-subsidiaries:				
Fagerhults Belysning Sverige AB	556122-2000	Habo	1 000	1.0
Atelje Lyktan AB	556063-9634	Åhus	2,000	4.4
Fagerhult Belysning AS, Norway	937418906	Oslo	100	0.5
Fagerhult AS, Denmark	63.128	Ishöj	65	2.1
Fagerhult OY, Finland	0980280-0	Helsinki	6,000	0.1
I-Valo OY, Finland	1571418-8	Iittala	2,020	83.9
Fagerhult Oü, Estonia	10703636	Tallinn	5,400	1.6
Fagerhult BV, the Netherlands	96121	IJsselstein	2,250	10.3
Waco NV, Belgium	BE 0492.822.044	Baaigem	9,400	16.4
Fagerhult GmbH, Germany	13135 B	Hamburg	1	10.3
LTS Licht & Leuchten GmbH, Germany	HRB 630906	Tettnang	1	672.3
LED Linear GmbH	HRB8188	Neukirchen-Vluyn	5	514.5
LED Linear USA, Inc	SRV 131038296	Niagara Falls	3,000	54.3
Arlight Aydinlatma A.S., Turkey	790,361,767	Kazan/Ankara	50,000	318.4
Lighting Innovations (pty) Ltd, South Africa	2015/099974/07	Port Elizabeth	1	16.5
Fagerhult s.r.o, Slovakia	47168293	Bratislava	1	0.4
Whitecroft Lighting Ltd, UK	03848973	Ashton-under-Lyne	2	3.6
Designplan Lighting Ltd, UK	00784246	Sutton	360,300	120.6
Fagerhult Lighting Ltd, UK	3488638	London	40,000	0.5
Fagerhult Lighting Ltd, Ireland	98,834	Dublin	100	5.6
Fagerhult Sp.z.o.o, Poland	260213	Warsaw	1 000	0.1
Fagerhult France, France	391138385	Lyon	4,200	33.1
Fagerhult S.L., Spain	B84215722	Madrid	3,010	15.6
Commtech Commissioning Services S.A., Spain	A83770263	Madrid	60,120	7.2
Commtech Commissioning Services S.A., Peru	20601390486	Lima	1	0.0
Fagerhult Lighting System (Suzhou) Co. Ltd, China	3200044439	Suzhou	1	22.0
Eagle Lighting (Australia) Pty Ltd, Australia	124400933	Melbourne	500,001	32.5
Fagerhult (NZ) Ltd, New Zealand	3233074	Christchurch	1	0.2
Fagerhult SPb, Russia	1097847074544	Saint Petersburg	1	0.0

Note 14 | Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2016	**2015**	**2016**	**2015**
Prepaid rent	15.4	16.0	–	–
Insurance	5.7	5.1	–	–
Licences	2.9	2.6	–	–
Consultancy fees	2.7	1.6	–	1.1
Supplier bonus	2.8	4.3	–	–
Advertising and marketing	2.3	3.1	–	–
Taxes and social security contributions	4.2	2.5	0.2	0.2
Financial items	7.6	1.1	6.8	3.3
Non-invoiced income	5.2	3.7	–	–
Other items	10.5	5.5	0.8	0.7
Total	**59.3**	**45.5**	**7.8**	**5.3**

Note 15 | Inventories, etc.

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Raw materials and consumables	260.5	240.0	–	–
Work in progress	41.9	35.4	–	–
Finished products and goods for resale	350.2	295.8	–	–
Advance payments to suppliers	32.1	31.1	–	–
Total	**684.7**	**602.3**	–	–

Expenses arising for inventories that have been expensed are included in the item Cost of goods sold and amounted to 1,802.7 (1,600.5). Provision for obsolescence is included in the value of the inventories. Impairment for the year amounted to 43.2 (25.4) and the amount recovered from previous years amounted to 10.1 (18.8).

Note 16 | Bank overdraft facilities and other borrowings

Agreed bank overdraft facilities at year end amounted to MSEK 254.3 (144.1) for the Group and MSEK 250.0 (140.0) for the Parent Company.

The Group's interest-bearing borrowings

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Maturities for long-term loans:				
Within one year	133.2	1.3	133.0	–
Between one and five years	1,752.1	1,040.9	1,742.3	1,021.1
After five years	–	300.0	–	300.0
Total	**1,885.3**	**1,342.2**	**1,875.3**	**1,321.1**

Contracted interest rates on the closing date had contractual periods of three months.

	2016		2015	
	Interest %	Liability SEK	Interest %	Liability SEK
Average interest expense on borrowings:				
Long-term borrowings, SEK	1.2	300.0	0.9	300.0
Long-term borrowings, EUR	0.9	1,324.7	0.6	899.8
Long-term borrowings, GBP	1.1	127.4	1.6	141.1
Total		**1,752.1**		**1,340.9**
Short-term borrowings, SEK	1.2	133.2	–	–
Short-term borrowings, EUR	–	–	1.4	1.3
Total		**133.2**		**1.3**

The carrying amount of the Group's borrowings corresponds with fair value, as the loans carry floating interest rates that are market-based.

Note 17 | Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Accrued salaries and remuneration	127.4	119.4	7.7	5.1
Customer bonuses	73.8	52.6	–	–
Accrued social security contributions	33.4	39.4	2.7	6.2
Claims	16.0	13.8	–	–
Financial items	42.4	19.1	4.0	7.9
Consultancy fees	7.9	6.3	1.3	0.8
Rent	12.3	15.0	–	–
Royalties	6.3	12.4	–	–
Audit fees	3.4	2.8	–	–
Shipping	4.0	2.7	–	–
Repair and maintenance	2.4	1.3	–	–
Temporary employees	2.2	1.4	–	–
Other items	23.5	27.8	0.1	–
Total	**355.0**	**314.0**	**15.8**	**20.0**

Note 18 | Pledged assets

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
For own liabilities				
Floating charges	4.3	4.3	–	–
Real estate mortgages	3.0	3.0	–	–
Total pledged assets	**7.3**	**7.3**	**–**	**–**

Note 19 | Contingent liabilities

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Guarantee FPG	0.9	0.9	–	–
Guarantees, customs authorities	0.6	1.3	–	–
Guarantees for subsidiaries	–	–	46.0	60.6
Total contingent liabilities	**1.5**	**2.2**	**46.0**	**60.6**

Note 20 | Provisions for pensions and similar commitments

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Provisions for pensions PRI (interest-bearing)	64.9	63.6	–	–
Provisions for other pensions	3.4	2.8	–	–
Total	**68.3**	**66.4**	**–**	**–**

Defined-benefit plans
Within the Group there are defined-benefit plans in Sweden and Turkey, whereby employees have the right to remuneration, after termination of employment, based on final salary and length of service. The Group does not have any plan assets.

Pension insurance with Alecta
ITP2 Plan commitments for retirement pensions and family pensions for salaried employees in Sweden are guaranteed through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3, Classification of ITP plans financed by insurance in Alecta, this is a defined-benefit multi-employer plan. For the 2016 financial year, the company did not have access to information that would enable it to report its proportional share of the plan's obligations, plan assets and costs, which means the plan could not be reported as a defined-benefit plan. The ITP 2 pension plan which is secured through insurance with Alecta is, therefore, reported as a defined-contribution plan. Premiums for defined-benefit retirement and family pensions are calculated individually and depend, inter alia, on the insured party's salary, previously earned pension rights and remaining length of service. Expected fees for the next reporting period for ITP 2 insurance with Alecta amount to MSEK 20.2 (2015: MSEK 16.6). The Group's share of the total contributions to the plan is negligible. The collective funding ratio is the market value of Alecta assets as a percentage of insurance commitments calculated according to Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective consolidation level is normally allowed to vary between 125 and 155 per cent. If Alecta's collective consolidation level falls below 125 per cent or exceeds 155 per cent, actions must be taken to create the conditions enabling the consolidation level to revert to the normal interval. For low consolidation levels, one measure could be raising the contractual premiums for taking up new insurance and expanding existing benefits. With a high level consolidation, one measure could be to implement premium reductions. At the end of 2016, Alecta's surplus in the form of the collective consolidation level was 148 per cent (2015: 153 per cent).

	GROUP	
	2016	2015
Defined-benefit plans		
The amounts recognised in the consolidated income statement are:		
Interest expenses	1.6	1.7
Total	**1.6**	**1.7**
Specification of changes in net debt recognised in the consolidated balance sheet:		
Net debt at beginning of year recognised in the approved balance sheet	66.4	65.9
Net cost recognised in profit or loss	1.6	1.7
Benefit payments	–2.6	–2.4
Settlement of pension plan	–	0.1
Actuarial gains (–) / losses (+)	2.9	1.1
Net debt at year end	**68.3**	**66.4**
The amounts recognised in the balance sheet are determined as follows:		
Present value of commitments	68.3	66.4
Net debt at year end	**68.3**	**66.4**

	GROUP	
	2016	2015
Total pension costs		
Total pension costs recognised in the consolidated income statement:		
Total costs for defined-benefit plans	1.6	1.7
Total costs for defined-contribution plans	58.8	51.5
Total pension costs	**60.4**	**53.2**
Pension costs are allocated in the consolidated income statement among the following items:		
Cost of goods sold	17.2	17.3
Selling expenses	29.4	24.7
Administrative expenses	12.2	9.5
Financial expenses	1.6	1.7
Total	**60.4**	**53.2**
Actuarial assumptions		
Significant actuarial assumptions as of the closing date (expressed as weighted averages)		
Discount rate	2.00%	2.75%
Future annual pension growth rate	1.50%	1.50%

Assumptions regarding future life expectancy are based on the insurance study DUS14.

Note 21 | Purchases and sales between Group companies and other related parties

The Parent Company's total income from operations of MSEK 18.0 (20.1) refers to remuneration from subsidiaries for services performed. There have been no other purchases between the Parent Company and the subsidiaries or other related parties. Remuneration to members of the Board, the CEO and other senior management is reported in Note 2.

Note 22 | Average number of employees

	2016		2015	
	Number	Men %	Number	Men %
Parent Company	**6**	**67**	**7**	**57**
Subsidiaries				
Sweden	732	64	740	64
UK	729	72	649	73
Germany	359	71	256	78
South Africa	200	70	37	71
China	162	33	161	39
Turkey	151	84	156	81
Australia	121	61	125	66
Finland	62	63	72	61
Norway	46	74	42	74
The Netherlands	32	78	29	79
Spain	31	81	32	91
Denmark	27	63	26	65
Russia	26	38	26	38
United Arab Emirates	24	67	23	74
France	19	63	24	58
Poland	19	84	16	81
Belgium	11	73	9	78
USA	9	64	–	–
Estonia	8	63	7	57
New Zealand	5	80	4	75
Ireland	4	75	4	75
Slovakia	4	50	6	50
Total in subsidiaries	**2,781**	**67**	**2,444**	**68**
Group total	**2,787**	**67**	**2,451**	**68**

Board members and senior management	2016		2015	
	Number	Men %	Number	Men %
GROUP				
Board member	6	67	6	67
CEO and other senior management	33	85	30	80
Parent Company				
Board member	6	67	6	67
CEO and other senior management	4	50	4	50

Note 23 | Operational leasing agreements

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Leasing fees for the year	82.6	66.7	0.2	0.3
The nominal value of future minimum leasing fees for non-cancellable leasing agreements				
Within one year	84.8	75.1	0.1	0.1
Between one and five years	194.1	178.2	–	–
After five years	235.3	248.0	–	–
Total	**514.2**	**501.3**	**0.1**	**0.1**

In the consolidated accounts, operating leases essentially comprise leased properties/premises. Of the leasing fees for the year and future leasing fees, properties/premises accounted for MSEK 533.5 (501.8).

Note 24 | Remuneration to auditors

	GROUP		PARENT COMPANY	
PricewaterhouseCoopers	2016	2015	2016	2015
Audit	3.6	3.1	0.3	0.3
Audit activities other than audit assignment	2.8	2.3	–	–
Tax consulting	0.9	1.0	0.5	0.6
Total	**7.3**	**6.4**	**0.8**	**0.9**
Other Accounting Firms				
Audit	1.1	0.5		
Audit activities other than audit assignment	0.3	0.1		
Tax consultancy	0.3	0.3		
Total	**1.7**	**0.9**		

Note 25 | Expenses by nature

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Raw materials and consumables	1,863.6	1,620.6	–	–
Changes in inventories of finished products and goods for resale, and work in progress	–60.9	–20.1	–	–
Expenses for employee benefits (Notes 2 and 20)	1,282.4	1,181.1	31.2	26.9
Transportation expenses	96.7	89.9	–	–
Expenditure for own properties and rented premises	99.4	90.7	1.2	0.9
Advertising and selling expenses	97.0	59.0	1.2	0.4
External services	96.4	65.7	13.7	13.0
Temporary employees	58.4	34.6	–	–
Travel expenses	44.0	36.7	1.2	1.1
Consumables	41.2	38.7	0.3	0.2
Own vehicle expenses	41.4	39.8	0.5	0.6
Contract manufacturing	19.1	17.6	–	–
Depreciation/amortisation and impairment (Notes 7, 10 and 11)	121.2	107.3	–	–
Other costs	216.3	174.7	5.1	8.6
Total	**4,016.2**	**3,536.3**	**54.4**	**51.7**

The total amount for raw materials and consumables refers to capitalised inventory values.

Note 26 | Expenses for product development

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Expensed overheads for product development	143.1	128.7	–	–

Note 27 | Hedging

A certain portion of the expected inflow of foreign currencies is hedged. Currency hedges are primarily made using currency forward contracts. This refers primarily to payments from foreign subsidiaries. The total hedging of future payments involving the most sensitive net flows in foreign currencies, as compared with the expected flows during the coming six months was, as per the closing date, NOK 7 per cent, EUR 12 per cent, GBP 49 per cent, and CNY 7 per cent. The nominal value of these hedging contracts was MNOK 4.5 (8.0), MEUR 0.9 (0.4), MGBP 1.2 (1.2), MAUD 0 (0.5) and CNY 6.4 (10.0). The Group does not apply hedge accounting for these contracts. Had the Group redeemed its outstanding contracts on the closing date at the current forward rate, the earnings impact would have been MSEK 0.1 (–0.8). The Group applies hedge accounting where the purchase consideration for acquired companies has to some extent been financed through borrowing in the acquired company's local currency. Net assets abroad that are subject to hedge accounting amount to MSEK 796 (810) and accumulated borrowing MSEK 215 (215). Translation differences that affected comprehensive income amounted to a negative MSEK 9.8 (–19.5) before deferred tax of MSEK 2.2 (4.3). Refer also to Note 32.

Note 28 | Changes in the Group's composition – Acquisitions

Acquired companies

LED Linear GmbH

During the year, Fagerhult has acquired 100 per cent of the shares of LED Linear GmbH based in Neukirchen-Vluyn, Germany, with the aim of strengthening the Fagerhult Group's strategic position in the professional lighting market as well as to gain access to a leading and complementary product range.

LED Linear GmbH manufactures linear LED luminaires, and LED modules and components for indoor and outdoor luminaires, which a main focus on companies and stores. The products are mainly used in offices, hotels and restaurants, in retail, infrastructure and in exclusive housing. The company has built a successful global sales organisation which contributes to more than half of the company's net sales being generated outside of Europe, mainly in North America and Asia. The company has been consolidated in the Fagerhult Group from 1 April 2016 and reported under the business area Western and Southern Europe (Rest of Europe).

As part of the transaction, the joint venture partner in LED Linear USA exercised its option to sell the remaining 50 per cent of the shares in LED Linear GmbH. The American subsidiary's profits were consolidated into the Fagerhult Group as of 1 April 2016.

Both LED Linear GmbH and LED Linear USA had joint sales of approximately MEUR 32 during the 2015 financial year, and significantly higher profitability than the Fagerhult Group. As a first step Fagerhult will pay MEUR 40 on a cash and debt free basis for 100 per cent of shares in LED Linear GmbH. Additional considerations of MEUR 21 may be payable until 2018, depending on the company's financial performance. The company also has shares in seven international joint ventures acting as sales companies.

Based on our analysis, goodwill (including labour) amounts to approximately MEUR 38, or approximately 60 per cent of the total proportional fair value of the identified intangible assets. Identified intangible assets are primarily made up of technology MEUR 4.7 and brands MEUR 19.4. Goodwill comprises labour and the opportunities created through future product offerings, new markets and customers. Goodwill is supported by LED Linear's growth potential and strong market position.

Synergies include the following:

- Sales synergies, where the Fagerhult Group can achieve increased sales through marketing the company's existing product range of lighting solutions to LED Linear's customers.
- Cost synergies, where Fagerhult can obtain lower prices on components from suppliers, who LED Linear share, mainly related to higher purchase volumes.
- Cost synergies, where Fagerhult can conduct product improvements based on LED Linear's experiences in the manufacture of LED luminaires.
- Synergies in product development, where Fagerhult can take advantage of LED Linear's technological know-how in other products in the Fagerhult Group.

The consideration consists of the following components:

Cash paid for 100 % of LED Linear GmbH	325.6
Cash paid for 50 % of LED Linear USA Inc.	42.0
Total consideration	367.6
Contingent additional consideration LED Linear GmbH	180.59
Contingent additional consideration LED Linear USA Inc.	11.7
Total consideration	559.8
Net assets acquired	204.6
Goodwill	355.2

The additional considerations are based on future earnings trends and the value is based on the expected outcome. The maximum outcome can be MSEK 192.2.

The company had an impact of MSEK 228.3 on Group sales and an impact of MSEK 42.4 on consolidated net profit, before transaction and capital costs. If the company had been part of the Group from the beginning of the year, this would have meant an MSEK 300 increase in sales and a net profit before transaction and capital costs of MSEK 56.

The assets and liabilities arising from the acquisition

	Fair value
Cash and cash equivalents	35.4
Property, plant and equipment	31.9
Financial assets	3.1
Intangible assets	222.5
Inventories	42.8
Receivables	25.9
Liabilities	–90.7
Deferred tax liabilities	–66.3

	Fair value
Net assets	**204.6**
Net assets acquired	204.6
Cash purchase consideration	367.6
Cash and cash equivalents in the acquired company	–35.4
Transaction costs	8.9
Change in consolidated cash and cash equivalents on acquisition	**341.1**

The nominal value of the acquired receivables was MSEK 25.9 and the fair value amounted to MSEK 25.9. Transaction costs amounted to MSEK 8.9 and were recognised under the item Administrative expenses. The provision for contingent considerations was MSEK 192.2 and was recognised under the item other provisions.

Note 29 | Share capital

The share capital in AB Fagerhult totals SEK 65,535,000 (65,535,000) distributed amongst 38,550,000 (38,550,000) shares, with a quotient value of SEK 1.70 (1.70) per share. The number of treasury shares was 610,677 (686,949) at a quotient value of SEK 1,038,151 (1,167,813). All shares outstanding entitle the holder to equal participation in the Parent Company's assets and profit and are fully paid-up. Each share entitles the holder to one vote.

	2016	2015
Change in the number of shares outstanding		
Number of shares outstanding at beginning of year	37,863,051	37,836,000
Allocation of treasury shares; refer to Note 2.	76,272	27,051
Number of shares outstanding at year end	**37,939,323**	**37,863,051**

Note 30 | Parent Company

The Parent Company's business name is Aktiebolaget Fagerhult. The company is a limited liability company, registered with the Swedish Companies Registration Office, with its registered office in the County of Jönköping, the Municipality of Habo, and with the Corporate Identity Number 556110-6203. The company's visiting address is Fagerhult, Habo, Sweden. AB Fagerhult is the Parent Company in the Fagerhult Group, one of Europe's leading lighting groups. The Group develops, manufactures and markets lighting systems for public environments. At year-end, AB Fagerhult had approximately 4,779 shareholders. The ten largest shareholders together hold 86.1 (86.2) per cent of the shares outstanding.

Ownership structure (at 31 Dec. 2016)

Shareholder	Antal aktier	%
Investment AB Latour	18,620,400	49.1%
SSB CL Omnibus AC, USA	3,145,597	8.3%
The Svensson, family, foundation and company	2,836,875	7.5%
Lannebo Funds	2,470,274	6.5%
Robur Small business funds	1,535,756	4.0%
SEB Funds	1,107,248	2.9%
The Palmstierna family	1,006,200	2.7%
Nordea Funds	750,948	2.0%
Swedish National Pension Fund	590,589	1.6%
NTC Fidelity Funds	590,203	1.6%
Handelsbanken Funds	255,706	0.7%
Johan Hjertonsson	255,479	0.7%
Eric Douglas, family and company	120,000	0.3%
Other	4,654,048	12.3%
Number of shares outstanding at the end of the period	**37,939,323**	**100.0%**

Note 31 | Proposed appropriation of profits

The Group's retained earnings according to the consolidated balance sheet amount to MSEK 1,495.2 (1,244.8).

The following profits are at the disposal of the AGM:

Profit brought forward	187.0 MSEK
Net profit for the year	157.3 MSEK
Profit carried forward	344.3 MSEK

The total number of dividend-bearing shares on 7 March 2017 amounted to 37,939,323. The Board of Directors proposes that the profit be appropriated as follows:

To be distributed as dividends to shareholders:

SEK 4.50 per share	170.7 MSEK
To be carried forward	173.6 MSEK
Total	**344.3 MSEK**

Note 32 | Risks

Financial risks

Currency risk

Currency risk arises when future business transactions, or reported assets or liabilities, are expressed in a currency which is not the Group's functional currency.

Transaction exposure

The Group's transaction exposure arises primarily in the Swedish companies where a large proportion of revenue is generated by the global sales organisation and is not in SEK. Other companies mainly conduct operations in their national markets where revenue and costs are in the same currency.

Aside from currency risks on sales by the Swedish companies, risks also arise from the import of raw materials and components. Altogether, the Swedish companies have a surplus inflow of foreign currency. The direct commercial foreign exchange flow, after net calculations of flows in the same currencies, shows a surplus of MSEK 474 (294). In addition to this, there is also an indirect impact in conjunction with the purchase of raw materials and components. This results, over time, in a lower net exposure for the Group.

The Group's policy is to hedge all significant net cash flows. Incoming flows of foreign currency should be used for payment in the same currency. In addition, a certain portion of the anticipated net inflow from sales and purchases is hedged by means of forward contracts after individual assessment at 50 per cent for the coming six-month period. On statistical assessment of the foreign-exchange position, a change in the Swedish krona against other currencies of 1 per cent, with all other variables being constant, would impact the Group's earnings by about MSEK 5 (3). The financial instruments are managed by the Parent Company's senior management.

Translation exposure

Currency risk also arises in conjunction with the translation of foreign net assets and earnings, so-called translation exposure. This currency risk is not hedged and refers, primarily, to the translation of foreign subsidiaries' income statements and balance sheets. Earnings from foreign subsidiaries are translated into Swedish krona based on the average exchange rate for the year. The exposure of the Group's net assets outside of Sweden has increased as operations there have changed from previously pertaining to sales companies, to now also including production units. At the closing date, net assets in foreign companies corresponded to MSEK 1,583 (1,444) including goodwill. The Group applies hedge accounting where the purchase consideration for acquired companies has to some extent been financed through borrowing in the acquired company's local currency. Net assets abroad that are subject to hedge accounting amount to MSEK 796 (810) and accumulated borrowing MSEK 215 (215). Translation differences that affected comprehensive income amounted to a negative MSEK –9.8 (–19.5) before deferred tax of MSEK 2.2 (4.3).

A weakening of the Swedish krona by 1 per cent with all other variables remaining constant would result in an increase in equity of MSEK 16 (14) largely due to gains/losses on the translation of EUR and GBP. A change in the Swedish krona of 1 per cent against other currencies would result in a direct impact on net sales in the subsidiaries of approximately MSEK 30 (30) whilst the impact on results in the foreign subsidiaries would be MSEK 3 (3).

Interest-rate risk

Fagerhult holds no significant interest-bearing assets, which is the reason the Group's income and cash flow from operating activities are, in all material aspects, independent of changes in market interest rates.

The Group's interest-rate risk arises in conjunction with long-term borrowing. In addition to pension liabilities of MSEK 68.3 (66.4), interest-bearing liabilities totalled MSEK 1,885.3 (1,342.2) and cash and cash equivalents were MSEK 731.6 (471.9). Borrowing on the basis of floating interest rates exposes the Group to interest-rate risk as regards cash flow. Borrowing on the basis of fixed interest rates implies an interest-rate risk for the Group in terms of fair value. During 2016 and 2015, the Group's borrowings largely comprised loans with three-month fixed interest rates.

The Group analyses its exposure to interest-rate risk on a dynamic basis. Various scenarios are simulated, whereby refinancing, re-negotiation of existing trading positions, alternative financing and hedging are taken into consideration. Based on these scenarios, the Group calculates the earnings impact from a given change in interest rates. In each simulation, the same change in the interest rate is applied for all currencies. The scenarios are simulated only for those liabilities comprising the largest interest-bearing positions. Simulations performed show that the earnings impact of a 1 per cent change would be a maximum of MSEK 12, with the current capital structure. The simulation is conducted quarterly to verify that the maximum possible loss is within the limits established by the executive management.

If interest rates on borrowing in Swedish krona as of 31 December 2016 had been 10 points higher/lower, but all other variables had been constant, then gains after tax for the financial year would have been MSEK 1.9 (1.0) higher/lower, primarily as an effect of higher/lower interest expenses for borrowings with floating interest rates.

Credit risks

Credit risks are managed at Group level. Credit risks arise if the counterparty does not fulfil its commitments in conjunction with lending within the framework of cash management policies and through credit exposure to clients and banks, including receivables and agreed transactions. If the Group's customers have received a credit rating from an independent rating institution, these ratings are used. Where no independent credit assessment exists, a risk assessment is made of the customer's credit status in which the entity's financial position is considered, as well as previous experience and other factors. Individual risk limits are set based on internal or external credit ratings, in accordance with the limits set by the Group management. The application of credit limits is frequently reviewed. No significant losses occurred in either 2016 or 2015. The majority of receivables from customers are guaranteed through credit insurance. A total provision of MSEK 28.1 (23.5) was made for those trade receivables not expected to be received.

Liquidity risk

Liquidity risk is managed by ensuring that the Group has sufficient cash and cash equivalents and short-term investments in a liquid market, available financing through agreed credit facilities and the possibility to close market positions. The Group has a strong financial position. At present, no new borrowing requirements exist, but should such requirements arise, there is currently no difficulty in obtaining external credit, as long as such credit meets certain covenants, on the borrower, such as debt-to equity and interest coverage ratio, which are at present satisfied.

Management also meticulously follows rolling forecasts for the Group's liquidity reserve on the basis of anticipated cash flows.

The table below presents an analysis of the Group's financial liabilities to be settled net, specified according to the time to maturity, as of the closing date. The amounts stated in the table are the contractual, undiscounted cash flows. Amounts falling due within 12 months correspond with the carrying amounts, as the effect of discounting is negligible.

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
As of 31 December 2016						
Repayment of bank loans	133.2	655.5	382.7	413.9		300.0
Interest payments	16.8	16.0	8.1	7.0	3.7	2.7
Trade payables and other liabilities[1]	863.9	159.2	79.3	–	–	–
As of 31 December 2015						
Repayment of bank loans	1.3	0.3	645.4	–	395.2	300.0
Interest payments	10.5	10.5	10.5	5.1	5.1	5.2
Trade payables and other liabilities[1]	777.4	53.3	–	–	–	–

1) Of this amount, MSEK 354.1 (297.4) is related to Trade payables the majority of which fall due within 30 days of the closing date.

Capital risk
The Group's objective with regard to the capital structure is to secure the Group's ability to continue operating, so that it can continue to generate returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to keep the cost of capital down. To maintain or adjust the capital structure, the Group may change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of debt/equity ratio. This ratio is calculated as interest-bearing liabilities in relation to equity. The debt/equity ratio at 31 December 2016 was 1.9 per cent (1.9).

Operational risks
Price risk
Price risk in the Group's operations primarily arise in conjunction with the purchase of input material used in manufacturing. Dominant components, such as electronic control systems and sheet metal, have the single greatest impact on the cost of manufactured products, excluding processing costs. The Group's exposure to price risk on financial instruments is minimal.

Risk associated with plants and inventories
In addition to the above risks, all of which, in principle, impact the Fagerhult Group's cash flows, restricted capital in both non-current assets and inventories is also exposed to risk. Rationalisations and a high level of utilisation of investments made have meant the value of capitalised assets has been possible to maintain at a comparatively low level. Consequently, the risk of a permanent impairment of non-current assets is considered unlikely. Risks associated with inventories are primarily related to obsolescence resulting from overproduction and out-of-date technology. Fagerhult's business concept includes customer-order driven production. This implies flexible production in which the need for inventories is reduced and with that, the risk of obsolescence.

IT security
As computer-aided technology has assumed an increasingly greater scope within the companies, security requirements have also increased. The functional security of the databases and e-mail servers is checked via daily backups. Battery backup and diesel generators provide protection against operational disruption in the main manufacturing facility in Habo from where the majority of the Group's computer operations are controlled. To date, no costs have arisen as a result of damage. The internet connection is fixed and completely isolated from other networks via hardware firewalls. Access via public networks is secured via security devices. User access to the system is regulated via Group authorisations and entitlements based on actual assignments and roles within the company.

Insurance
The Fagerhult Group purchases and manages Group-wide insurance policies for property and liability risks, creating co-ordination gains and cost advantages.

Note 33 | Events after balance sheet date

The Board of Directors will propose at the AGM on 3 May 2017 to decide on a 3-for-1 share split as well as a change in the Articles of Association to allow for an increase in the number of shares.

Acquisition of WE-EF and Flux Eclairage S.A.S
In order to further strengthen the Fagerhult Group's position in the professional outdoor lighting market, Fagerhult signed an agreement to acquire 100 per cent of the shares in WE-EF, with its registered offices in Bispingen, Germany. WE-EF designs and manufactures outdoor luminaires for a number of different application areas. The company has two manufacturing units in Germany and one in Thailand together with assembly facilities in Australia, France and the US. WE-EF has an established global presence with strong sales growth in Europe in particular, particularly in Germany and France, but also sells to other regions such as Australia and the US. WE-EF has 484 employees and in the financial year that ended on 30 June 2016, had consolidated sales of MEUR 57 with a profitability on the same level as the Fagerhult Group. Fagerhult is paying a price of MEUR 81 (debt free cash free basis) for 100 per cent of the shares in the WE-EF Group. The acquisition must be approved by the German Competition Authority, which was granted in January 2017. Fagerhult is also acquiring 100 per cent of the shares in Flux Eclairage S.A.S., a French outdoor lighting company located close to WE-EF LUMIERE in Lyon, France. In 2015, Flux Eclairage had sales of MEUR 5 and 20 employees. Fagerhult is paying MEUR 5 for the company. Between the closing date and the date on which this annual report was signed, no significant events or information has arisen concerning the circumstances per the closing date or thereafter, which may have a positive or negative effect on the Group, or any of the companies contained therein, and which require any further disclosures, other than those provided above.

SIGNATURES

The Board of Directors and the CEO certify that the consolidated accounts have been prepared in accordance with international financial reporting standards, IFRS, as adopted by the EU, and that they provide a true and fair view of the Group's financial position and the results of its operations. The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and provides a true and fair view of the Parent Company's financial position and results.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and the Parent Company's operations, financial position and results, and describes significant risks and uncertainty factors facing the Parent Company and other companies within the Group.

The income statements and balance sheets will be submitted for adoption at the AGM on 3 May 2017.

Habo, 7 March 2017

Jan Svensson Chairman	Eric Douglas Vice Chairman	Cecilia Fasth Board member
Björn Karlsson Board member	Catherina Fored Board member	Fredrik Palmstierna Board member
Johan Hjertonsson President and CEO	Magnus Nell Employee Representative	Lars-Åke Johansson Employee Representative

Our audit report was submitted on 11 March 2017

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge Authorised Public Accountant Auditor-in-Charge	Martin Odqvist Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of AB Fagerhult, Corporate Identity number 556110-6203

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of AB Fagerhult for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 40–81 in this document.

In our opinion, the annual accounts and consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. A Corporate Governance Report has been prepared. The information provided in this Corporate Governance Report and in the statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts, the information in the Corporate Governance Report is in accordance with the stipulations of the Annual Accounts Act.

We, therefore, recommend that the general meeting of shareholders adopt the income statement and balance sheet for the parent company and group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and group, in accordance with the professional ethics for accountants in Sweden, and have, otherwise, fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Fagerhult's operations are undertaken in more than 20 countries around the world. Each of the local operations has their own finance function reporting to the head offices in Sweden.

Even if the operations are widely distributed the four entities, Fagerhults Belysning AB, Fagerhults Belysning Sverige AB, Whitecroft Lighting Ltd. in the UK and LTS Licht & Leuchten GmbH in Germany, together, comprise a decisive portion of the entire group. It was both natural and necessary to execute a full audit on these four entities. In Sweden, the audit was executed by the group team, while in the UK and Germany the local PwC teams executed the audits. The group team has studied the work undertaken by these local unit auditors to ensure that sufficient audit evidence has been obtained, but has also communicated on an ongoing basis with the local teams to maintain a clear understanding of the manner in which the audits have been executed. In addition to these four units, after consultation with Fagerhult's Board of Directors and group management, it was determined that the group audit was to include a further 25 units where full audits have been executed. A total of fifteen of these units in the various countries have been audited by PwC.

As regards just a few companies, whose combined operations represent only a very limited portion of the total operations of the group, the group auditing team has undertaken analytical procedures. Local statutory audits have been executed on all of the entities in the group with such requirements even if the entity in question has not been included in the reporting on the audit of the consolidated accounts, or has not been included in the audit time schedule.

In addition, the group team has audited the group consolidation, the group's annual financial statements and a number of complex transactions and issues. These have included purchase price allocation and impairment testing of intangible assets with indefinite useful lifetimes, including goodwill.

Our overall conclusion is that we have evidenced that sufficient audit activities have been executed, and that such activities have taken place primarily through the utilisation of PwC's own network.

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually, or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures, and to evaluate the effect of misstatements both individually, and in aggregate, on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Impairment test of goodwill and intangible assets with indefinite lives

On page 61 in the section, Significant Estimates and Assumptions, amongst the Accounting Principles and in Note 10, Fagerhult describes its impairment test of goodwill and intangible assets with indefinite useful lives.

Of the group's balance sheet total, MSEK 1 933 or 40 per cent is comprised of goodwill and intangible assets with indefinite useful lifetimes. As these assets are not written off on an ongoing basis, an impairment test is to be executed at least once a year. Fagerhult undertook such a test during the fourth quarter 2016.

Such a test must include the assumptions undertaken regarding, amongst other things, future growth, profitability and the discount factor. In other words, the assessments and estimations which are required to be made by the company management and Board of Directors are complex.

As these tangible assets comprise a significant amount and the required assumptions include assessments and estimations which, taken individually, can have a decisive influence on the valuation, this is a key audit matter for the audit.

How our audit addressed the Key audit matter

To start with, we assessed, together with PwC's valuation specialists, that the applied impairment tests, one per segment, were performed according to established principles and methods.

The assumptions of greatest importance to the impairment tests which were made by the company management and Board of Directors, referred to growth, profitability and the discount rates. We have assessed the assumptions by comparing these factors against Fagerhult's budget and strategic plan, and also against historical outcome. We have also undertaken an independent assessment with the starting point on the premises of the markets in which the cash generating units operate. We have checked the discount rates against observable market data.

We have also examined significant assumptions to determine if they are consistent with previous years.

With the starting point being the impairment tests, we implemented simulations and undertook sensitivity analyses in order to understand the manner in which a given change could impact the values and which could indicate a possible impairment requirement. These tests have also provided the basis of our control of the information provided in Note 10 of the annual report.

As a final, overall control, we have compared the company's stock market value in relation to its calculated net realisable value.
In conclusion, in our audit of the valuation of the impairment test of goodwill and valuation of intangible assets with indefinite useful lives, we have made no observations which are significant to the audit as a whole.

Purchase price allocation for Led Linear

Fagerhult publically announced its acquisition of Led Linear on 15 March 2016. The acquisition is described in detail in Note 28. As stated in this Note, the total price, including the calculated additional purchase price is MSEK 560.

Reported equity in Led Linear amounted, at point of acquisition, to MSEK 49 which implies that the company management and Board of Directors would at that point in time been allocated an excess value of MSEK 511. This allocation is based on the fair value of the assets and liabilities in Led Linear at point of acquisition.

The calculation of such an allocation, that is an a purchase price allocation, includes a number of estimations and assessments, each of which can have a significant impact on the reported assets.

Fagerhult had contracted a well-reputed external valuation specialist to identify and value the assets and liabilities to provide a basis for its analysis.

Both the size and complexity of the estimations required in the acquisition analysis has implied that we deem this matter to be a key audit matter in the audit.

How our audit addressed the Key audit matter

We have, together with PwC's valuation specialists, examined the purchase price allocation to ensure that it has been prepared on the basis of accepted principles and models.

When we examined the allocation we found that both Fagerhult and Fagerhult's external specialist had identified the assets we expected to be identified based on our experience from previous acquisitions, similar companies and our industry knowledge.

We examined to determine that the factors applied in quantifying the fair value of the assets, such as future cash flows, discount rates, and assumed useful lifetimes were also in line with accepted practice and what we could expect. We could also conclude that the factors were consistent with previous years' assessment in other acquisitions.

As the additional purchase price is dependent on the future results in LED Linear, the company management has been required to make assumptions and estimations regarding this. We have examined the calculation mechanism in the agreement and the company management's estimations as regards earnings.

Finally, we have also examined the information provided by Fagerhult in Note 28.

Based on our examination of the purchase price allocation regarding Led Linear, we made no observations which were significant to the audit in its entirety.

Obsolescence in the inventories due to technological developments

On page 60 under the heading, Inventories", and in Note 32, Fagerhult describes the valuation and risks associated with the inventories.

As seen in the annual report in general, Fagerhult operates in an industry finding itself in the middle of a technological shift from traditional lighting to LED. Furthermore, within LED technology there are very rapid changes taking place where new generations can be both cheaper and more energy effective than previous generations. During the year, the LED portion of net sales has continued to increase to now comprise approximately 83 per cent of Fagerhult's total net sales.

As a result of this, company management and the Board of Directors are required to evaluate and assess the manner in which technological changes will impact the demand for the existing inventories during future years, regardless of whether the change impacts the assortment within traditional lighting or within LED lighting.

That it has been a key audit matter in the audit to examine obsolescence arising from the current changes in technology is due to the fact that the value of the inventories is significant, with a total book value of MSEK 685, and is also due to the fact that the company management's and Board of Director's obsolescence assessments include estimations and judgments.

How our audit addressed the Key audit matter

The respective subsidiaries in Fagerhult have the responsibility of assessing the requirement of an obsolescence write-down that can arise in the inventories. This applies as it is the local companies' management who can best estimate market conditions.

Consequently, we have instructed each local audit team to undertake a special examination to ensure that correct provisions are reported. In the case there is a so-called general obsolescence scale, we have examined to ensure that this has been applied consistently between years and has been updated with regard to changed premises.

As a change in technology can take place very rapidly, it is not entirely certain that the requirement of an obsolescence write-down is identified via traditional analyses of slow moving inventory items. Consequently, we have also obtained confirmation regarding obsolescence by executing other audit activities, for example, by reviewing the minutes of Board Meetings, by being present at stock-taking, and through our understanding of the industry and of new product and market developments. We have also studied and analysed the follow-up and monitoring undertaken by group management in this context.

Everything considered, we have made no observations of significance to the audit as a whole in our audit of the obsolescence in the inventories.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–39 and 86–88. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and for ensuring that they provide a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and to applying the going concern basis of accounting. The going concern basis of accounting is, however, not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Board of Director's Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things, oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AB Fagerhult for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and, among other matters, shall take measures necessary to ensure that the company's accounting is executed in accordance with the law, and shall handle the management of assets of the company in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess, with a reasonable degree of assurance, whether any member of the Board of Directors or the Managing Director in any material respect:

– has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
– has, in any other manner, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriation of the company's profit or loss and thereby, our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriation of the company's profit or loss is not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Jönköping, 11 March 2017

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Auditor in Charge

Martin Odqvist
Authorized Public Accountant

SHAREHOLDER INFORMATION

2017 Annual General Meeting

The Annual General Meeting of shareholders in AB Fagerhult will be held on 3 May 2017, at 5:00 p.m. in Fagerhult, Habo.

Registration

Shareholders wishing to take part in the Annual General Meeting of shareholders must be registered in the shareholders' register kept by Euroclear Sweden AB on Wednesday, 26 April 2017 and register their intention to take part in the meeting to Fagerhult no later than 26 April 2017.

Registrations can be made via e-mail to arsstamma@fagerhult.se or by telephone on +46 (0)8-522 359 75 or by post to AB Fagerhult, 566 80 Habo. Shareholders who have registered their shares with a nominee shareholder must, in good time prior to 26 April 2017, temporarily re-register the shares in their own name, through the nominee shareholder, to have the right to participate in the General Meeting of shareholders.

The notification must include the shareholder's name, personal/corporate identity number, address, telephone number and registered shareholding and, where applicable, information about representatives and assistants. If participation is by proxy, this proxy must be sent to Fagerhult before the AGM.

Dividend

The Board of Directors proposes to the AGM a dividend of SEK 4.50 per share. The proposed record day is 5 May 2017. In the event that AGM adopts this proposal, the dividend will be distributed through the offices of Euroclear Sweden AB starting on 10 May 2017.

Nomination Committee

The Nomination Committee for the 2017 AGM comprises the following members:

- Jan Svensson as Chairman of AB Fagerhult,
- Eric Douglas, Investment AB Latour,
- Gunnar Lindberg, Svensson Family, and
- Göran Espelund, Lannebo Fonder.

In order for the Nomination Committee to consider a proposal, it must be submitted well in advance of the AGM. Proposals may be submitted to the Nomination Committee by post to:

AB Fagerhult
Att: Michael Wood
Tegelviksgatan 32
SE-116 41 Stockholm, Sweden

Financial information 2017

- 3 May 2017, 2017 AGM
- 3 May 2017, Interim report for Q1, 2017
- 17 August 2017, Interim report for Q2, 2017
- 24 October 2017, Interim report for Q3, 2017

Distribution policy

A printed copy of the Annual Report is available upon request and can be ordered by sending an e-mail to ir@fagerhult.se or by calling +46 36108500 All of Fagerhult's annual reports from previous years are available at www.fagerhultgroup.com

IR contact
Michael Wood, CFO
+46 8-522 359 48
ir@fagerhult.se

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DEFINITIONS A TO Z

Number of employees Average number of full-time equivalents.

Return on equity Profit or loss according to the income statement as a percentage of the average (reported) equity.

Return on capital employed Profit/loss after financial items plus financial expenses in relation to the average capital employed.

Equity per share Equity divided by the number of shares outstanding.

Cash flow per share Cash flow from operating activities for the year divided by the average number of shares outstanding.

Liquid ratio Cash and cash equivalents in relation to current liabilities.

Cash and cash equivalents Cash and bank balances and short-term investments.

Net investments Investments for the year in property, plant and equipment, less income from the sale of non-current assets.

Net debt Interest-bearing liabilities less cash and cash equivalents.

Earnings per share Earnings according to the income statement in relation to the average number of shares outstanding.

Operating margin Operating profit in relation to net sales.

Net debt/equity ratio Net debt in relation to equity.

Equity/assets ratio Equity in relation to total assets.

Capital employed Total assets less non-interest-bearing liabilities.

Profit margin Profit after financial items in relation to net sales.

Other current assets The item refers to interim receivables, advance payments to suppliers, other receivables and Group receivables.

INDUSTRY GLOSSARY

Luminaire power: Stated in watts (W) and is the total system power for a luminaire.

Luminaire Luminous Flux: The total light output in lumens (lm) that a luminaire emits.

Luminaire Luminous Efficacy: Defined as the ratio between luminaire luminous flux and luminaire power of an LED luminaire and stated in lumens per watt (lm/W).

Lighting Europe: The European trade association for luminaire and light source manufacturers.

DALI: (Digital Addressable Lighting Interface) A standardised protocol for digital control.

Failure fraction – Fy: The failure of fraction at nominal lifetime and is given in per cent. For example, at 15 per cent failures, a factor of F15 is stated.

Color Rendering Index: Indicated as CRI on a scale from 0 to 100 and is a measure of a light source's ability to reproduce colours.

IP class: Specifies the degree of protection against access to live electrical parts and how waterproof and dustproof the luminaires are. Stated as IP followed by two digits, e.g. IP23.

LEED: (Leadership in Energy and Environmental Design) is an international system for environmental certification for buildings. The certification focuses on reducing the use of resources such as land, water, energy and building materials.

LED: (Light-Emitting Diode) is a semiconductor light source. LED lights have long lifespans and high energy efficiency. The light is formed by electroluminescence.

Luminous Flux: The amount of visible light emitted from a light source. Measured in lumens (lm).

Luminous Intensity: Specifies the amount of light that radiates in a certain direction. Measured in candela (cd).

Luminous Intensity Distribution: The light distribution of a luminaire which is measured according to the CIE standard and stated in cd/1,000 lm. Reported in the table or with polar plot.

Luminous efficiency: Measurement of a light source's efficiency and is calculated as the luminous flux divided by the power the light source consumes (wattage). Measured in lumens per watt (lm/W).

LLMF: (Lamp Lumen Maintenance Factor). The light source's maintained luminous flux at any given time.

LMF: (Luminaire Maintenance Factor) Specifies the luminaire's pollution degree for a number of burning hours.

LSF: (Lamp Survival Factor) Specifies the number of light sources that still shine in a facility at any given time. (Expected shortfall of high quality LEDs can be assumed negligible and this factor then becomes 1.0.)

Luminance: Indicates how bright a surface is dependent on the light reflected from an object in a specific direction. Measured in candelas per m2 (cd/m2).

MF: (Maintenance factor) The ratio between maintained illuminance and initial illuminance.

Rated Life: Defined as the number of burning hours after which a given part of the initial light output remains. Today, life expectancy is given as the number of hours when 70 per cent of the initial luminous flux remains and is designated as L70.

OLED: Abbreviation of organic light emitting diode.

PWM: (Pulse Width Modulation) A technique for light control with pulse width modulation recommended for LED.

Ra: An index that indicates light sources' ability to render colours. Given on a scale from 0 to 100 where 100 indicates perfect colour reproduction.

RGB technique: A technique whereby mixing red, green and blue light can create white light or coloured light of a user's choice.

UGR: (Unified Glare Rating) An international method developed by CIE to calculate an index of discomfort glare.

ZHAGA: An open consortium with the purpose of developing industry standards for LED components.

AB Fagerhult (publ)
SE-566 80 Habo, Sweden
Tel: +46 (0)36 10 85 00
www.fagerhultgroup.com
info@fagerhult.se

Fagerhults Belysning AB
Åvägen 1, SE-566 80 Habo, Sweden
Tel: +46 (0)36 10 85 00

Fyrvaktaregatan 7
SE-296 81 Åhus, Sweden
Tel: +46 (0)44 28 98 00

Ateljé Lyktan AB
Fyrvaktaregatan 7
SE-296 81 Åhus, Sweden
Tel: +46 (0)44 28 98 00
www.atelje-lyktan.se
info@atelje-lyktan.se

Fagerhults Belysning Sverige AB
SE-566 80 Habo, Sweden
Tel: +46 (0)36 10 85 00

Fagerhult Retail AB
Rinnavägen 12
SE-517 33 Bollebygd, Sweden
Tel: +46 (0)33 722 15 00
retail-info@fagerhult.se

Fagerhult AS
Sluseholmen 8A
DK-2450 Copenhagen
Denmark
Tel: +45 43 55 37 00
www.fagerhult.dk
post@fagerhult.dk

Fagerhult Belysning AS
Strandveien 30, Pb 471
NO-1327 Lysaker
Norway
Tel: +47 22 06 55 00
www.fagerhult.no
kundeservice@fagerhult.no

Fagerhult Oy
Mannerheimintie 113
FI-00280 Helsinki
Finland
Tel: +358 9 777 1580
www.fagerhult.fi
info@fagerhult.fi

I-Valo Oy
Tehtaantie 3 b
FI-14500 Iittala
Finland
Tel: +358 10 501 3000
www.i-valo.com
info@i-valo.com

Fagerhult Lighting Ltd
33–34 Dolben Street
London SE1 0UQ
England
Tel: +44 207 403 4123
www.fagerhult.co.uk
light@fagerhult.co.uk

Fagerhult Lighting Ltd
Unit F1, Calmount Park
Ballymount
Dublin 12
Ireland
Tel: +35 3 1426 0200
www.fagerhult.ie
info@fagerhult.ie

Whitecroft Lighting Limited
Burlington Street
Ashton-under-Lyne
Lancashire OL7 OAX
England
Tel: +44 870 5087 087
www.whitecroftlighting.com
email@whitecroftlight.com

Designplan Lighting Ltd
16 Kimpton Park Way
Kimpton Business Park
Sutton, Surrey SM3 9QS
England
Tel: +44 208 254 2000
www.designplan.co.uk
sales@designplan.co.uk

LTS Licht & Leuchten GmbH
Waldesch 24
DE-88069 Tettnang
Germany
Tel: +49 75 42 / 93 07-0
www.lts-licht.de

LED Linear GmbH
Pascalstr. 9
D-47506 Neukirchen-Vluyn
Germany
Tel: +49 2845 98462-0
www.led-linear.com
info@led-linear.com

LED Linear USA, Inc.
2186 Liberty Drive
Niagara Falls
NY 14304
USA
Telefon: +1 646 688 2714
www.led-linear.com
usa@led-linear.com

Waco N.V.
Hundelgemsesteenweg 80
BE-9890 Baaigem-Gavere
Belgium
Tel: +32 9362 4494
www.waco.be
info@waco.be

Fagerhult OÜ
Artelli 10c
EE-10621 Tallinn
Estonia
Tel: +372 6 507 901
www.fagerhult.ee
fagerhult@fagerhult.ee

Fagerhult France
105, Avenue Jean Jaurès
Bâtiment B5
FR-69600 Oullins
France
Tel: +33 4 3722 6410
www.fagerhult.fr
info@fagerhult.fr

Fagerhult BV
Lichtschip 19, Postbus 320
NL-3990 GC Houten
The Netherlands
Tel: +31 30 688 99 00
www.fagerhult.nl
lighting@fagerhult.nl

Fagerhult Sp.z.o.o.
ul. 17 Stycznia 48
PL-02-146 Warsaw
Poland
Tel: +48 22 749 12 50
www.fagerhult.pl
info@fagerhult.pl

Fagerhult SPb
Viborgskaya nab. 61,
office 304
RU-197342 St Petersburg
Russia
Tel: +7 812 380 0148
www.fagerhult.ru
info@fagerhult.ru

Fagerhult s.r.o.
Kubániho 16
SK-811 04 Bratislava
Slovakia
Tel: +421 2 5465 0042
www.fagerhult.sk
info@fagerhult.sk

Fagerhult SL
C/Estocolmo No 13
ES-282 32 Las Rozas, Madrid
Spain
Tel: +34 91 640 7246
www.fagerhult.es

Commtech Commissioning - Services SA
C/Estocolmo No 13
ES-282 30 Las Rozas, Madrid
Spain
Tel: +34 91 640 7246
www.fagerhult.es

Arlight Aydinlatma A.Ş
Saray Mahallesi 205. Sokak No:4
06980 Kazan Ankara
Turkey
Tel: +90 312 815 4661
www.arlight.net
arlight@arlight.net

Eagle Lighting Australia
17–19 Jets Court
Melbourne Airport, VIC 3045
Australia
Tel: +61 3 9344 7444
www.eaglelighting.com.au

Fagerhult Lighting Systems
(Suzhou) Co Ltd.
No. 11 Workshop
99 Gangtian Road
Suzhou Industrial Park
Suzhou 215021 China
Tel: +86 512 87 18 77 78
www.fagerhult.com

Fagerhult Lighting – Dubai Branch
Grosvenor Business Tower,
Office 307
Sheikh Zayed Rd
126287 Dubai
United Arab Emirates
Tel: +971 4329 7120
www.fagerhult.ae
info@fagerhult.ae

Fagerhult New Zealand
Level 1/18A Neilpark Drive
East Tamaki
Auckland 2013
New Zealand
Tel: +64 21 509 248

Lighting Innovations Africa
672 Old Cape Road
Greenbushes, Port Elizabeth
Eastern Cape 6390
South Africa
Tel: +27 11 444 1168
www.lightinginnovations.co.za
info@lightinginnovations.co.za

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