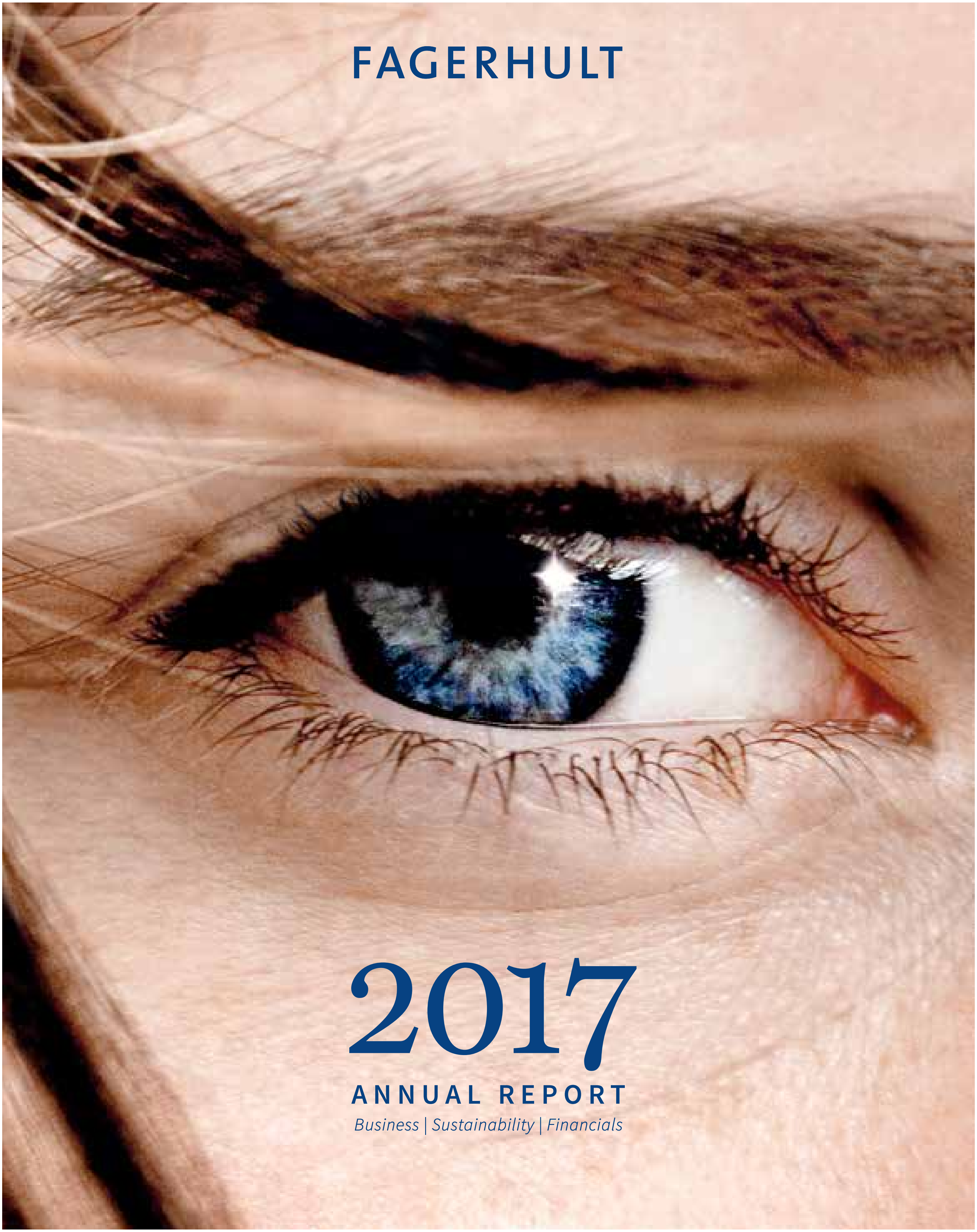


FAGERHULT

2017

ANNUAL REPORT

Business | Sustainability | Financials

CONTENTS

The official Annual Report which has been examined by the company's auditors comprises pages 46–93.

Together, Fagerhult's Annual Report and Sustainability Report should be viewed as the company's summary for 2017. The Sustainability Report, pages 26–43, with the accompanying GRI appendix at www.fagerhultgroup.com/en/sustainability, follows the guidelines in GRI G4, level G4 Core, and has been externally reviewed. More information is available at www.fagerhultgroup.com/en/sustainability

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.

Fagerhult is one of Europe's leading lighting companies with a total of 3,229 employees in 25 countries. Fagerhult develops, manufactures and markets innovative and energy-efficient lighting solutions for professional indoor and outdoor environments – 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 many strong brands through acquisitions. Fagerhult's share is listed on Nasdaq Stockholm.

THREE PRODUCT AREAS

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

Share of sales

58%

RETAIL
Lighting solutions for retail and hospitality concepts and commercial environments which strengthen and develop the brand whilst enhancing the lit space and it's merchandise.

Share of sales

22%

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

Share of sales

20%

ELEVEN STRONG BRANDS

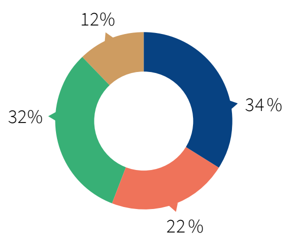
FAGERHULT · ateljé Lyktan · Whitecroft lighting · eaglelightingaustralia · LTS Licht & Leuchten · designplan lighting · iValo · Arlight · Lighting Innovations · LED Linear lighting solutions · we-ef

INTERNATIONAL PRESENCE

Fagerhult is one of Europe's leading lighting companies. The Group's largest markets are the Nordic region, the UK, Germany and Australia. Alongside these, Fagerhult has strong positions in France, Turkey, Spain and South Africa. With the acquisitions of LED Linear in 2016 and WE-EF in 2017, the Group continues to expand it's international presence, not only in the large German market, but also in the strategically important North American region.

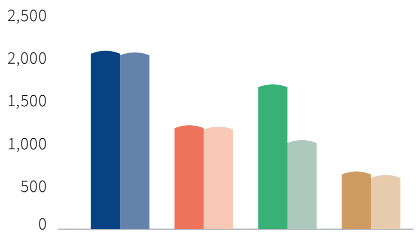
With subsidiaries in more than 25 countries, operations are divided into four geographical business areas. Marketing and sales activities are primarily performed locally through subsidiaries and also via agents and distributors thus giving Fagerhult access to more than 40 markets. Production units are located in Sweden, Finland, the UK, Germany, Australia, Turkey, South Africa, China and Thailand. The Group's head office is in Habo, Sweden.

SALES SHARE
PER BUSINESS AREA, 2017



The strategy delivers a more balanced regional sales footprint.

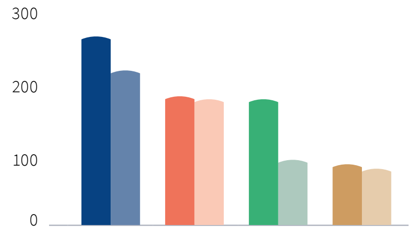
NET SALES
PER BUSINESS AREA, MSEK



2017:	2,048	1,211	1,671	692
2016:	2,030	1, 196	1,044	653

Solid year-on-year sales achievement in all regions with recent acquisitions dominating Western and Southern Europe's growth.

OPERATING PROFIT
PER BUSINESS AREA, MSEK



2017:	266	185	181	93
2016:	220	181	99	87

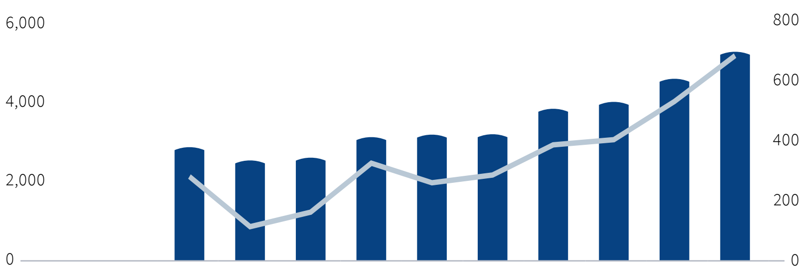
From great products and solutions comes customer loyalty and an ability for all regions to demonstrate an improved profitability.

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

A HISTORY ROOTED IN VÄSTERGÖTLAND, SWEDEN

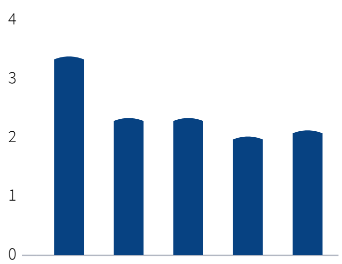
Fagerhult was founded in 1945 by Bertil Svensson and achieved sales of SEK 13,000 in its first year. A few years later, the first factory was built in Fagerhult, at that time with six employees and sales amounting to SEK 53,000. This factory, which has now been joined by the Group's other manufacturing units, currently has around 550 employees.

TRENDS FOR SALES AND OPERATING PROFIT, MSEK



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
■ Sales	2,770	2,436	2,506	3,023	3,085	3,095	3,736	3,909	4,491	5,170
— Operating profit	272	104	153	317	251	277	379	396	524	678

DIVIDEND YIELD, %

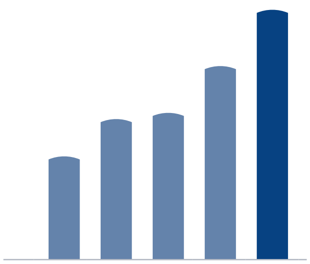


2013	2014	2015	2016	2017
3.2	2.2	2.2	1.9	2.0

Financial highlights for 2017

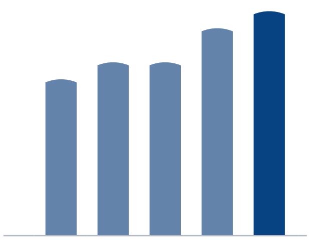
- **Order intake** amounted to **MSEK 5,238.4 (4,653.0)**, corresponding to an overall year-on-year growth of 12.6 per cent.
- **Net sales** amounted to **MSEK 5,170.3 (4,490.7)**, up 15.1 per cent.
- **Operating profit** recorded a year-on-year increase of MSEK 153.7 to **MSEK 677.9 (524.2)**, resulting in an operating margin of 13.1 (11.7) per cent.
- At the end of 2017, the LED lighting share of net sales was more than 90 per cent, the transition to LED has been successfully accomplished.
- The acquisitions of WE-EF and Flux and the purchase of the intellectual property rights for the Organic Response technology were concluded during the first half.

OPERATING PROFIT, MSEK



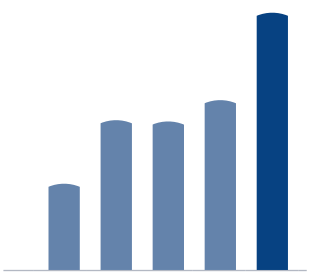
YR	2013	2014	2015	2016	2017
	278	379	396	524	678

OPERATING MARGIN, %



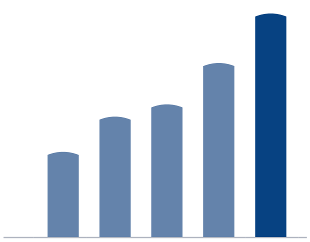
YR	2013	2014	2015	2016	2017
	9.0	10.1	10.1	11.7	13.1

CASH FLOW PER SHARE, SEK



YR	2013	2014	2015	2016	2017
	1.95	3.44	3.91	3.41	5.96

EARNINGS PER SHARE, SEK



YR	2013	2014	2015	2016	2017
	1.61	2.30	2.54	3.35	4.32

AWARD HIGHLIGHTS

- WE-EF’s FLC240LED projector won gold at the International Design Award Focus Open 2017, Architecture category. This outdoor lighting fixture opens up new possibilities for dynamic presentations in architectural lighting.
- LED Linear’s Lyra was awarded at the Red Dot Design Award. According to the Jury, a high degree of flexibility and sophisticated details characterize this luminaire series as a formally and functionally convincing product solution.
- Fagerhult’s Sweep and Scoot pendant luminaire was also awarded at the Red Dot Design Award. Thanks to its gentle contours and appealing on-trend colours, this technically convincing pendant luminaire series offers a wide range of different options.

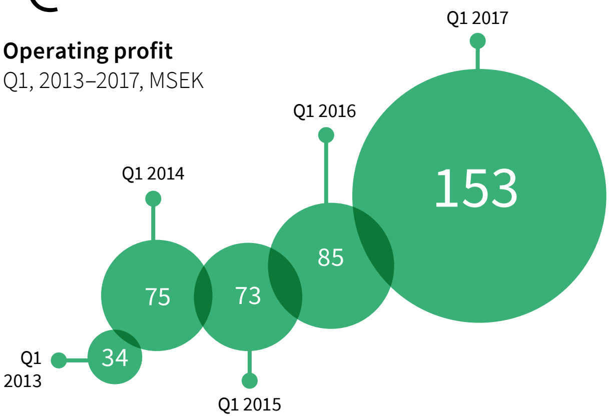
KEY PERFORMANCE INDICATORS

	2017	2016
Net sales, MSEK	**5,170**	4,491
Operating profit, MSEK	**678**	524
Profit after financial items, MSEK	**653**	515
Earnings per share, SEK	**4.32**	3.35*
Sales growth, %	**15.1**	14.9
Operating margin, %	**13.1**	11.7
Net debt/EBITDA ratio	**2.2**	1.9
Equity/assets ratio, %	**31**	34
Return on capital employed, %	**16.8**	16.8
Return on equity, %	**28.1**	24.9
Net debt, MSEK	**1,830**	1,222
Net investments in non-current assets, MSEK	**177**	169

* 2016 earnings per share figure restated after the 3:1 share split.

Q1

Operating profit
Q1, 2013–2017, MSEK



OPERATING PROFIT
Q1 2017
80%

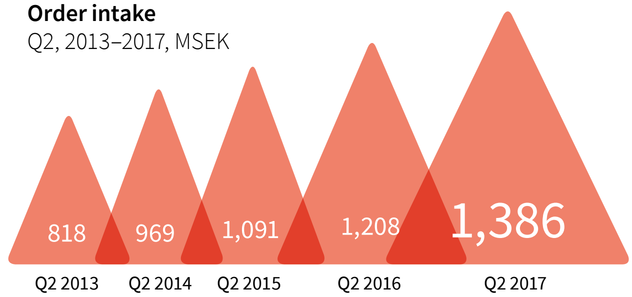
- Record-breaking operating profit for the quarter, up 80 per cent year-on-year.
- The acquisition of WE-EF was completed on 9 March and creates a 1 BSEK Outdoor segment for the Group.

Q2

ORDER INTAKE
Q2 2017
15%

- The second quarter order intake was an all-time high of MSEK 1,386.4.
- The investment to acquire the Organic Response IP is a strategic step in the controls and connectivity space.

Order intake
Q2, 2013–2017, MSEK



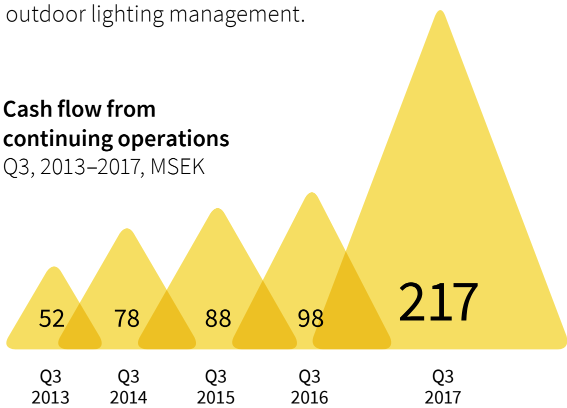
2017

Q3

- The Group delivered strong operating cash flows for the year to date MSEK 405 and for the quarter MSEK 217.
- A second strategic step in the controls and connectivity space was taken with the acquisition of 20 per cent of the Danish firm Seneco AS, specialists in wireless outdoor lighting management.

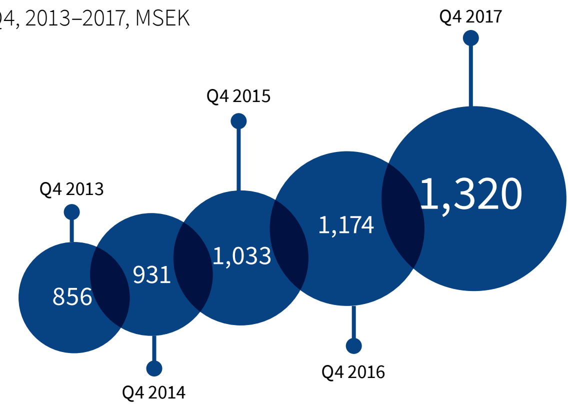
OPERATING CASH FLOW
Q3 2017
121%

Cash flow from continuing operations
Q3, 2013–2017, MSEK



Q4

Net sales
Q4, 2013–2017, MSEK



- Net sales for the fourth quarter were an all-time high of MSEK 1,319.9
- The Group passes 5 BSEK net sales for the first time in history

NET SALES
Q4 2017
13%

"Fagerhult stands strong and is well-prepared for continued growth"

The Fagerhult Group seems to have been on a winning streak in 2017. In your mind, what are the specific factors behind this year's record performance?

– I believe this is due to the alignment of a number of core elements, at the heart of which is the ability to consistently follow the set strategy. One of our strengths is that we leverage an entrepreneurial corporate culture that, in combination with a decentralised business model, provides the right preconditions for companies to adapt their offerings to the needs of local markets. The results are visible not only in the good performance delivered by the Group's companies, but from the continuous strengthening of many of their positions through capturing market shares.

– In other words, our approach is supported by consistently strong figures, which together make 2017 the Group's most successful year to date. Operating profit totalled MSEK 678 and the EBIT margin was 13.1 per cent. The gross margin strengthened 2.2 percentage point to 37.2 per cent, which provides favourable preconditions for continued investment in product development and marketing activities.

– Moreover, we have an offering that fits perfectly with the times given the low energy consumption and long lifespan of LED technology. And now, the offering can be complemented with services from the Controls and Connectivity technology area. This means that using our products helps create a host of values for customers!

Part of the Group's growth is based on acquisitions — what additions were made during the year?

– The acquisition of the German firm WE-EF, which offers outdoor luminaires, is in line with the aim of growing the Outdoor product area. WE-EF adds a global operation with facilities in Germany, Thailand, Australia, France, the US and the UK, including distribution and sales channels in a number of markets.

– The Australian firm Organic Response is another acquisition that promises well for the future and one which, with its offering of control systems and data analytics, is a key complement to the lighting solutions offered under our brands.

– I would also like to mention the initiatives taken to increase organic growth and the investment in an expanded presence in Europe's major cities by Fagerhult's establishment of sales offices in Paris and Barcelona.

The shift to LED technology has gone at record speed — what will be the next steps?

– LEDs accounted for more than 90 per cent of the Group's total sales over the year. This also means that we have made the requisite investments to adjust production to the new LED technology. As regards the transition to LED technology in our markets, our estimate is that less than 10 per cent of the installed base has been changed. Moreover, the assessment is that LED technology in combination with digitisation and the individualisation of products are strong drivers of the development of control systems that intelligently adapt lighting to all kinds of situations and needs. In addition, the flexibility offered by LEDs allows completely new possibilities for the construction and design of luminaires. In other words, numerous business possibilities are open for us for many years to come!

Moving forward, what priorities apply for the Group's strategic sustainability initiatives?

– Sustainability has a key role in the Group's strategic efforts toward long-term value creation. First and foremost, sustainability is a natural part of the company's business dealings, and one where our greatest contribution is the low energy consumption of LED technology together with increased use of LEDs being a key

“Together we have completed a transformative technology shift, we have grown the Group and made it more profitable, and established ourselves in the international arena.”

Johan Hjertonsson, President and Group CEO

component of a sustainable transition. The positive consequences for customers are evident in the opportunity to reduce their environmental impact and their costs. Just as our strategy states, the aim is to continue to drive the transition to LED technology and to do so in combination with Controls and Connectivity to realise further energy savings.

– Ensuring the rules for responsible enterprise are followed by the Group’s companies is also of strategic importance. The Code of Conduct is the Group’s fundamental regulatory framework and forms the basis for everything we do and how we act; it also encompasses all of the Group’s employees. The code states, inter alia, that freedom of association and the right to collective agreements apply. No corruption, risk of overtime work beyond that prescribed by law, child labour or forced labour may occur. In cases where the risk of corruption exists, no business transactions will be entered into and no agreements signed. Our decentralised business model means that each of the Group’s companies is itself responsible for compliance with the Code. We encourage them to use their own initiative and, for example, we supplemented Fagerhult Belysning’s Code of Conduct with a version aimed at their suppliers during the year.

– At the Group level, we have also developed the due diligence process that is conducted for each acquisition with a focus on the environmental aspects of the operations, labour conditions, health and safety, freedom of association and human rights.

During 2018, you will be leaving the Fagerhult Group – how would you sum up your time as CEO?

– I am incredibly grateful for the confidence invested in me over the nine years that I have led and been part of the Fagerhult Group. In every regard, this has been a fantastic journey to take together with all the highly skilled and committed employees. Together we have completed a transformative technology shift, we have grown the Group and made it more profitable, and established ourselves in the international arena.

– The Fagerhult Group stands strong, and by consistent adherence to the set strategy, I am convinced the company will continue to grow, both organically and through acquisitions, and will further strengthen its position as the leading global supplier of lighting solutions.

Habo, January 2018

Johan Hjertonsson
President and Group CEO

Ormhuset, Jönköping, Sweden.

Eleven strong brands

A common characteristic of Fagerhult's portfolio of eleven brands is their strong position in their respective home markets. They all play a central role in the growth of our product areas, reaching broader market coverage and increasing the Group's market shares.

1945

FAGERHULT

Head office: Fagerhult, Sweden
Product areas: Indoor, Retail, Outdoor
Fagerhult accounts for the largest part of the Group's total sales. Strongest position in the North European markets.

1974

ateljé Lyktan

Head office: Åhus, Sweden
Product areas: Indoor, Outdoor
A design-focused brand with a premium position offering Swedish design for public places. Strongest position remains in Sweden, but with a growing international presence.

2005

Whitecroft lighting

Head office: Manchester, UK
Product areas: Indoor, Retail, Outdoor
The Group's second largest brand in terms of total sales. Also the second largest luminaire manufacturer in the UK market.

2007

eaglelightingaustralia

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 products from Fagerhult and Designplan.

2010

LTS LICHT & LEUCHTEN

Head office: Tettnang, Germany
Product areas: Indoor, Retail
With its quality focus, LTS occupies a strong position, primarily in the German market, with lighting solutions for retail concepts.

2011

designplan LIGHTING

Head office: Sutton, UK
Product areas: Indoor, Outdoor
With lighting solutions for secure environments and the transportation sector, Designplan has a niche position primarily in the UK market and a growing export business.

2013

VALO

Head office: Iittala, Finland
Product areas: Indoor, Outdoor
Strong brand in lighting solutions for demanding industrial environments, with a leading position in the Finnish market.

2014

ARLIGHT

Head office: Ankara, Turkey
Product areas: Indoor, Retail
Arlight has a strong position in the Turkish market for indoor lighting.

2015

LIGHTING INNOVATIONS

Head office: Port Elizabeth, South Africa
Product areas: Indoor
Lighting Innovations occupies a strong position in the South African market, with a growing presence in the dynamic sub-Saharan region.

2016

LED LINEAR™ lighting solutions

Head office: Neukirchen-Vluyn, Germany
Product areas: Indoor, Retail and Outdoor
LED Linear develops and manufactures world-class linear LED luminaires for professional environments, with an established global sales network.

2017

we-ef

Head office: Bispingen, Germany
Product areas: Outdoor
WE-EF designs and manufactures high-end outdoor luminaires, with a global presence and sales.

Read more next page

New brand strengthens the outdoor portfolio

The acquisition of WE-EF was completed in the spring of 2017. With its innovative, well designed and engineered luminaires, WE-EF has created a strong position in Europe and also has operations in Australia, Thailand and the US.

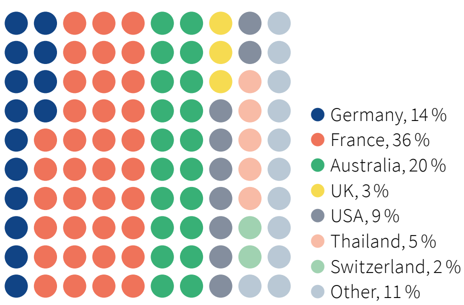
WE-EF IN SHORT

- **Net sales 2016:** approx. MEUR 60
- **Number of employees:** approx. 500
- **Local presence:** Manufacturing plants in Germany (2) and Thailand. Assembly facilities in France and Australia. Sales activities in the US, the UK and Switzerland.

WE-EF develops, manufactures and markets luminaires for outdoor lighting with a large range of different application areas. With a strong pedigree and culture of German design and engineering and with a long history of innovative solutions, the company has created a strong product portfolio and is regarded today as one of the leading brands in outdoor lighting. The company operates globally, with two manufacturing units in Germany and one in Thailand together with assembly facilities in Australia and France. Sales activities primarily take place in Europe, particularly in Germany and France but also in other regions such as Australia, the UK, and the US.

For the Fagerhult Group, the acquisition creates strong synergies, above all the opportunity to market and sell WE-EF's products through Fagerhult's existing channels in addition to gaining access to the WE-EF Group's distribution channels. The acquisition also strengthens the Fagerhult Group's position in Germany, France, the US and Australia, while its presence in the Pacific region continues to increase.

WE-EF has 484 employees and in the financial year that ended on 30 June 2016, had consolidated sales of MEUR 57 with profitability on the same level as that of the Fagerhult Group.



WE-EF has a truly global sales footprint with great opportunities in many existing and new regions.

We are excited by the future opportunities for such a well positioned brand.

Sydney Opera House, Sydney, Australia.

Swiss Plaza, London, UK.

Staten Island Memorial,
New York, USA.



Trends and drivers

Digitisation, urbanisation and demographic changes are all examples of trends that create business possibilities for the lighting industry. It was LED technology, however, that fundamentally changed our way of looking at lighting.

GROWTH OF ATTRACTIVE LIGHTING ENVIRONMENTS

LED technology has changed the conditions for lighting both indoor and outdoor environments. Its driving forces have been low power consumption and heat generation, long life, and the option of colour variations. The development of the technology itself has also set the pace, with enhanced efficiency and decreased production costs. The flexibility of LED technology has given rise to several innovative products and solutions. LED Linear's flexible and linear LED strips are an excellent example of this.

Today, the driving force behind the design of lighting environments is the possibility of creating intelligent solutions. Combining LED luminaires with smart sensors and advanced control systems allows for the lighting to be completely adapted according to need.

With more than 90 per cent of its sales in LED, Fagerhult is ideally positioned to leverage this trend. The target of 100 per cent LED is set for 2020 but in reality will come sooner especially in our larger businesses and markets. In parallel, the company has constructed a competitive offering of control systems. In collaboration with specifier levels, Fagerhult has been part of designing concepts that meet various needs in both indoor and outdoor lighting.

DIGITISATION CONTINUES TO SET THE PACE

Digitisation in society is setting the pace for development of lighting solutions. For Fagerhult, the acquisitions in Organic Response (intellectual property rights and certain assets) and Seneco (20% holding) are two examples of our ambition to form a wide variety of solutions that capitalise on all the possibilities of digitisation. These companies offer lighting control solutions where information in the cloud provides new possibilities for the customer to obtain information on how the lighting environment is being used and how it can be optimised for the future.

The rapid development in the Internet of Things and Big Data also provides the preconditions for creating value in ecosystems with other participants. As an example, analysis of information on people's movements and use of properties, based on data collected from sensors and control systems in the lighting solutions, can be used in management and maintenance of the

properties. If anything, the challenges concern finding sustainable business models with clear user and customer benefits rather than discovering new areas of use.

URBANISATION PROVIDES NEW BUSINESS OPPORTUNITIES

Urbanisation is another global trend creating business opportunities for the lighting industry, and thus for Fagerhult as well. Lighting contributes to security and comfort in our cities. With the help of modern technology, 'black holes' can be eliminated from the cityscape, and lighting of streets and road networks can be optimised. Even indoors, lighting helps meet the new needs that arise as cities change their forms. Today's large shopping centres are one example. These have developed into experiences that satisfy both shopping needs and the demand for cafés and restaurants, entertainment, or even housing.

For a lighting company like Fagerhult, this trend creates exciting opportunities. With its wide variety on offer, the Group has the possibility of being a turnkey supplier for these complex projects.

In many ways, Fagerhult is also part of the cities' solution to growing needs for more energy-efficient lighting. LED lighting reduces costs and the carbon footprint; when combined with lighting control (which reduces the carbon footprint even further), it opens up new possibilities to link together luminaires with other types of services.

DEMOGRAPHIC CHANGES CREATE NEW DEMANDS FOR LIGHTING

Demographic changes will put great pressure on society over the coming years. Our population is ageing, and with that come new needs for solutions that meet the demand for tailored housing, neighbourhood services, elderly care and medical care. For the lighting industry, this creates opportunities to meet the demand for environments that are better adapted for poor vision. The need for lighting varies among environments, situations, people and ages, where modern control-based solutions are flexible and can be adapted to most needs.

The business possibilities lie in such areas as the health and medical care sector, where Fagerhult already enjoys a strong position. Our well-lit care environments ensure clinical environments for optimal care quality, and environments that positively impact well-being and recovery. The use of lighting that casts an intense artificial light and a feeling of daylight also helps promote working environments that make care professionals feel more alert and less stressed.

BUSINESS MODEL FOR MEETING A SHIFTING COMPETITIVE LANDSCAPE

The lighting industry operates in a relatively mature market that is still being strongly 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.

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. Last but not least, there is Fagerhult's immense know-how and its investments in research and development of innovative products in order to create lighting environments in different kinds of workplaces.

2020 Strategy continues successful path

During the year, the updated strategy developed during 2016 was launched and communicated throughout the Group. The ‘2020 Strategy’ continues the hugely successful previous plan with several important steps taken in 2017. Intelligent lighting controls solutions are playing an ever-increasing element in Fagerhult’s global lighting solutions.

Fagerhult has grown profitably for many years and is one of the most successful lighting groups in Europe. In 2017, net sales growth was in excess of 15 per cent to almost 5.2 BSEK and the operating margin increased by 1.4 percentage points to 13.1 per cent.

Recent acquisitions have contributed to both sales and earnings growth, but of course there are also other success factors. Fagerhult’s business model is based on a highly decentralized structure that gives each company its own motivation, responsibility and flexibility based on local market conditions. Simultaneously, this structure combined with ‘strategic forums’ facilitates the opportunity to coordinate and realise the economies of scale that the Group’s size offers in terms of knowledge and competences, product development, technology, purchasing and manufacturing. For a market where local anchorage and customer incite and awareness are regarded as a prerequisite for success, this business model creates competitive advantages.

2020 STRATEGY

The updated long-term plan through 2017 until 2020 continues to focus on profitable growth through organic and continued acquisition activity. The strategy consistently addresses three lighting industry application areas; Indoor, Retail and Outdoor, all complemented through the growing technology wave of Controls and Connectivity. Each operating company and branded business within the Group is responsible for adopting the strategy through well-formulated business, marketing and product strategies that contribute to the overall focus and continued performance of the Fagerhult Group.

In line with the vision of becoming a leading global lighting solutions provider, 2020 objectives are to continue delivering increased profitable growth, an increased global operational footprint, and strengthening the Group’s offer for intelligent lighting controls solutions. Controls and Connectivity’s smart solutions, with the ability to manage and adapt to unique needs, have become a central part of the industry and therefore the Group’s total lighting solutions. Demand for controls solutions is across all three lighting application areas; indoor, retail and outdoor. This year’s acquisition of the intellectual property of ‘Organic Response’ and the investment of a minority shareholding in Seneco AS has significantly strengthened its position in intelligent lighting and Fagerhult offer these two great solutions globally in many of their luminaire brands.

STRATEGIC FOUNDATIONS

A cornerstone of Fagerhult’s strategic strength is the eleven brands’ strong positions in their respective local markets and regions, built up by virtue of the company’s broad product portfolio, consistent address at appropriate customer solutions and long history of serving global and local lighting sectors.

Fagerhult’s 73 years of lighting experience has also made it the closest to being described as a knowledge leader, with expertise and experience of lighting solutions for ever changing needs.

The highly decentralised and local entrepreneurial business model, with manufacturing within all of the Group’s large markets contributes to a strong supply chain with great capabilities.

These strategic foundations support what we do in providing lighting solutions across the planet to many sectors and application areas with execution from a local customer focused level.

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 through until 2020.

INDOOR

Secure a strong position for continued profitable growth. Stable, underlying market growth provides the opportunity. Establish Fagerhult in complementary business segments. Strengthen the Group's presence in fast-growing metropolitan areas.

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 AND CONNECTIVITY

Develop a broad customer offering. Ensure that products and solutions are 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.

OUR PRODUCT AREAS

With eleven strong brands, the Fagerhult Group is well positioned to serve the global market place. During 2017 a number of successful installations took place, helping customers to create modern and human-centric lighting solutions in indoor, retail as well as outdoor environments. The underlying drivers are not only customers pursuit of cost- and energy-efficiency, but also intelligent solutions that enable real-time adjustment to situation and need. Controls and Connectivity solutions are gaining interest among existing as well as new customers.

INDOOR

Indoor is Fagerhult's largest product area and accounts for 58 per cent of total sales. Ten of the Group's 11 brands develop and market lighting solutions for indoor use. Lighting solutions for office environments is the largest.

EXAMPLES OF CUSTOMER OFFERINGS:

- Intelligent lighting solutions for modern office environments.
- Needs-oriented lighting in educational and learning environments.
- Special luminaires for hospital environments, wards, and examination rooms.
- Vandalism-proof luminaires for industrial and institutional environments.

RETAIL

Lighting is a central part of the retail concept, stimulating buying behavior as well as building the brand. Many of the Group's brands offer lighting products for fashion and food retailing.

EXAMPLES OF CUSTOMER OFFERINGS:

- Complete lighting solutions for retail chains in fashion and food retailing.
- Special products with unique designs for larger, specially designed retail concepts.
- Development of lighting concepts for international fashion chains.
- Products for café and hotel environments.
- Group wide bespoke solutions, for example car showrooms.

OUTDOOR

Fagerhult offers outdoor products for pathways, carparks, streets and major roads. The new brands of WE-EF and LED Linear, offer high-quality luminaires which strengthen the offer for architectural and prestigious buildings, hotels and high-end residential.

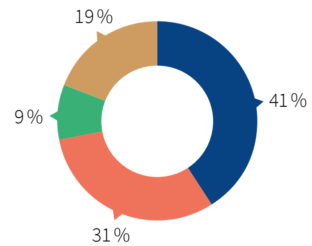
EXAMPLES OF CUSTOMER OFFERINGS:

- Complete range of products for public environments such as parks, streets, and squares.
- Sensor-driven lighting solutions for footpaths, bicycle paths, and city streets.
- Development of concepts and product solutions for exterior lighting in public environments.
- Special luminaires with customer-unique designs for special environments and customers.

DEVELOPMENTS
IN 2017:

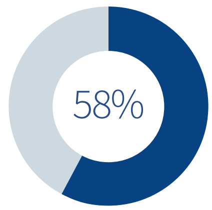
During 2017, Indoor sales amounted to MSEK 2,975 with good growth in Sweden, Estonia, France and Turkey and steady growth in many other markets. The shift to LED has been very successful in Indoor.

NET SALES
PER BUSINESS AREA:



- Northern Europe, 41 %
- UK and Ireland, 31 %
- Western and Southern Europe, 9 %
- Africa, Asia and the Pacific, 19 %

SHARE OF THE GROUP'S
TOTAL NET SALES:

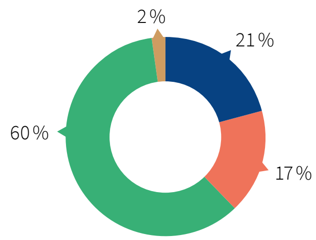


Indoor remains the core application area for most regions and with great opportunities for growth, especially where the share is modest.

DEVELOPMENTS
IN 2017:

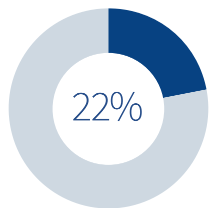
Net sales have increased 1.3 per cent year-on-year to MSEK 1,140. The largest growth regions were seen in the UK, Poland and Spain. The driving forces behind retail lighting are primarily energy saving, function, design, and lighting control. The largest growth opportunities, besides Europe are in emerging markets and newly developing economies.

NET SALES
PER BUSINESS AREA:



- Northern Europe, 21 %
- UK and Ireland, 17 %
- Western and Southern Europe, 60 %
- Africa, Asia and the Pacific, 2 %

SHARE OF THE GROUP'S
TOTAL NET SALES:

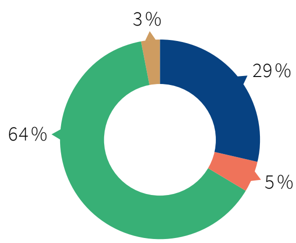


In Retail, Germany, Spain and France dominate sales in the segment. Great solutions are offered across the globe where service characteristics differ significantly.

DEVELOPMENTS
IN 2017:

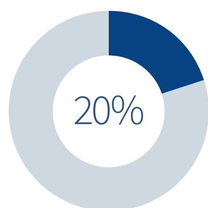
Outdoor increased its net sales 172.8 per cent to MSEK 1,056 compared with 2016. This is mainly the result of acquiring WE-EF, but the expanded product range under the Fagerhult brand also contributed significantly. Demand is driven by the need for energy-efficient LED lighting supplemented with smart control systems for adaptation to intensity of traffic and movement, for example, which also comprise major opportunities for growth in the future.

NET SALES
PER BUSINESS AREA:



- Northern Europe, 29 %
- UK and Ireland, 5 %
- Western and Southern Europe, 64 %
- Africa, Asia and the Pacific, 3 %

SHARE OF THE GROUP'S
TOTAL NET SALES:



The organic growth in Outdoor is masked by the acquisitive growth coming from WE-EF. A share of 20% from last year is a great result and comes from many brands.

Controls and Connectivity

Controls and Connectivity offers solutions for intelligent lighting control that contribute to optimising the lighting experience as well as to energy and cost efficiency. This year's two investments in Organic Response and Seneco further strengthened the offering.

From having filled a single purpose – to provide light – today's luminaires have become a part of the whole ecosystem of intelligent environments in which sensors and control systems, together with the possibilities of digitisation, allow for lighting to be controlled and adapted according to the situation. Demand is driven on grounds of cost and energy savings, but also by the need to adapt lighting for increased comfort and a better lighting experience.

In line with this trend, Controls and Connectivity has come to play an increasingly important role in Fagerhult's offering. Indoors, the solutions contribute to optimising the lighting in everything from individual areas with a few luminaires to entire buildings where lighting is included in automated systems for directing and controlling the entire property. Outdoors, the solutions sense the flow of traffic and the movement of people in both heavily populated areas and lightly populated locations, and help optimise the lighting according to need.

INVESTMENTS STRENGTHEN INTELLIGENT LIGHTING OFFER

During the year, two investments took place that will create exciting business opportunities for the Fagerhult Group in the field of intelligent lighting solutions: Organic Response and Seneco.

The investment in Organic Response concerns intellectual property rights and certain assets regarding the solution for lighting control and construction analysis known under the Organic Response brand. This investment provides Fagerhult with access to a prize-winning indoor lighting concept. This is a sophisticated solution that can immediately be put to use quickly and easily upon installation and connection to the electricity grid – 'plug and play'. To maximise the lighting experience, energy efficiency and cost efficiency, the system uses distributed intelligence, where the technology is an integrated part of the luminaires. Using a Web platform, data from the sensors can be collected for analysis of capacity, energy efficiency, and rated value. Mobile phone apps and cloud solutions create additional possibilities to optimise the value of the installation, even for private individuals.

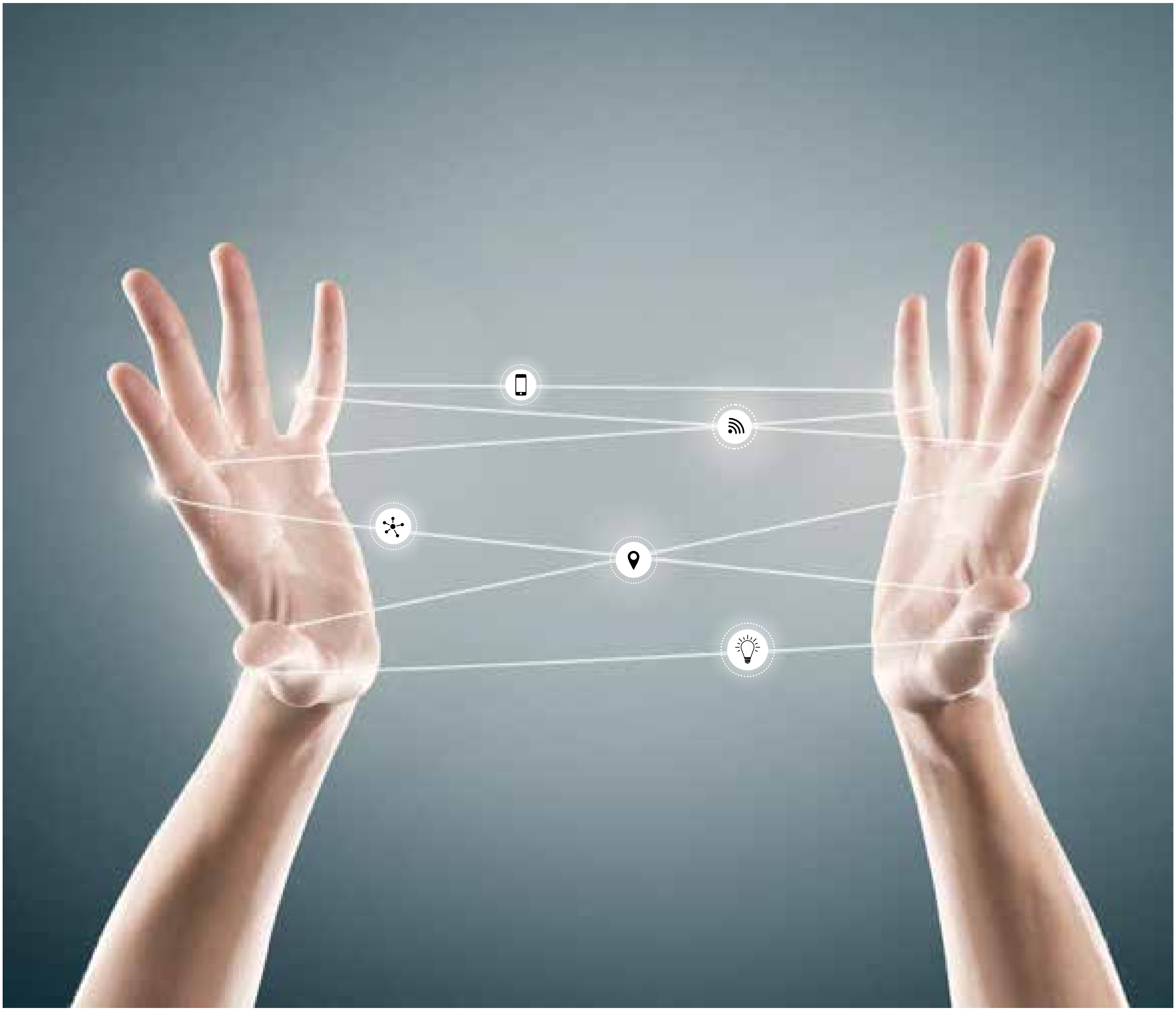
The investment in Seneco A/S concerns an owner share of 20 per cent, and broadens Fagerhult's offering of solutions for wireless control of outdoor lighting. The company is one of the industry leaders globally as

Head office:
Melbourne, Australia
Field of technology: Integrated smart lighting solutions

With its research and development in IoT solutions, intimate customer knowledge and global reach, Organic Response is a leading provider of lighting controls technology and integrated smart lighting solutions.

Head office:
Århus, Denmark
Field of technology: Street light control solutions

Seneco is the global industry leader in street light controls. Focused on quality, reliability and innovation, Seneco offers a complete portfolio of controls and sensors, capturing the advantages and benefits of wireless and sensor technologies.



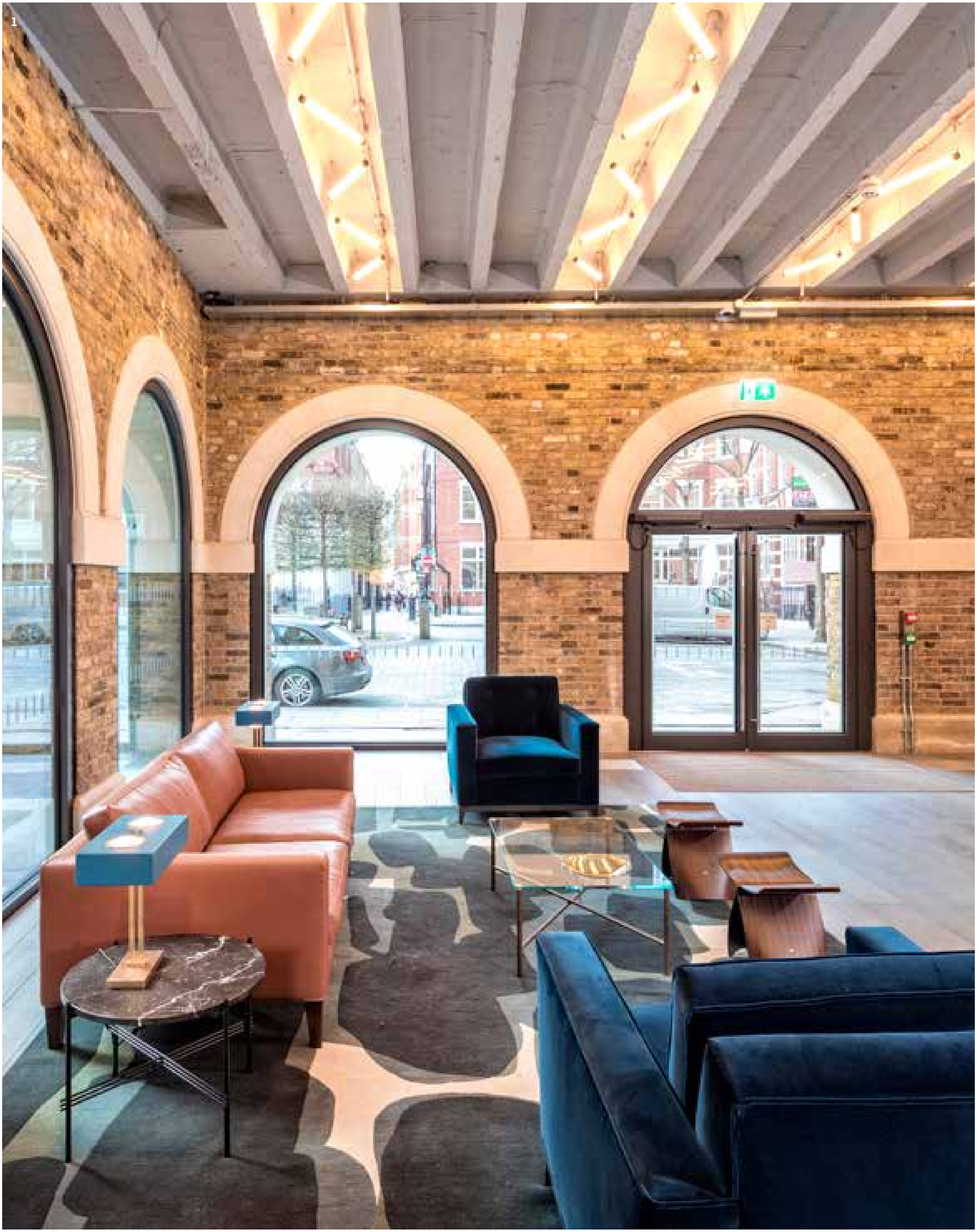
regards smart solutions for street lighting, and offers a complete portfolio of controls and sensors. In these solutions, data that is available via sensors can also be saved for analysis.

CONTROLS AND CONNECTIVITY SOLUTIONS CREATING NEW BUSINESS OPPORTUNITIES

Both companies' solutions are compatible with Fagerhult's luminaires, creating exciting business opportunities for adding additional value in lighting installations. Looking forward, many of the possibilities in intelligent lighting generally lie in continuing to investigate areas of use for the information on traffic flows and movement that can be collected by sensors and control systems, and how this is used in a larger context together with other participants. Fagerhult is ready to take an active role in this development and to continue developing and offering innovative lighting solutions in all product areas.

> "Controls and Connectivity has come to play an increasingly important role in Fagerhult's offering."

1



INDOOR

1. MODERN HERITAGE

The refurbishment of the Pepper Store office spaces in Devonshire square, London, aimed to highlight the buildings illustrious heritage within a truly modern workplace.

To achieve the visual and illumination requirements, Fagerhult's Notor linear pendants were adapted with an enhanced output, micro-prismatic optic, custom lengths and black finish. Surface mounted Pleiad, also finished in black, and XOOTUBE from LED Linear completed the fit out, ensuring a homogenous appearance with an on-trend industrial expression.

2. NEW LIGHTS, NO FUSS

Thanks to the innovative wireless solution of e-Sense Organic, facility managers Vika Eiendomsforvaltning managed a seamless upgrade to their workplace lighting, creating a better lit, energy efficient office with minimal disturbance to the existing tenants. Integrating the sensor into Notor pendants installation was a simple, like for like replacement. The direct/indirect light distribution helped create a bright, vibrant space which reacts to both daylight and presence.

3. LINES OF LIGHT

When global financial services provider Zurich wanted to revamp their Brisbane offices they turned to LTS to provide a lighting solution that would seamlessly integrate with the architectural elements. One of the defining aesthetics throughout the building is the contrast between the white surfaces and timber slot details in the ceiling. The wide assortment of the recessed linear Lichtkanal family enabled the design team to specify the right configuration to complement the wooden structure and plasterboard ceiling in the meeting rooms, reception and boardroom.

1

2

3

RETAIL

1. PRODUCTS IN FOCUS

Corcel is a combination of high-end designer concept store and café, situated in one of Dubai's most up-and-coming design hubs. Custom developed linear tubes are suspended high in the ceiling in eye catching clusters. Conversely, track mounted spotlights blend into the background, drawing the eye and focus to both the products and the distinctive print design along the back wall. Minimising the number of fixtures used help keep energy to a minimum and create a theatrical lit-effect.

2. ZERO-CARBON RETAILER

Tesco PLC is a British multinational grocery and general merchandise retailer. Together with Whitecroft Lighting, Tesco has embarked on a store lighting refurbishment programme that is forecast to cut CO_2 emissions by over 12,000 tonnes per year. The long-term ambition is to become a zero-carbon retailer. The roll out programme consisted of manufacturing and delivering 11,500 units of Aerial LED and 21,000 units of a bespoke 1200x1200 recessed module, that were integrated within the existing lighting controls system.

3. PERSONAL SHOPPING

The revamp of the Debenhams Stevenage fashion store not only enhanced its overall look and feel, but also reduce energy consumption and carbon emissions. A key element of the store was a new fitting room lighting concept, where the customer can easily modify the light conditions via a touch panel. At a simple press of a button, adjusting light levels, colour temperature and contrast, the customer can visualise how their outfit will look during work, dinner and outdoors.

1

OUTDOOR

1. ROOMS ON THE RIVER

The Chicago Riverwalk is a project aimed at reclaiming the river for ecological, recreational and economic benefits. To expand the pedestrian capacity, five individually themed blocks were developed across a build-out area. The design concept focused on creating a playful, welcoming, and interactive space, utilising colour changing VarioLED from LED Linear. The luminaires were selected due to their low maintenance, low glare and fully submersible nature, essential in an area with annual flooding.

2. WE-EF ILLUMINATES WAT PHRA KAEW

The Buddhist temple, Wat Phra Kaew, Thailand, is one of Asia's most recognised landmarks. Here, WE-EF's FLC100 and FLC200 series projectors, with proven IOS® (Innovative Optical System) optics, support the need for high-precision lighting. Medium and very narrow light distributions are also used, often in combination with dedicated optical accessories such as spread lenses and glare shields. The new installation creates spectacular views from close and afar, bringing life to the sacred temple.

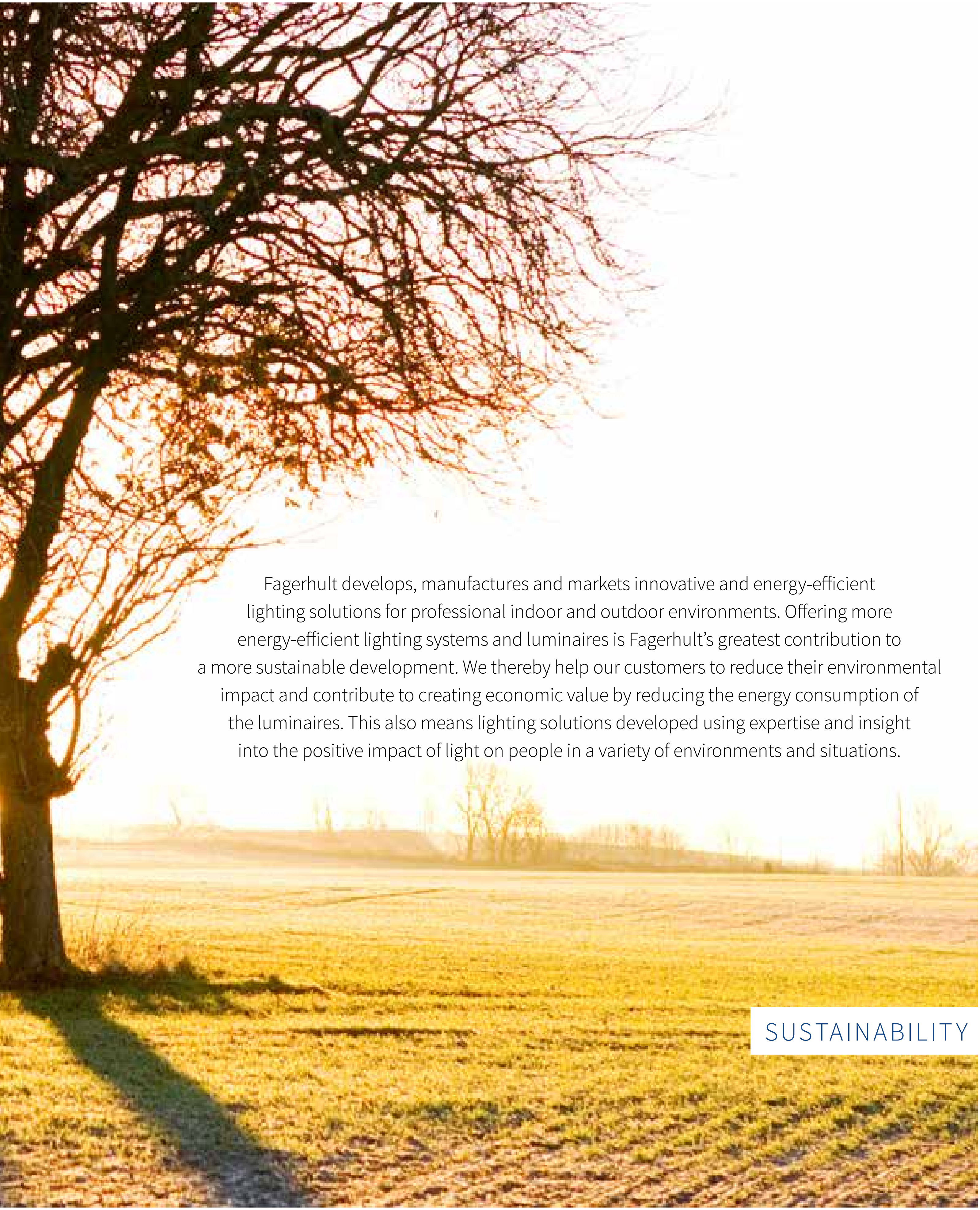
3. NEW LIGHT OVER STOCKHOLM

"Design a luminaire with good lighting properties that suits both older and modern parts of the capital." That was the challenge of the "New Light Over Stockholm" design competition, won by designer Olle Anderson in 1990. The luminaire was produced by ateljé Lyktan in three designs — post, cable-suspended, and wall — and is today one of the company's best-selling families of luminaires. A wide, black outer shade and a vaulted, grey inner shade together create a well-balanced distribution of light that provides illumination in a way that is both functional and attractive. The luminaire has now been redesigned with a LED light-source.

ABOUT FAGERHULT'S SUSTAINABILITY REPORT

For the tenth year, Fagerhult is reporting on our sustainability work in accordance with the Global Reporting Initiative (GRI) international reporting standard. The sustainability report follows version 4.0, Core level. The report is published once each year and the most recent sustainability report was published in April 2017. Fagerhult's sustainability report has been subjected to a limited assurance review by a third party, PwC.

Supplementary sustainability data and the GRI Index are available in a separate version at http://www.fagerhultgroup.com/en/sustainability



Fagerhult develops, manufactures and markets innovative and energy-efficient lighting solutions for professional indoor and outdoor environments. Offering more energy-efficient lighting systems and luminaires is Fagerhult's greatest contribution to a more sustainable development. We thereby help our customers to reduce their environmental impact and contribute to creating economic value by reducing the energy consumption of the luminaires. This also means lighting solutions developed using expertise and insight into the positive impact of light on people in a variety of environments and situations.

SUSTAINABILITY

An Interesting Dialogue and a Materiality Analysis

The most significant sustainability aspects to address and communicate on have been identified based on the impact of the Group's operations on the economy, society, people and the environment, and supplemented by analyses of driving forces in the business environment and stakeholder dialogues.

The Fagerhult Group is surrounded by numerous stakeholders who influence and are influenced by our operations to differing extents. Conducting dialogues with them is central; this occurs with the aim of balancing the various interests, expectations and needs. The hope is that, in the same way, the dialogues can lead to increased awareness of the Fagerhult Group and how our lighting solutions can contribute to sustainable value creation.

THE DIALOGUE WITH OUR STAKEHOLDERS

Based on the Group's operations, the following stakeholder groups have been identified:

- Customers
- Employees
- Owners
- Investors
- Suppliers and business partners
- Decision makers
- Local communities
- Stakeholder organisations

Stakeholder dialogues with each of these groups, in which the formats and the scope of the dialogues are adapted to the respective stakeholder group's needs and wishes, are held continuously throughout the year.

FOUR AREAS THAT BRING TOGETHER THE MOST SIGNIFICANT ISSUES

A materiality analysis weighs the aspects relevant to the Group, given the companies' operations; the impact the operations have as regards the economy, society, people and the environment; and the aspects that influence the stakeholders' decision-making and their expectations.

The materiality analysis conducted in 2015 still forms the basis for the aspects identified as most important for us to address and communicate on. It included an analysis of our business environment and benchmarking against competitors, together with workshops and a number of in-depth interviews with investors, owners, and customers. The results of these interviews indicated the issues that the majority considered as the most important of all for the Group's operations.

Thereafter, internal efforts were begun to prioritise aspects and validate the selection through dialogues with our stakeholders. Finally, the aspects were adopted by Fagerhult's Group management.

An overview of the continued relevance of the analysis is conducted yearly; no changes were made for 2017.

In summary, the aspects that are to be regarded as the most important of all for the Fagerhult Group to address and communicate on have been gathered into the following four areas: Climate-smart products and solutions, Safe products and working environments, Responsible employer and Responsible enterprise.

FAGERHULT'S CORE STAKEHOLDERS AND KEY ASPECTS

1 Climate-smart products and solutions
- Lifecycle perspective in R&D
- Sustainable products
- Climate-smart solutions
- Energy efficiency (products)
- Transportation emissions

2 Safe products and working environments
- Occupational health and safety
- Health and wellbeing/safety (products)
- Product responsibility/safe products

3 Responsible employer
- Career development/training
- Working conditions
- Equality and diversity
- Anti-corruption

4 Responsible enterprise
- Business ethics
- Choice of materials
- Collaboration in the value chain
- Societal commitment (new markets)
- Internal energy savings
- Systematic internal environmental work
- Supplier reviews
- Due diligence process (third party)
- Human rights
- Anti-corruption

A Value Creation Business Model

The Group's model for value creation illustrates the input resources required by the operations, the business model and the value created for stakeholder.

INPUT RESOURCES

Motivated and competent employees
3,432 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. Financial value in the form of dividends to owners, taxes and reinvestments in the business.

BUSINESS MODEL

Group-wide functions, support and resources

Finance, M&A and HR
Fagerhult Lighting Academy

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

FAGERHULT · designplan LIGHTING · eagle lighting australia · ateljé Lyktan · Whitecroft lighting · LTS

Purchasing
- Suppliers
- Partners

4

Resources
- Product development
- Manufacturing

2 3 4

Indoor
Retail
Outdoor

Controls and Connectivity

3 4

The business model – a reflection of the value chain

The sections of the business model also illustrate the Group's value chain – from suppliers via the brands out to customers and end users. To address both possibilities and risks along the value chain, the Group needs to allocate responsibilities and commitments as follows:

1 **Climate-smart products and solutions**

› to meet and exceed customer expectations in terms of quality, service and value creation.
› to realise business opportunities and energy savings brought about by energy-efficient LED technology.

Forums for: Purchasing, R&D, Manufacturing and Controls and Connectivity

VALO · LIGHTING INNOVATIONS · BRIGHT · LED LINEAR lighting solutions · we-ef

Locally adapted marketing and sales

1 2 4

Customer segment

Specifier level; architects, electrical consultants, lighting designers and end users

Contractor level; Installers and builders

1 2 4

OUTPUT VALUE

- Safer and more secure public places and outdoor environments.
- Energy efficiency that reduces both environmental impact and costs, such as energy monitoring and a gradual shift to electric fuelled car fleets.
- Contributes to health and well-being in indoor environments, at the office and in healthcare.
- Creates good work and study environments by contributing to improved performance and concentration.
- Builds brands, influences buying behaviour, and drives sales in shops, hotels, restaurants and cafés.
- Generates employment in the local community, as well as salaries and benefits for employees.
- Offers skills development and innovation strength among employees and subcontractors.
- Financial value in the form of dividends to owners, taxes and reinvestments in the business.

EXAMPLES OF IMPACT OF OPERATIONS

- Indirect CO_2 emissions in connection with transportation to/from manufacturing centres, indirect impact from electricity and district heating purchased.

2 Safe products and working environments

- to meet expectations in terms of quality, service and value creation.
- to ensure that all products and services adhere to accepted standards and are safe to use.

3 Responsible employer

- to ensure our employees' health, safety and rights and show environmental consideration.
- to ensure diversity, equal opportunity and human rights.
- to endeavour to have a constructive dialogue and collaboration between Group companies.

4 Responsible enterprise

- that all companies conduct business according to current laws and regulations.
- that the Code of Conduct forms the basis for everything we do and how we act.
- that due diligence is taken in connection with every company acquisition.

Energy-efficient lighting that matches needs

TARGETS IN CLIMATE-SMART PRODUCTS AND SOLUTIONS:

- To meet and exceed customer expectations in terms of quality, service and value creation.
- To realise business opportunities and energy savings brought about by energy-efficient LED technology.

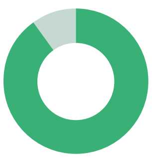
CONTINUED STRENGTH IN THE TECHNOLOGY SHIFT

Driving forces behind the technology shift to LED are its long lifespan, low energy consumption, little heat generation, and the option of colour temperatures that promote greater well-being. The energy efficiency from LED means that luminaires use less energy to give as much or more light compared to a traditional bulb. This is a development that coincides well with Fagerhult's most important contribution: reducing environmental impact by developing products that consume as little energy as possible when in use.

The percentage of net sales for LED was more than 90 per cent for the whole year 2017, which means that we now consider the technology shift to LED has passed. Above all, demand is driven by new builds and renovations together with the need to change existing lighting to LED.

VALUE-CREATING, ENERGY-EFFICIENT SOLUTIONS WITH LED

Fagerhult's ability to deliver increased LED sales is an effect of the continuous investments in product development, manufacturing and marketing of LED luminaires among the companies. Fagerhult Belysning before, for example, Constant Light Output (CLO) in more and more product families. This means that the driver in the luminaire compensates for the decrease in lighting effect in the diodes over time, which enables planning for fewer luminaires and reduced over-installed effects at an early stage. In a luminaire with CLO, the light that remains after a given working life is indicated as L100[1]. At the German firm LTS, efficient linear LED modules have been developed that reduce energy use by 20 per cent with lumens retained[2]. Whitecroft Lighting has introduced the e-light LED, with the ability to improve efficiency by up to 15 per cent, which contributes to reduced energy usage over the entire working life of the luminaire. In future, the offering of e-light LEDs will be expanded to more products.



>90 %

Percentage of net sales for LED in 2017

LED + CONTROL = THE FUTURE

An additional perspective on development is the combination of LED technology and smart control systems. In its simplest form, the luminaires are then outfitted with components that facilitate maintenance, but there are already more advanced combinations of technology that use the luminaires as bearers of sensors or processors for the collection of a range of information. Technology can, for example, be added for a daylight and proximity

Impact in the form of indirect emissions

Focus on energy efficiency and best possible energy mix

The task of making production more energy efficient is continuously in progress in all the companies, while simultaneously increasing the share of renewable energy. In accordance with the Act on Energy Audits in Large Companies, in 2017 an audit was conducted of energy use at the plant in Habo. This resulted in the need to take a number of measures, such as adjusting the regulation of ventilation to save energy. In future, it will be a question of working on prioritising the energy-saving measures identified as most profitable for the operations.

As the range of renewable energy increases, the Group will endeavour to gradually attain CO_2-neutral production. One challenge on the way lies in handling the energy mix that is available in each country in the best possible way. For example, all plants in Sweden use renewable hydroelectric power that has a guarantee of origin[3] and wood chip-based district heating. For the plants in UK and Germany the range of green electricity stands for almost half of the consumption. For the plants in Suzhou, China, and in Australia the range is considerably slimmer.

Insufficient data makes monitoring emissions more difficult

A significant portion of indirect emissions from our operations stems from transportation of input materials to the plants and products to customers. All transportation is carried out by external carriers.

When, for example, the Swedish section of the Group procures transportation, the purchase is coordinated centrally. In the procurement, questions are asked on issues including observance of laws and rules, whether there is an environmental policy in place, and on vehicle and fuel type. A summation of the responses shows, for example, that the share of vehicles with environmental class Euro 5 or higher is 72 per cent for the transportation in question.

On the other hand, monitoring and measuring emissions in order to calculate indirect emissions remains challenging, as available data from the carriers is insufficient. The Swedish companies' joint project around gathering emissions information from a majority of carriers indicated continued large variations in quality. Dialogue with the carriers is ongoing, but as far as this report is concerned, emissions from owned or leased company vehicles intended for passenger transportation, as well as from business trips involving air travel, are reported.

sensor-controlled lighting that automatically regulates lighting according to the time of day. e-Sense Motion is one example of energy-efficient control outdoors. Using proximity sensor control, the light is dimmed if no one is moving in the area, with security preserved by the light shining at its usual levels as soon as a presence is registered.

The mobile phone is a good example of the trend toward individualising products – a mass product that, in our hands, can be customised specifically to defined personal needs. e-Sense Tune is one example of how the user controls all three dimensions of lighting – the visual, the emotional and the biological – to create energy-efficient lighting according to the situation and need.

TOWARDS A GRADUAL REDUCTION IN ENERGY CONSUMPTION

Fagerhult aims to limit the environmental impact of its luminaires throughout their life cycle, from development, manufacturing and use to recycling. Their environmental impact comes primarily from emissions from transportation of input materials and products out to customers, as well as through the luminaire's energy consumption during use. As LEDs are further developed, substantial value is added by gradually reducing the energy consumption of lighting during use.

Based on the local markets' needs, some form of environmental data sheet can be produced to meet the requirements for transparent and comparable information about a luminaire's impact on the environment. For example, environmental data sheets for luminaires manufactured by Swedish companies are produced, showing that the selection of materials meets the requirements indicated in Byggvarubedömningen, and SundaHus. In terms of recycling, for example, the Swedish operations are affiliated with El-kretsen and thus are part of the national collection system for WEEE.

1. Under the EN 62717 standard, the expected working life of an LED luminaire with L and B ratings is reported, followed by a fixed period of time indicated in hours. The L rating describes how much luminous flux (in percentage of the new value) is expected to be generated after this period of time. The B value shows the percentage of expected shortfall during the same period of time.

Examples: L90 B10 50,000h = after 50,000 hours, the luminaire produces a luminous flux equivalent to 90% of the new value, with the risk that 10 per cent of the LEDs produce a lower luminous flux.

2. The luminous flux that the LED lamp emits is expressed in lumens (lm).

3. According to Fagerhult's supplier www.bixia.se

Adapted lighting that creates harmony

TARGETS IN SAFE PRODUCTS AND WORKING ENVIRONMENTS:

- To meet expectations in terms of quality, service and value creation.
- To ensure that all products and services adhere to accepted standards and are safe to use.

CAREFUL TESTS FOR USER SAFETY

For the Group's companies in general, it is important that the tests and safety assessments carried out on luminaires follow applicable industry requirements. Teknik-Centrum, the well-equipped laboratory in Habo, can illustrate how safety inspections and approval of our own products takes place. When testing the safety of Fagerhult-brand luminaires, for example, the following safety risks are considered:

- Electrical risks
- Mechanical risks
- Thermal risks
- Exposure to electromagnetic fields

Based on the above risks, luminaires are certified against harmonised standards that concern safety, normally EN 60598-1 and associated supplementary sections. Every manufactured luminaire also undergoes final testing in production according to set rules and procedures. The luminaires are also certified in line with EMC, ErP and RoHS directives. Safety testing documentation conforms to the EU directives required for CE marking of luminaries. Another example can be taken from EagleLighting in Australia, where a special work group (the OHS Group) is tasked with conducting risk assessments at an early stage to take care of any safety risks with the luminaire.

LIGHTING THAT ADDS VALUE TO DAILY LIFE

Our lighting needs can be viewed from several perspectives. Lighting not only plays a key role in creating safety and security, it can also have a major impact on our well-being. An office environment or lecture hall with correctly adapted lighting can help us both to perform and to feel better. Other occupational groups such as health care personnel need flexible work lighting that shines brightly without blinding either patient or doctor, for examinations, treatments, and surgery at all hours of the day.

The Haga Teaching Hospital, the Hague, the Netherlands.

Based on the latest research findings and in close collaboration with care providers and scientists, much is being done to design innovative lighting solutions for patients and staff. For example, light's colour temperatures can create warm light that has a soothing effect and helps us to relax, or cold light that energises and activates us.

In concrete terms, this means customising lighting to follow our biological daily rhythm.

A condition for long-term growth

TARGETS IN RESPONSIBLE ENTERPRISE:

- that all companies conduct business according to current laws and regulations.
- that the Code of Conduct forms the basis for everything we do and how we act.
- a robust Due Dilligence is taken in connection with every company acquisition.

THE GROUP'S BASIC REGULATIONS

The Fagerhult Group's Code of Conduct provides clear guidelines for responsible enterprise by summarising the Group's opinion about issues such as human rights, labour practices, business ethics and anti-corruption, in addition to environmental considerations. All employees, the Board of Directors, Group management, and the management of the respective companies are covered by and must follow the Code of Conduct. The Code of Conduct has been implemented and applies, generally speaking, to all the companies; at Whitecroft Lighting, for example, the Code is supplemented by the company's own handbook that further clarifies the regulations and policies that apply. In general, in the event of new hires at the companies, the immediate supervisor is responsible for ensuring that the employee is acquainted with the Code of Conduct. The Code must also be made available on the companies' intranet.

TOOLS FOR APPLYING REGULATIONS IN DAILY WORK

The intent of systematising internal instruction in all the sections of the Code of Conduct together with the anti-corruption policy was realised during the year[1]. This took place in the form of online training, which is mandatory for all employees who, for example, work with purchasing and sales, and members of the management of the respective companies.

In early December, the training link was sent out to 840 Directors and employees in the above categories. By the end of 2017 76 per cent of the respondents had completed the training. The shortfall was partly due to December being the holiday season and partly due to people having left or being on maternity/paternity leave or leave of absence. The training will be completed as soon as they are back at work.

SUPPLEMENTARY VERSION OF THE CODE FOR SUPPLIERS

A supplementary version of the Code of Conduct for Suppliers was implemented during the year among the suppliers for Fagerhult Belysning. The purpose is to clarify the central parts of the Code of Conduct and the company's expectations concerning our suppliers' compliance with laws and regulations. The supplier must confirm in writing that they have read the contents and that they commit to adhering to the code in every aspect of their operations, and that they will inform their subcontractors, if any, of the contents of the Code and compliance requirement.

EACH BRAND OWNS ITS SUPPLY CHAIN

Fagerhult Group have a diverse supplier base with currently over 250 suppliers, which to a varying extent deliver everything from input goods and transportation to consultant and service providers. Input materials comprise chiefly electronic components, metal and plastic for the manufacturing of luminaires. Each company in the Group owns and is responsible for their own chains of suppliers, of which there are many in connection to the respective plants and main markets. The synergies created by the size of the Group exist mainly with regard to the purchase of diodes and standard electronic components, which essentially all companies use in their production. The procurements then occurs via the Group's joint forum. The purchases of assembled electronics components containing earth metals, albeit in small quantities, are purchased from well-established global companies. The Group has very limited insight into their extraction.

Generally speaking, the companies' purchasing functions are responsible for acquiring knowledge of

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1. Using the system vendor Netigate.


Sutton Yard, London, UK.

the suppliers' operations, for example, through dialogue and site visits. Supplier assessments are also performed. For example, Whitecroft Lighting conducts audits of suppliers in the form of interviews and forms for self-reporting with questions on what responsibility is taken as regards the environment, and employees' health and safety. A review of the Fagerhult Group's Code of Conduct is included at the Chinese plants; the Code is translated into Chinese as a point in connection with recruitment of new suppliers.

A further example is the Supplier Questionnaire that the Fagerhult brand's Swedish operations in Habo and Åhus use. The questionnaire contains questions about the supplier's financial status, quality agenda, environmental considerations, social responsibility and any certifications. Answers and signatures from the supplier are reviewed internally before final approval of the supplier. From 2017 onwards all new suppliers to the Fagerhult brand's should be reviewed according to these criteria.

STARTING POINT FOR GLOBAL OPERATIONS

In some cases, the Group's operations are conducted in countries with varying levels of risk exposure regarding corruption, freedom of association, the right to collective agreements, overtime work, child labour and forced labour, and political risks. China, Russia, the United Arab Emirates and Turkey are among them.

Zero tolerance applies to all operations in the Fagerhult Group. That is, all employees are to enjoy freedom of association and the right to collective agreements. No corruption, risk of overtime work beyond that prescribed by law, child labour or forced labour may occur. This is also established in the Group's Code of Conduct, which is to apply completely alongside other policies. In cases where, for example, the risk of corruption exists, no business transactions will be entered into and no agreements signed.

A SUMMARY OF COMMITMENTS IN CHALLENGING COUNTRIES

Operations in China are conducted in Suzhou Industrial Park. The Group judges that working conditions correspond to an operation on par with the West. The China operations have a Swedish site manager who monitors whether the working conditions are consistent with Fagerhult's agreements, values, and other commitments. Employees at the plant are covered by collective agreements and working hours and other conditions follow the directives of the industrial park. Furthermore, operations must comply with the local government authorities' requirements to comply with local laws and regulations governing forced labour and human rights. The Group's Code of Conduct has been translated into Chinese, and all employees – current and new – are introduced to its contents. As a way of reducing personal dependence and thus exposure to corruption, there is continual job rotation among vulnerable positions.

The Group's presence in the United Arab Emirates comprises a small sales company under the control of a Region Director, who is a member of Group management and in charge of ensuring compliance with policies and regulations.

The Russian operations comprise sales offices in St. Petersburg and Moscow and are under the control of the Region Director who is a member of Group management. As a matter of routine, employees sign a statement that they have studied the Code of Conduct.

A political risk – and thus a business risk – has developed around operations in Turkey in the years following the acquisition of Arlight. The Board of Directors and Group management believe that close and continual contact with company management is therefore of the greatest importance in order to monitor this development and ensure that it is met with relevant measures.

THE ACQUISITION PROCESS IN SHORT

Upon acquisition of companies, Group management always initiates Due Diligence (DD). To an extent, the DD is adapted based on each suitable candidate for acquisition, with the possibility of broadening the analysis and adding questions, for example depending on the type of operation or the countries in which operations are conducted or there is a presence.

As process and content, the DD can overall be described in a number of steps.

1 An exploration of the acquisition in question, to get an image of how it can supplement the Group and contribute to the growth of business. This takes place in the form of a review of the operations' size, profitability, geographic location/global distribution, and product and technical areas. The business climate in the country or region is also evaluated at this stage, which for example includes political risks and risks of corruption. Historically, this has led to the Group taking decisions to terminate acquisition intentions.

> "To an extent, the Due Diligence is adapted based on each suitable candidate for acquisition, with the possibility of broadening the analysis and adding questions."

2 Contacts are established and relations are built between Fagerhult Group management and the management of the candidate for acquisition through meetings and site visits. With the decentralised organisation the Group is built on, fundamental trust in the person(s) who will lead the company in a potential acquisition is completely crucial for continuing the DD process.

3 An "indicative bid" is submitted to the company. This is a non-binding agreement on acquisition, which generates exclusivity in the event of continued negotiation.

4 In parallel, the actual company inspection is put into motion. External resources/competences are now involved in order to produce documentation for information and data collection, which the candidate for acquisition is given a number of months to compile.

5 The data and information collected is categorised and analysed as follows:

- Financial inspection.
- Legal and tax inspection.
- CSR inspection that, alongside the environmental aspects of the operations, includes labour conditions, health and safety, freedom of association, and human rights.
- Commercial inspection that contains aspects such as a macro assessment of the general economic conditions in the country as basis for an evaluation of opportunities for growth. The competitiveness of the operations, given the product area and market position in relation to the field of competitors, is additionally analysed.
- Human Relations inspection focusing on an analysis of the organisation, existing employees' competences and functions, human due diligence, and so on.

An example of current acquisitions during 2017 that underwent the above DD are WE-EF and Flux.

A sustainable working life for all employees

TARGETS IN RESPONSIBLE EMPLOYER:

- to ensure our employees' health, safety and rights and show environmental consideration.
- to ensure diversity, equal opportunity and human rights.
- to endeavour to have a constructive dialogue and collaboration between Group companies.

JOINT EFFORT FOR A GOOD WORK ENVIRONMENT

Participation, motivation, commitment and satisfaction are key success factors for the development of all the Group's employees in their respective companies. The joint aspiration is to offer a work environment that encourages pride, security, and a sense of community. What unites and guides all the Group's employees is our core values, which are to be an integral part of all processes and daily work.

WORK UNDER EQUAL CONDITIONS AND STRIVING FOR INCREASED DIVERSITY

As a result of this year's acquisition of WE-EF, Flux, and Organic Response, a further 490 employees have joined the Group. In total, the Fagerhult Group has 3,432 employees.

The Group's Code of Conduct has established that everybody, irrespective of gender, age, religion, sexual orientation, or ethnic background, is to be given the same opportunities for development and advancement as well as equal pay for equal work. Appreciating people's differences and various competences is self-evident in achieving increased diversity, which in turn is an important contribution to creating a more innovative company culture. One practical example is the Personal Premium Platform initiative, which is carried out annually at the Swedish firm ateljé Lyktan. The basic idea is that every year, a new theme is presented for the employees to work further on in mixed occupational groups. Not only are a number of innovative ideas created this way, but it also becomes a good occasion for sharing competence and knowledge. For 2017, the theme was creating innovative solutions that minimise waste while retaining productivity.

In accordance with new legal requirements, a survey of wages at the operations in Habo was conducted during the year, which indicated no irrelevant differences in wages between men and women for comparable occupational groups. During 2018, a survey of salaries will be carried out at ateljé Lyktan.

LEADERSHIP DEVELOPMENT TO SHARE KNOWLEDGE AND EXPERIENCES

The Fagerhult Group's leadership model is to provide guidance and governance for all managers in the Group. At the Group level, the Bright Leaders leadership programme was developed, with a focus on developing leadership and cooperation based on the conditions that a decentralised business model provides. In total, some 50 of the Group's managers have completed the programme. The cross-function, global 'International Leader' initiative was also conducted this year, with a large number of participants from the different companies. This is in line with the ambition of utilising all available competence and experience among our managers around the world. It is a programme that also aims at highlighting how different cultures influence and impact leadership.


Fagerhult Belysning in Habo, Sweden.

Leadership is continually tested and continually develops both in daily work and through directed development initiatives around the companies. A few examples:

For managers at companies in the Swedish operations, the new 'Chefsettan' leadership programme was introduced during the year. The programme, which runs for 18 months, is carried out in a number of training modules with subsequent network meetings. The goal of Chefsettan is not only to build stronger, more secure leadership, but also to strengthen collaboration and networking among the companies.

The Senior Leadership Development Program, designed in cooperation with Colin Williams, Associate Professor at the Ashridge Business School, is carried out on a continual basis at Whitecroft Lighting. It is a programme that also inspired EagleLighting in Australia, which carried out a similar manager training programme in July 2017.

IMPORTANT DIALOGUE WITH EMPLOYEES

Over the past seven years, the Group has been carrying out a Talent Management process, which evaluates and follows up the performance and career development of key personnel every other year.
The recommendation from the Group management is to conduct development dialogues for all employees. ›

> “An important aspect of the skill supply is generally attracting more young talent to the lighting industry.”

During 2017 development dialogues were conducted for 55 per cent of the Group’s employees. However, variations do arise between companies. For example, there is an established uniform approach for the Swedish companies regarding the content, conduct and purpose of development dialogues. In autumn 2017, a revised employee appraisal model was implemented for salaried employees at Fagerhults Belysning and Fagerhult Belysning Sverige AB. Above all, it deals with clarifying the link between performance and salary.

At the German firm LTS, as at EagleLighting in Australia and Fagerhult’s operations in Russia, employees have annual performance appraisals where performance and personal development are also evaluated.

During the year, Fagerhults Belysning, Fagerhult Belysning Sverige AB and ateljé Lyktan began measuring employee engagement, well-being, and leadership with the FOKUS employee engagement survey. The response frequency was 91 per cent and resulted in an Employee Satisfaction Index (ESI) of 67 and a Leadership Index (LIX) of 62 for Fagerhults Belysning and Fagerhults Belysning Sverige. The results for ateljé Lyktan in turn ended up at an ESI of 69 and an LIX of 68. The areas that need extra attention in future are leadership development, better balance for reduced workload, and a stronger feedback culture. In future, FOKUS will be carried out every other year, but where follow-ups will occur regularly to follow the important follow-up work that will contribute to even better employee engagement and stronger leadership.

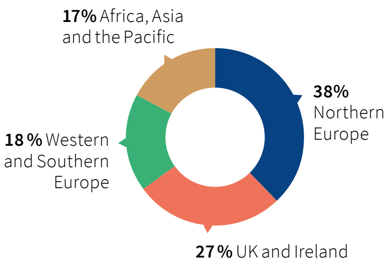
TRAINEE – AN ATTRACTIVE ENTRY INTO THE GROUP

The Bright Prospects trainee programme is an essential part of the Fagerhult Group’s skill supply and a way to bring young talent in to the Group. The second stream of Bright Prospects was launched in 2017, with the Swedish companies and Whitecroft Lighting as a common base. The trainee programme covers four young talents who, over the course of 18 months, each carry out three project periods of six months at one of the Group’s companies, alternating with shorter periods for personal development and strategy. After a completed trainee period, all participants are offered a position in one of the Group’s companies. The third stream of the Bright Prospects programme is planned to start in autumn 2018.

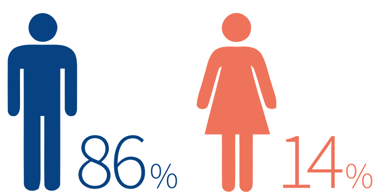
In addition, local trainee programmes are regularly carried out at Fagerhult’s operations in Dubai, Designplan, and Whitecroft Lighting, which like the German companies LTS and LED Linear offer an apprenticeship programme.

An additional aspect of the skill supply is generally attracting more young talent to the lighting industry by the various companies of the Group being active at different types of labour market and job fairs, and conducting continual dialogues with students at universities and colleges with offers of study visits, degree projects, and internship placements.

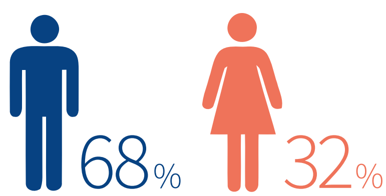
PERCENTAGE OF EMPLOYEES PER GEOGRAPHICAL MARKET



MEMBERS OF THE BOARD AND SENIOR MANAGEMENT BY GENDER



EMPLOYEES BY GENDER



Employee engagement in FOKUS

The keys to a workplace with employees who are motivated and engaged, who are doing well and who feel they are contributing to the development of operations are called 'employee engagement' and 'employee experience'. The FOKUS Employee Engagement Survey helps us correctly prioritise our work by creating a healthy work situation and a sustainable work environment.

THE WORK ON THE EMPLOYER BRAND, FROM THE INSIDE

As part of Fagerhult's work on our employer brand and employees' well-being and engagement, the FOKUS Employee Engagement Survey was carried out at Fagerhults Belysning AB, Fagerhult Belysning Sverige AB, and at ateljé Lyktan during 2017. Our plan is to conduct this survey every other year, with structured improvement work and follow-ups in between.

FOKUS is an important tool for measuring the degree of engagement and motivation in our employees, as well as how they perceive the leadership.

– The result indicates the direction for strategic, long-term decisions we need to take, says Eleonor Svenningson, HR Development Manager at Fagerhults Belysning.

HIGH LEVEL OF PARTICIPATION TESTIFIES TO ENGAGEMENT

FOKUS touches on five different areas: goals and commitments, engagement, leadership, well-being and health, and the company as an employer. The responses result in an Employee Satisfaction Index (ESI) and a Leadership Index (LIX), both measured on a scale of 0–100.

– The high level of participation was especially gratifying – 91 per cent of our employees chose to take part. This is a very good figure, clearly showing that our employees are keen to share their opinions with us, Eleonor Svenningson says.

The survey at Fagerhults Belysning and Fagerhult Belysning Sverige showed that 74 per cent of employees were satisfied with their work situation. They felt they were getting on well with their fellow workers, and furthermore felt that Fagerhult was a secure workplace with a healthy work climate and good work environment. The results from FOKUS also showed areas with potential for improvement such as leadership, workloads, and a clearer feedback culture.

The employees at ateljé Lyktan feel that there is a good working situation marked by a great deal of freedom in their work and a fast pace of innovation in the operations. Ateljé Lyktan is regarded as a secure company with an inspiring work environment and good terms of employment. Areas that need to be improved are a more inspiring leadership that delegates more, and better handling of employee's suggestions for improvement.

A PROCESS THAT HELPS US FOKUS

The results of an employee engagement survey increase expectations that management will take action to enable change. For this reason, it is particularly important to really listen to employee feedback in order to correctly prioritise future work.

– One important parameter is that the directors understand the power of the survey and the expectations that come with it; that FOKUS aims to make employees feel prioritised, and that the company will work actively with the results to strengthen the employee experience. We call the work after the survey the FOKUS process. This means working in a structured manner with a few, but powerful, improvement activities where we invite people in to participate and there is regular follow-up, says Eleonor Svenningson.

– We want our employees to see the value in taking part in the employee engagement survey. If they see that things are happening and action being taken as a result of their responses, I am convinced that engagement will also be generated.

Eleonor Svenningson
HR Development Manager at Fagerhults Belysning.

Management of Fagerhult group's Sustainability efforts

The Fagerhult Group's global presence and decentralised organisation require that the Group, the companies, and our employees take responsibility for the impact of our operations on the environment, people and society. A core component of the Fagerhult Group's strategy is that each company is given substantial autonomy and scope to address their impact alongside their own strong power to make decisions. Our common corporate culture rests on the core values of Customer Focus, Performance Culture and Innovative Mindset, and is well-rooted in all of the companies.

SUSTAINABILITY GOVERNANCE IN THE FAGERHULT GROUP

The overall strategic direction for the Fagerhult Group's sustainability efforts is determined by Group management. The Group's CEO has ultimate responsibility for sustainability issues. Governance is based on all parts of the Group following the respective country's laws and regulations, such as competition rules, environmental legislation, labour law and collective agreements that impact our operations. Fagerhult respects international conventions on human rights, which act as guiding instruments for all our own operations. All employees have the right to choose whether they wish to be represented by a trade union. A total of 34 per cent of Group employees have collective agreements. Child labour, or labour performed through coercion or threat of violence, will not be tolerated under any circumstances. In all contexts, zero tolerance applies to all cases of bribery and corruption.

CODE OF CONDUCT AS GOVERNANCE INSTRUMENT

The Fagerhult Group's Code of Conduct applies across the Group and to all employees. The Code of Conduct states the Group's views on human rights, labour conditions, diversity and equal opportunities. The Code also states the Group's views on environmental responsibility, and its position regarding differences between countries in respect of legislation, agreements and other regulations that affect operations. Managers within the company are responsible for communicating the content and importance of the Code of Conduct to their own part of the organisation, and for ensuring that business partners are also aware of it.

A supplementary version of the Code of Conduct was implemented during the year among the suppliers for Fagerhults Belysning. The purpose is to clarify the central parts of the Code of Conduct and expectations concerning suppliers' compliance with laws and regulations.

The Group's whistleblower function enables employees and others to anonymously report any incidents or actions in breach of our Code of Conduct. In 2017, no incidents related to sustainability or ethics were submitted. The Fagerhult Group's general approach in terms of the precautionary approach concept is described in the Code of Conduct and the anti-corruption policy; see www.fagerhultgroup.com.

CLEAR SOCIAL AND ENVIRONMENTAL GUIDELINES

Equal opportunities and treatment apply for all of the Group's employees irrespective of gender, marital status, sexual orientation, ethnic or national background, etc. Diversity is encouraged at all levels in the Group.

The companies also supplement the Group's overall umbrella of the Code of Conduct, the anti-corruption policy, and the environmental policy with more of their own policies. Examples are the drug and alcohol policy, the policy for a safe and healthy workplace, the discrimination policy, and the recycling policy.

The environmental efforts of the Fagerhult group must in all aspects seek to meet or exceed the requirements in applicable legislation. An overall ambition of the environmental policy (see www.fagerhultgroup.com) is to limit the environmental impact of the luminaire during its working life – from development, manufacture, and use to recycling. The environmental management system constitutes a key tool. Our production units in Manchester and Sutton in the UK, Suzhou in China, I-Valo Oy in Finland and Habo, Åhus and Bollebygd in Sweden are environmentally certified under ISO 14001 and ISO 9001. These certifications also cover the Turkish firm Arlight, which is also certified in terms of working environment under OHSAS 18001:2007.

MEMBERSHIP IN ASSOCIATIONS

International

- International Commission on Illumination (CIE).
- Federation of National Manufacturers Associations for Luminaires and Electrotechnical Components (CELMA). 18 national industry associations from 12 countries.
- Swedish Standards Institute (SIS).

National

- Belysningsbranschen (Swedish trade association).
- Sustainable Innovation AB (SUST).
- The Swedish Chemicals Group at Swerea IVF.
- Nätverket för miljöanpassad produktutveckling (Swerea IVF) (network for environmentally adapted development).
- SEK Svensk Elstandard (organisation for standardisation in the field of electricity), TK 34 Ljusarmatur med tillbehör (luminaries and accessories).

AB Fagerhult's sustainability report in accordance with the Swedish Annual Accounts Act

Fagerhult's sustainability report is submitted in the form of a Sustainability Report prepared pursuant to the GRI G4 framework. Reports regarding the Fagerhult Group's most important areas of sustainability, business model, policies, risk and performance indicators can be found on pages 26–42; the GRI Appendix at www.fagerhultgroup.com and in note 34 on pages 91–92.

The Board of Directors estimates that the sustainability information is sufficient to obtain an understanding of the Group's development, position, and earnings, as well as the consequences of its operations. The Sustainability Report indicates that stakeholder engagement is a central part of the work on defining materiality from a sustainability perspective. A materiality analysis weighs the aspects relevant to the Group, given the companies' operations: the impact the operations have as regards the economy, society, people and the environment; and the aspects that influence the stakeholders' decision-making and their expectations. This includes the environment, social conditions, personnel, respect for human rights and counteracting corruption. Moreover, the Group's business model, the risks that can be linked to the areas, the allocation of responsibilities, and policies/guidelines for governing important areas of sustainability as well as central performance indicators of relevance to the operations.

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in AB Fagerhult, corporate identity number 556110-6203.

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the statutory sustainability report for the year 2017 on page 43 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Jönköping, 15 March 2018

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Auditor in Charge

Martin Odqvist
Authorized Public Accountant

Independent Auditor's Limited Assurance Report on AB Fagerhult's Sustainability Report

To AB Fagerhult

INTRODUCTION

We have been engaged by the Board and Group Management of AB Fagerhult to undertake a limited assurance of AB Fagerhult's Sustainability Report on page 26–42 in Fagerhult's Annual Report 2017 and the separate GRI appendix, which is published on the company's webpage.

RESPONSIBILITIES OF THE BOARD AND GROUP MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 26 of the Sustainability Report and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that AB Fagerhult has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

CONCLUSION

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

Jönköping, 15 March 2018

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorised Public Accountant

Karin Juslin
Expert Member of FAR

Financial information

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 11 billion.

SALES AND TRADING

The share symbol is FAG and its ISIN code is SE0010048884. One trading lot corresponds to one share. In 2017, total turnover for the share on Nasdaq in Stockholm was 9.1 million shares, at a combined value of MSEK 954, which corresponded to approximately 100 per cent of share turnover. Average share turnover per trading day was about 39,092, representing a value of SEK 3,803,000. An average of approximately 251 trades were made per trading day.

LIQUIDITY GUARANTEE

In 2015, an agreement, under the framework of Nasdaq OMX 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 2017, the closing price for Fagerhult's share was SEK 100.50 per share, corresponding to a market capitalisation of approximately SEK 11.5 billion. The price of the Fagerhult share rose 29 per cent in 2017. Over the same period, the Nasdaq Stockholm PI rose 6 per cent. The highest closing price of SEK 136.67 was noted on 2 May and the lowest on 9 January at SEK 76.67. The average share price for the year was SEK 105.

Total shareholder return for the Fagerhult share, defined as the price trend including reinvestment of the dividend of SEK 1.50, was 30 per cent.

SHARE CAPITAL

At year end, Fagerhult's share capital amounted to MSEK 65.5 (65.5). At the Annual General Meeting (AGM) on 3 May 2017, a resolution was passed to increase the number of shares in Fagerhult through a 3-for-1 share split. The record day at Euroclear Sweden AB for implementing the share split was 16 June 2017. Following completion of the split, the number of shares in Fagerhult rose from 38,550,000 to 115,650,000 with a quotient value of SEK 0.57 per share (1.70 prior to the split). All shares have equal voting rights and an equal participation in the company's earnings and capital. The AGM also resolved that the company be permitted to buy back its own shares. This option was not exercised in 2017. In connection with the allocation of shares tied to the Group's share-savings plan (refer to Note 2) and for the acquisition of subsidiaries (refer to Note 30), treasury shares were used. The number of treasury shares totalled 1,157,778 (1,832,031) after allocation and the number of shares outstanding was 114,492,222. The percentage of shares held as treasury shares was 1.0 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.

OWNERSHIP STRUCTURE

At year end, Fagerhult had 5,559 (4,779) shareholders. The largest single shareholder was Investment AB Latour, in which the Douglas family are the main shareholders, with combined holdings of 48.8 per cent (49.1) of the share capital and votes in the company, based on the number of shares outstanding. The ten largest shareholders accounted for 84.1 per cent (86.1) of the share capital and voting rights of the shares outstanding. The proportion held by shareholders outside of Sweden was 14.7 per cent (13.4).

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 2.00 (1.50) per share, representing a dividend yield of 2.0 per cent (1.9) based on the share price on 31 December 2017.

OWNERSHIP STRUCTURE (AT 31 DEC 2017)

Shareholder	No. of shares	Share capital and voting rights, %
Investment AB Latour	55,861,200	48.3
SSB CL Omnibus AC, USA (US)	9,758,859	8.4
The Svensson family, foundation and company	7,944,557	6.9
Lannebo Fonder	7,595,314	6.6
Swedbank fonder	5,076,126	4.4
The Palmstierna family	3,018,600	2.6
Nordea Fonder	2,404,217	2.1
SEB Fonder	2,020,131	1.7
NTC Fidelity Funds (US)	1,325,439	1.1
La Financière de l'Echiquier (FR)	1,275,000	1.1
Small business funds, Nordic (FI)	1,114,300	1.0
Johan Hjertonsson	813,537	0.7
Other owners with more than 20,000 shares (118 owners)	9,457,144	8.2
Other owners with 10,001–20,000 shares (88 owners)	1,226,581	1.1
Other owners with 1,001–10,000 shares (1,452 owners)	4,340,037	3.8
Other owners with up to 1,000 shares (3,889 owners)	1,261,180	1.1
AB Fagerhult, treasury shares	1,157,778	1.0
Number of shares at year end	**115,650,000**	**100.00**

SHARE TURNOVER

Year	2013	2014	2015	2016	2017
Volume of shares traded, millions[3]	6.2	6.9	5.7	5.6	**9.1**
Value of traded shares, MSEK	129	373	275	373	**954**
Average volume of shares traded/trading day[3]	24,687	27,765	22,821	22,269	**36,092**
Average value per trading day, SEK thousand	517	1,505	1,098	1,474	**3,803**
Turnover rate, %	5.4	6.0	4.9	4.9	**7.9**
Highest price paid during the year, SEK[3]	25.22	50.50	56.00	92.83	**136.67**[1]
Lowest price paid during the year, SEK[3]	18.33	23.83	42.83	44.75	**76.67**[2]

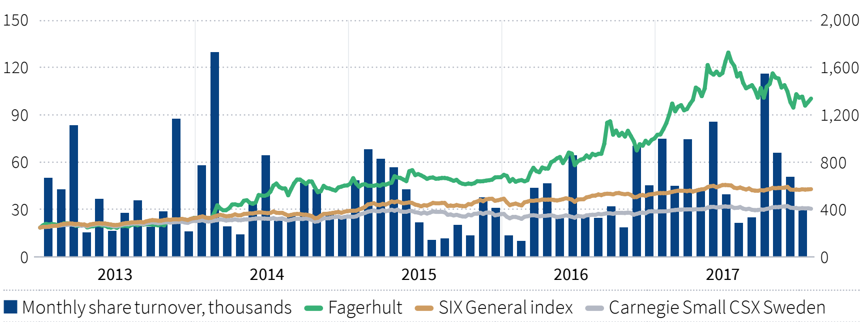
1) Paid 2 May 2017 2) Paid 9 January 2017

DATA PER SHARE[3]

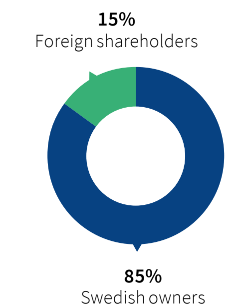
Year	2013	2014	2015	2016	2017
Earnings per share before dilution, SEK	1.61	2.30	2.54	3.35	**4.32**
Dividend per share, SEK	0.81	1.00	1.17	1.50	**2.00**[1]
Share price 31 Dec, SEK	24.94	46.00	52.50	77.83	**100.50**
Dividend yield, %	3.2	2.2	2.2	1.9	**2.0**
Equity per share, before dilution, SEK	9.07	11.71	12.66	12.66	**16.51**
Cash flow per share, before dilution, SEK[2]	1.95	3.44	3.91	3.91	**5.96**

1) Proposed dividend 2) Cash flow from operating activities 3) Adjusted for the 3-for-1 share split in 2017

FIVE-YEAR SHARE PRICE TREND



OWNERSHIP DISTIBUTION



Five-year overview

Income Statements (MSEK)	2013	2014	2015	2016	2017
Net sales	3,095	3,736	3,909	4,491	5,170
(of which outside Sweden)	(2,369)	(2,930)	(3,040)	(3,516)	(4,126)
Cost of goods sold	–2,087	–2,524	–2,612	–2,917	–3,246
Gross profit	**1,008**	**1,212**	**1,297**	**1,574**	**1,924**
Selling expenses	–560	–636	–678	–783	–919
Administrative expenses	–184	–220	–246	–316	–385
Other operating income	14	23	23	49	58
Operating profit	**278**	**379**	**396**	**524**	**678**
Financial income	2	2	5	17	15
Financial expenses	–33	–33	–24	–26	–40
Profit after net financial items	**247**	**348**	**377**	**515**	**653**
Balance-sheet items (MSEK)					
Intangible assets	1,048	1,448	1,466	2,069	2,709
Property, plant and equipment	333	387	392	448	686
Financial assets	23	26	35	34	54
Inventories, etc.	525	574	602	685	761
Trade receivables	577	676	678	761	838
Other current assets	66	68	94	86	99
Cash and cash equivalents	**249**	**353**	**472**	**731**	**950**
Total assets	**2,821**	**3,532**	**3,739**	**4,814**	**6,097**
Equity	1,030	1,329	1,437	1,627	1,890
Pension liabilities	62	66	66	68	90
Deferred tax liabilities	64	65	63	131	283
Other non-current interest-bearing liabilities	1,013	1,267	1,341	1,752	2,685
Other non-current non-interest-bearing liabilities	–	37	53	239	162
Current interest-bearing liabilities	59	60	1	133	5
Current non-interest-bearing liabilities	594	708	778	864	982
Total equity and liabilities	**2,821**	**3,532**	**3,739**	**4,814**	**6,097**
Key performance indicators and data per share [3]					
Sales growth, %	0.3	20.7	4.6	14.9	15.1
Increase/decrease in operating profit, %	10.3	36.5	4.6	32.4	29.3
Increase/decrease in operating profit after financial items, %	15.5	40.9	8.4	36.5	26.8
Operating margin, %	9.0	10.1	10.1	11.7	13.1
Profit margin, %	8.0	9.3	9.6	11.5	12.6
Liquid ratio, %	38	46	61	73	96
Net debt/EBITDA	2.4	2.2	1.9	1.9	2.2
Equity/assets ratio, %	37	38	38	34	31
Capital employed, MSEK	2,163	2,723	2,846	3,581	4,670
Return on capital employed, %	13.3	15.6	14.4	16.8	16.8
Return on equity, %	18.7	22.1	20.9	24.9	28.1
Net debt, MSEK	885	1,040	937	1,222	1,830
Net investments in non-current assets, MSEK	65	110	118	169	177
Depreciation/amortisation of non-current assets, MSEK	88	95	107	121	158
Number of employees	2,204	2,370	2,451	2,787	3,241
Equity per share, SEK [3]	9.07	11.71	12.65	14.30	16.51
Earnings per share, SEK [3]	1.61	2.30	2.54	3.35	4.32
Dividend per share, SEK [3]	0.81	1.00	1.17	1.50	2.00[1]
Cash flow per share, SEK [2,3]	1.95	3.44	3.91	3.41	5.96
Number of shares outstanding, thousands [3]	113,508	113,508	113,589	113,818	114,492
Average number of shares outstanding, thousands [3]	113,508	113,508	113,589	113,761	114,318

1) Proposed dividend 2) Cash flow from operating activities 3) Share-related key performance indicators are adjusted for the 3-for-1 share split in 2017

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 2017.

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 25 countries with 9 manufacturing facilities in Europe and factories also in China, Australia, Turkey, South Africa, and Thailand.

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

Changes in the Group

In March 2017, Fagerhult completed the acquisition of 100 per cent of the shares of WE-EF based in Bispingen, Germany. 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 also acquired 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 have been consolidated in the Fagerhult Group from 1 March 2017 and included in the business area Western and Southern Europe. The addition of WE-EF to the Fagerhult Group has significantly strengthened the Group's position in the professional, global, outdoor lighting market.

In April 2017, Fagerhult acquired the intellectual property rights (IPR) and certain other assets of Organic Response Pty Ltd and Organic Response Investors Pty Limited. These IPR and assets relate to the lighting control and building analytics known under the Organic Response brand name and Fagerhult has set up OR Technologies Pty Limited, a 100 per cent owned subsidiary registered in Australia to develop and market the technology across the Group. The business has been consolidated in the Fagerhult Group from 1 April 2017 in the business area Africa, Asia and the Pacific.

On 4 September 2017, the Fagerhult Group acquired the remaining 49 per cent shares in LED Linear UK which, at that date, it became a 100 per cent owned subsidiary of LED Linear GmbH. It is part of the LED Linear GmbH strategy to acquire the remaining shares in the remaining and successful joint ventures. The business has been consolidated in the Fagerhult Group from 1 September 2017 and reported under the business area Western & Southern Europe.

In September 2017, Fagerhult acquired a 20 per cent shareholding in Seneco AS, a Danish based company specialising in wireless lighting controls for outdoor environments. An option exists to acquire the remaining shares at a future point in time.

In May 2017, the Fagerhult Group divested the business in Slovakia for a nominal sum.

Sales and earnings

Activity levels in most of the Group's main markets demonstrated a positive picture for the year with mixed activity in the Group's remaining markets. For our larger markets, and on a consistent currency basis, growth has been strong in Sweden and the UK and for the remaining markets good growth has been delivered in Norway, Spain and Australia. Whilst the impact of the recently acquired WE-EF group of companies has been better than anticipated and our business in Turkey has performed well in a recovering market, the political situations in Russia, South Africa and the Arabian Gulf have presented some challenges to our businesses in these regions but the results have all been positive.

Fagerhult performed well and delivered strong results for 2017, all of our business areas delivered record performances with the vast majority of many countries, regions and businesses increasing sales and profitability. In financial terms, 2017 has been Fagerhult's best year to date, beating the previous best of 2016 for order intake, sales, operating profit, operating cash flow and earnings per share.

The Group's order intake totalled MSEK 5,238.4 (4,653.0), adjusted for currency effects of MSEK –35.2 and acquisitions of MSEK 576.6, order intake increased 0.9 per cent year-on-year. Net sales totalled MSEK 5,170.3 (4,490.7), which is an increase of 2.6 per cent, adjusted for currency effects of MSEK –20.9 and acquisitions of MSEK 581.5.

Operating profit recorded a year-on-year increase of MSEK 153.7 to MSEK 677.9 (524,2).

Financial items amounted to a negative MSEK 25.4 (negative 9.5). The increase of MSEK 15.9 was solely attributable to a higher interest charges on increased borrowings.

Earnings per share for 2017 was SEK 4.32 (3.35), both stated after the 3:1 share split in June 2017.

Our decentralised business model, combined with a high degree of cross Group collaboration, and a leading LED product offer with integrated lighting controls solutions 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 to in excess of 91 (77) per cent of the total sales for the whole year with the fourth quarter LED sales accounting for 93 (83) per cent. We consider that the transition to LED has been successfully completed and whilst the attention will remain on this topic, the focus turns to connected solutions.

Sales for Indoor Lighting increased 1.0 (7) per cent, sales in Retail Lighting increased 1.1 (18) per cent and Outdoor Lighting increased 42 (6) 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
– 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 2,048.0, up from MSEK 2,029.5 last year, adjusted for currency effects net sales increased 0.2 per cent compared with 2016. The operating profit for the period was MSEK 266.2 (220.0) and the operating margin 13.0 (10.8) per cent. The increase in operating profit was mainly as a result of improved gross margins and efficiency improvements.

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.

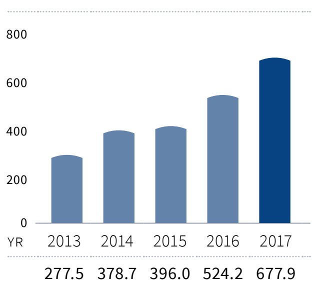
Net sales in 2017 were MSEK 1,211.1 compared with MSEK 1,195.7 in 2016, adjusted for currency effects, this represents a 6.5 per cent growth rate. The currency impact on net sales and operating profit was adverse at MSEK 59.1 and MSEK 9.7 respectively. Despite the strong currency headwinds, all business units contributed to the profitability increase for the business area and in local currencies all businesses performed ahead of last year. The operating profit for the period was MSEK 184.9 (180.9) and the operating margin 15.3 (15.1) per cent. The improvement was mainly due to an improved gross margins across all companies.

Western and Southern Europe

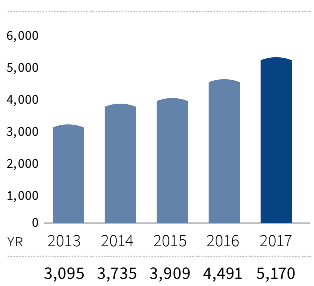
This business area comprises the operations in Germany, the Netherlands, France, Spain and Poland. In Germany the Group's business units are LTS Licht & Leuchten, LED Linear and the newly acquired WE-EF group of companies, with all three engaging in the development, manufacture and sales of lighting systems with LED Linear having a 100 per cent focus in LED systems and WE-EF a 100 per cent focus in the outdoor segment. The results of LED Linear Germany and the USA have been consolidated from the second quarter 2016 and contributed MSEK 228 in net sales in 2016 and MSEK 280 in net sales in 2017 with LED Linear UK having been consolidated from September 2017. The results of WE-EF have been consolidated from March 2017 and contribute MSEK 501 in net sales during the year.

Cumulative net sales for the year were MSEK 1,670.7, up from MSEK 1,044.4 the year earlier and excluding acquisitions and currency effects, sales grew 7.8 per cent in 2017 compared with last year. The operating profit for the same period was

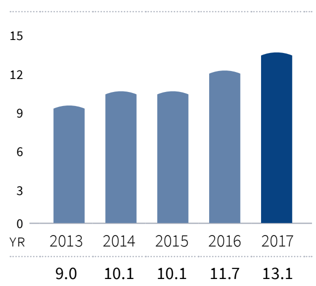
OPERATING PROFIT, MSEK



SALES, MSEK



OPERATING MARGIN, MSEK



MSEK 181.0 (99.1), where the MSEK 81.9 increase was attributable to the acquisitions of LED Linear and WE-EF and a continued strong result in Spain and a further improved positions in both France and the Poland.

Africa, Asia and the Pacific

This business area comprises our operations in Australia, the United Arab Emirates, Turkey, South Africa and New Zealand. From April 2017, the results of the newly established OR Technologies Pty Ltd have been consolidated into this business area. The operations in Australia (including the specialist lighting controls company OR Technologies), 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 692.5, compared with MSEK 652.8 in the preceding year.

Adjusted for currency effects and acquisitions, sales grew by 8.3 per cent, which was mainly attributable to Australia and Turkey. The political situations in South Africa and the UAE restricted the continued increase in performance in these regions.

The operating profit was MSEK 92.7 (86.8) and the operating margin 13.4 (13.3) per cent.

Financial position

The Group's equity/assets ratio at the end of the year was 31 (34) per cent. Cash and bank balances at year end amounted to MSEK 949.9 (731.6) and consolidated equity totalled MSEK 1,890.5 (1,627.1).

Net debt amounted to MSEK 1,830 (1,222).

Cash flow from operating activities for the year totalled MSEK 681.1 (387.8). The increase of MSEK 293.3 was due to MSEK 190 EBITDA increase and MSEK 117 improvement in working capital compared to last year. Pledged assets and contingent liabilities were MSEK 47.2 (7.3) and MSEK 1.5 (1.5), respectively.

Employees

In 2017, the average number of employees increased by 454 to 3,241 (2,787). Adjusted for acquired units, the average number of employees increased by 14 people, or 0.5 per cent. The number of employees in the Group's foreign companies amounted to 2,486 (2,049), which corresponded to 77 (74) per cent of the total number of employees. The proportion of women during the year amounted to 31 (33) per cent of all employees. To further strengthen the Group's knowledge capital, the established goals for individual and organisational development have increased as a priority so too has the investment in developing talented individuals, both new and existing employees.

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, 2016 and 2017 resolved to approve additional share-savings plans that each extended over three years.

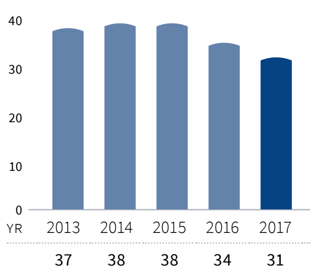
For additional information; see Note 2.

Investments

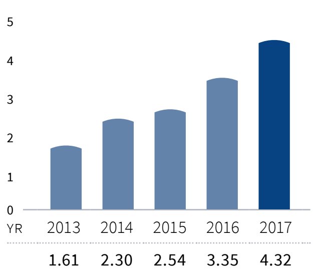
The Group's gross investments in property, plant and equipment amounted to MSEK 120 (116), and primarily pertained to machinery and equipment.

Investments in subsidiaries amounted to SEK 829 million

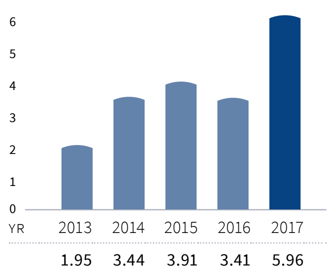
EQUITY/ASSETS RATIO, %



EARNINGS PER SHARE, SEK



CASH FLOW FROM OPERATING ACTIVITIES PER SHARE, SEK



(342). At year end, current investments amounted to MSEK 50 (23).

Gross investments in intangible assets amounted to MSEK 57 (53), excluding acquisitions of subsidiaries. Current investments amounted to MSEK 0 (0).

Depreciation/amortisation for the year amounted to MSEK 158 (121), of which property, plant and equipment accounted for MSEK 108 (94).

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 11 (13) were capitalised in the balance sheet for the year. Other costs are expensed as they arise.

For additional information; see Notes 10 and 28.

Sustainability report in accordance with the Swedish Annual Accounts Act

In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, AB Fagerhult has chosen to prepare its sustainability report separately from its annual report. The scope of the sustainability report is indicated on page 43 of this document.

Share buybacks

The AGM on 3 May 2017 authorised the Board to buy back the company's own shares. No shares were bought back during the year and further, the AGM resolved to increase the number of shares in AB Fagerhult by splitting each share into three shares (3:1 split), so the figures quoted here are adjusted for this. In connection with the allocation of shares tied to the Group's share savings plan, 197,331 treasury shares were used and in connection with the acquisition of WE-EF, 476,922 treasury shares were used. The number of treasury shares totalled 1,157,778 (1,832,031) after the allocation and use for the acquisition and the number of shares outstanding was 114,492,222 (113,817,969). The percentage of shares held as treasury shares was 1.0 (1.6) per cent.

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 34.

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 AGM resolved to increase the number of shares in AB Fagerhult by splitting each share into three shares (3:1 split) and to facilitate the 3:1 share split, the AGM also resolved 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 14.2 (18.0) for the period. Profit after financial items was MSEK 106.5 (22.8). The number of employees during the period was six (six).

Outlook for 2018

During the last three years, organic and acquisitive growth has led to a strong positive sales and earnings trend for the Group in all business and product areas.

During this period, the Group has, and will for the foreseeable future, continue to; capitalise on its master brand strategy, invest in research and development of luminaires (increasingly in lighting controls), exploit the synergies from acquisitions and increase the operational capability and capacity.

Future acquisitions are also key to continuing the Group's development and execution of strategy.

The Group has established a strong position in all of its main markets and product areas and as a result has increased its market share during this period.

For the last 24 months, most of the Group's main markets have displayed steady growth and management expects that the current high activity level to continue into the mid part of 2018.

We intend to continue making significant investment in product and technology development and to expand our operation and geographical presence.

We estimate that it is possible to continue strengthening the Group's market share in Indoor, Retail and Outdoor lighting as well as making continued progress in the controls and connectivity space.

Proposed appropriation of profits

The Group's retained earnings according to the consolidated balance sheet amount to MSEK 1,818.7 (1,495,2).

The following profits are at the disposal of the AGM:	
Profit brought forward	174.5 MSEK
Net profit for the year	300.9 MSEK
Profit carried forward	475.4 MSEK

The total number of dividend-bearing shares on 14 March 2018 amounted to 114,492,222. The Board of Directors proposes that the profit be appropriated as follows:

To be distributed as dividends to shareholders:	
SEK 2.00 per share	229.0 MSEK
To be carried forward	246.4 MSEK
Total	**475.4 MSEK**

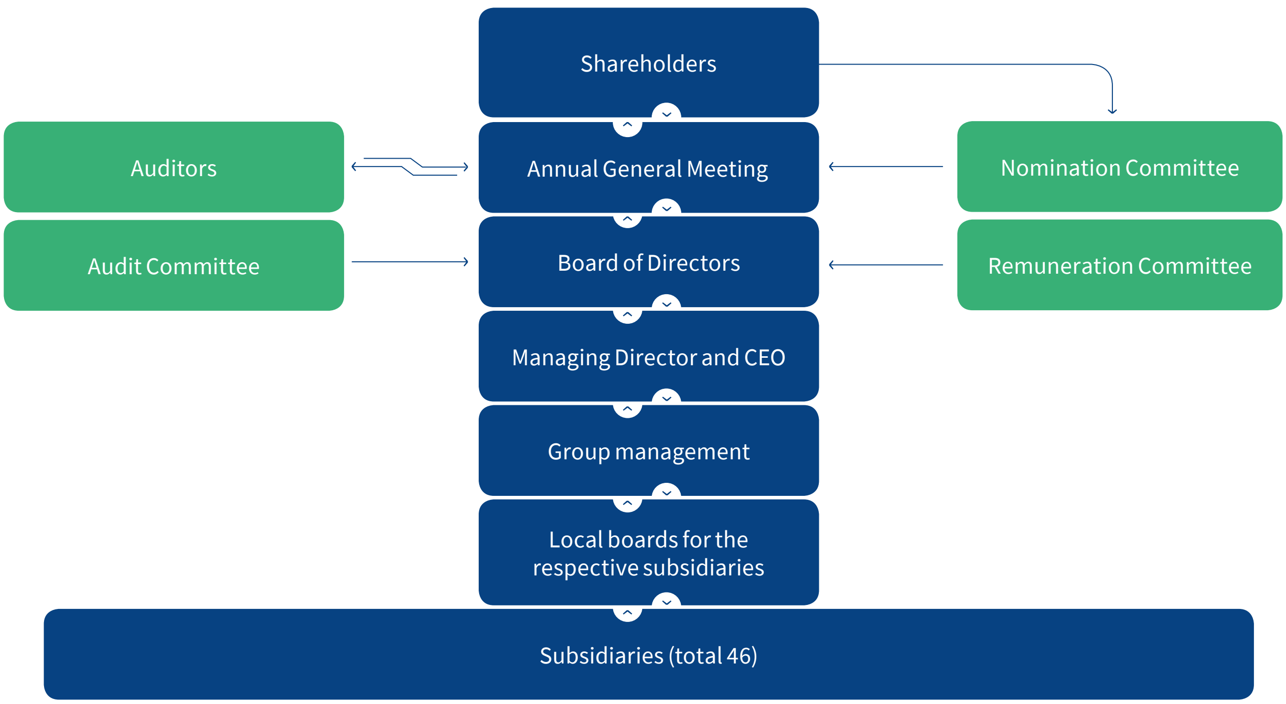
Board of Directors' statement regarding the proposed dividend

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 5,559 (4,779). 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 (48.3). For more information on the ownership structure, share capital, share price development, etc., please refer to the section on the Fagerhult share on pages 46–47 and to Note 32.

2017 Annual General Meeting

The 2017 AGM was held on 3 May in Habo. A total of 105 shareholders were present at the meeting, representing 66.0 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 4.50 per share, equivalent to SEK 1.50 per share following the 3:1 share split.
- Eric Douglas, Cecilia Fasth, Catherina Fored, Fredrik Palmstierna, Johan Hjertonsson and Jan Svensson were re-elected to the Board of Directors.
- Morten Falkenberg was elected as a new member of the board.
- Jan Svensson was re-elected Chairman.
- Jan Svensson was co-opted ("adjungerad") to the Nomination Committee and he was also granted the authority to appoint four additional members, one each representing the four 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 Performance Based Share Program 2017".
- 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.
- The AGM resolved to increase the number of shares in AB Fagerhult by splitting each share into three shares (3:1 split) and to facilitate this by increasing the authorised number of shares by a factor of three.

Nomination Committee

The Nomination Committee is to be formed after the Chairman of the Board has identified the four largest shareholders in the Company in terms of the number of votes that are to make up the Nomination Committee along with the Chairman who is cop-opted ("adjungerad"). 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 31 August 2017. It shall not be necessary to change the composition of the Nomination Committee if only marginal changes in the ownership of shares occur after this date. The mandate for the Nomination Committee is until a new Nomination Committee is appointed.

Largest shareholders as per 31 August 2017

Name	No. of shares	Share capital and voting rights, %
Investment AB Latour	55,861,200	48.3%
SSB CL Omnibus AC, USA	9,752,886	8.4%
The Svensson, family, foundation and company	8,144,389	7.0%
Lannebo Funds	7,585,920	6.6%
Swedbank Robur Small Business Funds	4,711,199	4.1%
Nordea Investment Funds	3,218,253	2.8%

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 co-opted not entitled to vote, Eric Douglas representing Investment AB Latour, Göran Espelund representing Lannebo Funds, Evert Carlsson representing Swedbank Robur Small Business

THE NOMINATION COMMITTEE AHEAD OF 2018 AGM COMPRISES:

Member of the Nomination Committee	Representing	Participation/votes:	Member of the Nomination Committee since
Jan Svensson (not entitled to vote)	Investment AB Latour	48.3 %	2008
Eric Douglas	Investment AB Latour	48.3 %	2015
Göran Espelund	Lannebo Funds	6.6 %	2004
Evert Carlsson	Swedbank Robur Small Business Funds	4.1 %	2017
Jan Särlvik	Nordea Investment Funds	2.8 %	2017

Funds and Jan Särlvik representing Nordea Investment Funds. The Nomination Committee for the 2018 AGM is also described on page 55.

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.

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 2017 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 2017 and then reported on the notes from the 2016 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 PricewaterhouseCoopers in the respective country with the exceptions of the LED Linear and WE-EF groups who have a full scope audit by other auditors. 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. Three (four) of the Board members represent ownership participations equivalent to 51 per cent (59) 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.

During the fourth quarter of the year the CEO of Fagerhult, has informed the Board of Directors that he intends to resign as CEO during 2018. The board has appointed an external recruitment consultant to recruit a successor to the CEO. The current CEO will remain as CEO until a successor has taken office.

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 60–61 of this annual report.

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.

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	650,000	55,861,200[1]	No	Yes	6
Vice Chairman, Eric Douglas	1993	1968	450,000	360,000	No	Yes	6
Board Member, Cecilia Fasth	2014	1973	300,000	5,325	Yes	Yes	6
Board Member, Catherina Fored	2013	1964	300,000	9,000	Yes	Yes	6
Board Member, Fredrik Palmstierna	1992	1946	300,000	3,018,600[1]	Yes	Yes	6
Board Member, Morten Falkenberg	2017	1958	300,000	29,529	Yes	Yes	4
CEO, Johan Hjertonsson	2009	1968	–	813,537	Yes	No	6
Total			**2,300,000**	**60,097,191 (52%)**	**5 (71 %)**	**6 (86 %)**	**6**

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

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 on page 56. The Chairman of the Board, Jan Svensson is not considered independent, as he represents 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 813,537 shares in the company, corresponding to 0.7 per cent of the shares, which is stated in the presentation of the Board and management on pages 60–63. 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 2017

The Board met six times during the year, with one of these meetings being the statutory Board meeting. Apart from two Board meetings when the same Board member was absent, all members of the Board were present at the other meetings including the statutory meeting. The company's auditor was present at one of the Board and Audit Committee meetings. This was the Board and Audit Committee 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 an on-line 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.

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 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 2017, the Audit Committee comprised the entire Board, with the exception of the CEO. During the year, the Audit Committee had one meeting with the company's auditor and two further meetings. Except for one member at one meeting, all Board members were present at the other meetings.

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. 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 CFO, three managers with responsibility for the regional business areas, two managers with functional responsibility for human resources and sustainable development, and production and logistics.

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 46 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 month's 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, 2016 and 2017 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 2017, remuneration was paid in accordance with the table on page 56.

Remuneration to the auditors

In 2017, remuneration was paid in accordance with Note 26 on page 88.

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. 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 91.

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. During the year the CFO circulated to the relevant personnel a Financial Internal Guidelines document which complements the 2015 issued Minimum Internal Control Requirements. 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 2017

During the year, focus has been on integrating the recently acquired companies Arlight, Lighting Innovations, LED Linear, WE-EF & also establishing the OR Technologies business in the Group's internal control and on inventory valuation and inventory control linked to the shift to LED technology. Focus and priority has also been given to various senior level recruitments, particularly within the local finance functions. Following the re-issue of the Minimum Control Requirements and the initial issue of the Financial Internal Guidelines, follow up work has been performed locally, at subsidiary board meetings and with the company's auditor to improve the internal control in many businesses with the process and results being discussed by the auditor and the CFO. This work continues with further internal control improvements. 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.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The Board of Directors

1. JAN SVENSSON
Chairman
Born: 1956
Mechanical Engineer and M.Sc. in Business Administration.
Managing Director and Board Member of Investment AB Latour.
Chairman of Nederman Holding AB, Tomra Systems ASA and Troax Nordic AB.
Board Member of Loomis AB, Assa Abloy AB, Oxeon AB and Alimak Group AB.
Board Member of Fagerhult since 2007.
Shares in AB Fagerhult: 55,888,200 (including Investment AB Latour)

2. 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: 360,000

3. CECILIA FASTH
Born: 1973
M.Sc. Engineering
CEO of Stena Fastigheter AB.
Board Member of Fagerhult since 2014.
Shares in AB Fagerhult: 5,325

4. CATHERINA FORED
Born: 1964
Architect MSA.
CEO of HSB Norra Stor-Stockholm.
Board Member of Brunnberg & Forshed Arkitektkontor, Reomti Bygg AB and HSB Bostad.
Board Member of Fagerhult since 2013.
Shares in AB Fagerhult: 9,000

5. FREDRIK PALMSTIERNA
Born: 1946
M.Sc. in Business Administration, MBA.
Board Member of Nobia AB and The Viktor Rydbergs Schools Foundation.
Board Member of Fagerhult since 1992.
Shares in AB Fagerhult: 3,015,000 (incl. family and companies)

6. MORTEN FALKENBERG
Born: 1958
M.Sc. in Business Administration.
President and CEO of Nobia AB.
Board Member of Nobia AB and Velux Group.
Board Member of Fagerhult since 2017.
Shares in AB Fagerhult: 29,529

7. 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: 813,537

8. MAGNUS NELL
Born: 1964
Employee Representative
Shares in AB Fagerhult: 0

9. LARS-ÅKE JOHANSSON
Born: 1961
Employee Representative
Shares in AB Fagerhult: 2,480

10. BEATRICE SJÖBLOM
Born: 1984
Deputy Employee Representative
Shares in AB Fagerhult: 0

11. PATRIK PALM
Born: 1984
Deputy Employee Representative
Shares in AB Fagerhult: 0


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Senior management

1. JOHAN HJERTONSSON
Managing Director and Group CEO
Born: 1968
M.Sc. in Business Administration
Employed since: 2009
Shares in Fagerhult: 813,537

2. FRANK AUGUSTSSON
Regional Manager
Born: 1965
Technical College Graduate
Employed since: 1986–2001, 2004
Shares in Fagerhult: 25,959

3. ANDERS FRANSSON
Managing Director
Fagerhults Belysning AB
Born: 1969
M.Sc. Engineering
Employed since: 2005
Shares in Fagerhult: 21,495

4. JENNY EVELIUS
Head of Human Resources
Born: 1969
M.Sc. in Business Administration
Employed since: 2013
Shares in Fagerhult: 17,609

5. MICHAEL WOOD
Chief Financial Officer
Born: 1964
Chartered Accountant ACMA
Employed since: 2005
Shares in Fagerhult: 3,702

6. MICHAEL KRAMER
Regional Manager
Born: 1966
Dr. –Ing.
Employed since: 2016
Shares in Fagerhult: 0

7. GEERT VAN DER MEER
Regional Manager
Born: 1965
Ph. Dr. in Physics
Employed since: 2017
Shares in Fagerhult: 816

Income Statements

		GROUP		PARENT COMPANY	
MSEK	**Note**	**2017**	**2016**	**2017**	**2016**
Net sales	1	5,170.3	4,490.7	14.2	18.0
Cost of goods sold		–3,245.7	–2,917.1	–	–
Gross profit		**1,924.6**	**1,573.6**	**14.2**	**18.0**
Selling expenses		–919.4	–783.4	–0.4	–1.6
Administrative expenses		–384.9	–315.7	–47.2	–52.8
Other operating income		57.6	49.7	–	–
Operating profit/loss		**677.9**	**524.2**	**–33.4**	**–36.4**
Financial income and expenses					
Income from shares in subsidiaries	6	–	–	143.3	46.9
Interest income and similar profit/loss items	3	15.0	16.8	40.2	32.2
Interest expenses and similar profit/loss items	4	–40.4	–26.3	–43.6	–19.9
Total financial items		–25.4	–9.5	139.9	59.2
Profit after financial items		**652.5**	**514.7**	**106.5**	**22.8**
Group contributions received		–	–	237.0	166.0
Tax on profit for the year	8, 9	–158.1	–133.8	–42.6	–31.5
Net profit for the year		**494.4**	**380.9**	**300.9**	**157.3**
Net profit for the year attributable to shareholders of the Parent Company		494.4	380.9		
Earnings per share, based on earnings attributable to shareholders of the Parent Company during the year [1]:					
Earnings per share before dilution, SEK		4.32	3.35		
Earnings per share after dilution, SEK		4.32	3.35		
Average number of shares outstanding before dilution, thousands		114,318	113,761		
Average number of shares outstanding after dilution, thousands		114,318	113,761		
Number of shares outstanding, thousands		114,492	113,818		
STATEMENT OF COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME					
Net profit for the year		494.4	380.9		
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurements of pension plans	20	–2.2	–0.8		
Items that may be reclassified to profit or loss:					
Translation differences	34	–105.7	–60.4		
Other comprehensive income for the period, net after tax		**–107.9**	**–61.2**		
Total comprehensive income for the year		**386.5**	**319.7**		
Total comprehensive income attributable to shareholders of the Parent Company		**386.5**	**319.7**		

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

1) Earnings per share are adjusted for the 3-for-1 share split in 2017

Balance Sheets

		GROUP		PARENT COMPANY	
MSEK	**Note**	**2017**	**2016**	**2017**	**2016**
ASSETS					
Non-current assets					
Intangible assets	10				
Goodwill		1,831.0	1,626.1	–	–
Brands		699.2	335.2	–	–
Other intangible assets		179.2	107.4	–	–
Construction in progress and advance payments		0.1	–	–	–
		2,709.5	**2,068.7**	–	–
Property, plant and equipment	11				
Land and buildings		261.2	112.0	–	–
Plant and machinery		236.5	208.0	–	–
Equipment, fixtures and fittings		137.5	105.1	–	–
Construction in progress and advance payments		50.4	22.6	–	–
		685.6	**447.7**	–	–
Financial assets					
Shares and participations in subsidiaries	13, 30	–	–	616.6	616.6
Other shares and participations	12	18.3	11.8	–	–
Receivables from subsidiaries		–	–	2,838.8	1,913.6
Deferred tax assets	9	31.9	20.9	–	–
Other non-current receivables	12	3.9	1.3	–	–
		54.1	**34.0**	**3,455.4**	**2,530.2**
Total non-current assets		**3,449.2**	**2,550.4**	**3,455.4**	**2,530.2**
Current assets					
Inventories, etc.	15				
Raw materials and consumables		350.6	260.5	–	–
Work in progress		53.6	41.9	–	–
Finished products and goods for resale		319.8	350.2	–	–
Advance payments to suppliers		37.5	32.1	–	–
		761.5	**684.7**	–	–
Current receivables					
Trade receivables	5	837.7	761.3	–	–
Current tax assets		7.2	3.7	–	–
Other receivables		27.1	23.2	1.3	–
Receivables from subsidiaries		–	–	22.1	45.1
Prepaid expenses and accrued income	14	64.3	59.3	21.5	7.8
		936.3	**847.5**	**44.9**	**52.9**
Cash and cash equivalents/Cash and bank balances		949.9	731.6	547.9	184.8
Total current assets		**2,647.7**	**2,263.8**	**592.8**	**237.7**
TOTAL ASSETS		**6,096.9**	**4,814.2**	**4,048.2**	**2,767.9**

Balance Sheets

		GROUP		PARENT COMPANY	
MSEK	Note	2017	2016	2017	2016
EQUITY (Group/Parent Company[1])					
Capital and reserves attributable to shareholders of the Parent Company					
Share capital	31	65.5	65.5	65.5	65.5
Other contributed capital		205.0	159.4	–	–
Translation differences/Statutory reserve		–198.7	–93.0	159.4	159.4
Retained earnings incl./excl. net profit for the year		1,818.7	1,495.2	174.5	187.0
Net profit for the year, Parent Company		–	–	300.9	157.3
		1,890.5	**1,627.1**	**700.3**	**569.2**
Untaxed reserves					
Transfer to tax allocation reserve		–	–	8.6	8.6
LIABILITIES					
Non-current liabilities					
Borrowings	16	2,684.6	1,752.1	2,660.2	1,742.3
Provisions for pensions and similar commitments	20	90.2	68.3	–	–
Other liabilities	21	162.0	238.5	–	–
Liabilities to subsidiaries		–	–	1.7	1.7
Deferred tax liability	9	282.9	131.1	–	–
		3,219.7	**2,190.0**	**2,661.9**	**1,744.0**
Current liabilities					
Borrowings	16	4.8	133.2	–	133.0
Advance payments from customers		10.5	16.1	–	–
Trade payables		412.2	354.1	–	–
Current tax liabilities		77.2	53.5	24.1	11.3
Other liabilities		110.2	85.2	0.4	–
Liabilities to subsidiaries		–	–	637.1	286.0
Accrued expenses and deferred income	17	371.8	355.0	15.8	15.8
		986.7	**997.1**	**677.4**	**446.1**
Total liabilities		**4,206.4**	**3,187.1**	**3,339.3**	**2,190.1**
TOTAL EQUITY AND LIABILITIES		**6,096.9**	**4,814.2**	**4,048.2**	**2,767.9**

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	Reserves	Retained earnings incl. net profit for the year	Total equity
Equity at 1 January 2016		**65.5**	**159.4**	**–32.6**	**1,244.8**	**1,437.1**
Net profit for the year					380.9	380.9
Net investment hedges	29			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 1.17 per share	33				–132.5	–132.5
Equity at 31 December 2016		**65.5**	**159.4**	**–93.0**	**1,495.2**	**1,627.1**
Net profit for the year					494.4	494.4
Net investment hedges	29			–1.4		–1.4
Other comprehensive income				–104.3	–2.2	–106.5
Comprehensive income for the period				–105.7	492.2	386.5
Performance-based share-savings plan	2				2.7	2.7
Sale of treasury shares			45.6			45.6
Dividend, SEK 1.33 per share	33				–171.4	–171.4
Equity at 31 December 2017		**65.5**	**205.0**	**–198.7**	**1,818.7**	**1,890.5**

PARENT COMPANY	Note	Share capital	Statutory reserve	Retained earnings incl. net profit for the year	Total equity
Equity at 1 January 2016		**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 1.17 per share	33			–132.5	–132.5
Equity at 31 December 2016		**65.5**	**159.4**	**344.3**	**569.2**
Performance-based share-savings plan	2			1.6	1.6
Net profit for the year				300.9	300.9
Dividend, SEK 1.33 per share	33			–171.4	–171.4
Equity at 31 December 2017		**65.5**	**159.4**	**475.4**	**700.3**

Cash-Flow Statements

		GROUP		PARENT COMPANY	
MSEK	Note	2017	2016	2017	2016
Net profit for the year		**494.4**	**380.9**	**300.9**	**157.3**
Tax	8.9	158.1	133.8	42.6	31.5
Group contributions received		–	–	–237.0	–166.0
Income from shares in subsidiaries	6	–	–	–143.3	–46.9
Interest income and similar profit/loss items	3	–15.0	–16.8	–40.2	–32.2
Interest expenses and similar profit/loss items	4	40.4	26.3	43.6	19.9
Operating profit/loss		**677.9**	**524.2**	**–33.4**	**–36.4**
Adjustments for non-cash items:					
Depreciation/amortisation		158.2	121.2	–	–
Profit/loss on the sale of property, plant and equipment		1.0	4.1	–	–
Items in equity		0.3	2.0	1.6	1.7
Exchange-rate differences		–57.0	–71.6	–8.9	4.2
		780.4	**579.9**	**–40.7**	**–30.5**
Interest received		3.7	1.8	40.2	28.0
Interest paid		–41.4	–19.4	–34.7	–19.9
Income tax paid		–147.9	–143.8	–29.8	–41.9
Cash flow from operating activities before changes in working capital		**594.8**	**418.5**	**–65.0**	**–64.3**
Changes in working capital					
Changes in inventories		46.5	–38.6	–	–
Changes in receivables		34.2	–56.8	8.0	–8.3
Changes in current liabilities		5.6	64.7	351.5	28.4
Cash flow from operating activities		**681.1**	**387.8**	**294.5**	**-44.2**
Investing activities					
Investments in subsidiaries	21, 30	–828.9	–341.5	–	–0.3
Investments in intangible assets	10	–57.2	–52.5	–	–
Investments in property, plant and equipment	11	–119.9	–116.5	–	–
Changes in construction in progress and advance payments	11	–27.7	9.5	–	–
Increase in non-current receivables	12	–6.2	–	–925.2	–455.1
Decrease in non-current receivables	12	–	1.8	–	–
Group contributions and dividends received		–	–	380.3	212.9
Cash flow from investing activities		**–1,039.9**	**–499.2**	**–544.9**	**–242.5**
Financing activities					
Repayment of loans	16	–133.0	–19.6	–133.0	–
Borrowings	16	841.8	515.7	917.9	554.2
Sale of treasury shares		45.6	–	–	
Dividends paid		–171.4	–132.5	–171.4	–132.5
Cash flow from financing activities		**583.0**	**363.6**	**613.5**	**421.7**
Change in cash and cash equivalents		**224.2**	**252.2**	**363.1**	**135.0**
Cash and cash equivalents at beginning of the year		731.6	471.9	184.8	49.8
Translation differences in cash and cash equivalents		–5.9	7.5	–	–
Cash, cash equivalents at end of the year		**949.9**	**731.6**	**547.9**	**184.8**

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 deconsolidated 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 other comprehensive income.

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 other comprehensive income.

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 on-going course of business, less 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 2017 and 2016, 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 profit or loss 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 (CGUs), when testing for any impairment requirement. This allocation is made to the 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 from the balance sheet 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, reported immediately in the income statement under Operating profit.

EQUITY

Transaction costs which are directly applicable to the issue of new shares or share options are reported, net after tax, in equity, with a deduction for 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 in conjunction with 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 and brands with indefinite useful lives

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 principles and disclosures New and amended standards applied by the Group

New standards, amendments and interpretations that come into effect for financial years beginning 1 January 2017 have no material impact on the consolidated financial statements.

New standards, amendments and interpretations of existing standards that have not been early-adopted by the Group.

A number of new standards and interpretations come into effect for financial years starting after 1 January 2017, 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 15 Revenue from Contracts with Customers

IFRS 15 introduces new requirements for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The new standard provides more detailed guidance in many areas not previously covered by the applicable IFRS, including recognition procedures for contracts with one or more parts, variable pricing, customers' right of return, etc. The standard has been adopted by the EU. The standard will be applied from the 2018 financial year.

In 2017, workshops were held and an investigation conducted to identify potential differences between the existing accounting policies and IFRS 15. Based on the findings, follow-ups and analyses were conducted based on the five-step model in IFRS 15.

Following this analysis, the assessment is that no material differences exist between the currently applicable accounting policies and guidance pertaining to identification of the performance obligations of the contract and allocation of the transaction price in IFRS 15. As with the existing policies, sales of products will be recognised when the transfer of risk under the contract has been effected which, according to the analysis performed, also meets the criteria for the transfer of control under IFRS 15.

Accordingly, the final assessment is that the introduction of IFRS 15 will have no material effect on the Group's financial position.

The Group has elected to apply the modified transitional method for the application of IFRS 15 from 1 January 2018. This will only impact the disclosure requirements that have to be met.

IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and introduces new hedge accounting rules. 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, and introduces a new impairment model. The standard has been adopted by the EU.

IFRS 9 will be applied by the Group for financial years starting from 1 January 2018. In accordance with the standard's transitional rules, the Group will not be recalculating comparative figures for the 2017 financial year.

In autumn 2017, an investigation was conducted with regard to the classification and measurement of the Group's financial instruments. It was noted that the new rules for classification and measurement will not impact the Group's financial position at the transition date, since the rules will not entail any change in terms of the measurement of the financial instruments in the Group's balance sheet at that date.

IFRS 9 introduces a new impairment model that is based on expected credit losses, and which takes into consideration forward-looking information. Historically, the Group has experienced extremely low credit losses and the customer base comprises stable companies. Moreover, even from a forward-looking perspective, the assessment is that the likelihood of default among our customers is low. Accordingly, the conclusion is that no further impairment of trade receivables is necessary.

The hedge accounting rules do not affect the Group since they are not being applied.

Therefore, IFRS 9 will not have any impact on the Group's financial position on application from 1 January 2018.

One project is ongoing and pertains to the analysis of which further information could be required to meet the disclosure requirements in the revised IFRS 7.

FRS 16 Leases.

IFRS 16 Leases was published in January 2016 by the IASB. The standard has been adopted by the EU and will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 requires assets and liabilities attributable to all leases, with the exception of short leases or leases of low-value assets, 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. This means that the majority of the Group's existing operational leases will be recognised in the balance sheet from 2019.

The Group has started to analyse the impact IFRS 16 will have on the consolidated financial statements. The Group is preparing a full review of all leases, where the information is gathered and compiled as decision data for calculations and quantifications in conjunction with the conversion to IFRS 16. All Group leases are currently recognised as operational. In conjunction with the transition to IFRS 16, the majority of these contracts will be recognised in the balance sheet as right-of-use assets together with financial liabilities. Note 25 includes a specification of non-terminable rental agreements for the Group.

The Group has yet to decide which transition rule it will apply; either full retroactive application or partial retroactive application (which means that comparative figures do not need to be restated).

Notes

Note 1 | Segment reporting

	Northern Europe		UK and Ireland		Western and Southern Europe		Africa, Asia and the Pacific		Other		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales and income														
Net sales	2,048.0	2,029.5	1,211.1	1,195.7	1,670.7	1,044.4	692.5	652.8			–452.0	–431.7	5,170.3	4,490.7
(of which internal sales)	(289.4)	(292.1)	(54.9)	(54.1)	(40.6)	(36.9)	(67.1)	(48.6)			–(452.0)	–(431.7)	(0.0)	(0.0)
Operating profit by line of business	266.2	220.0	184.9	180.9	181.0	99.1	92.7	86.8	–46.9	–62.6			677.9	524.2
Unclassified costs													0.0	0.0
Operating profit													**677.9**	**524.2**
Financial income													15.0	16.8
Financial expenses													–40.4	–26.3
Tax expenses for the year													–158.1	–133.8
Net profit for the year													**494.4**	**380.9**
Other disclosures														
Non-current assets	448.3	436.0	415.0	409.0	2,133.2	1,242.0	446.8	456.1			6.0	4.5	3,449.3	2,547.6
Other assets	2,255.2	1,401.7	596.9	659.7	959.2	605.9	381.7	333.7	33.7	43.0	–1,584.4	–781.8	2,642.3	2,262.3
Unclassified assets													5.3	4.2
Total assets													**6,096.9**	**4,814.2**
Liabilities	486.4	449.2	251.5	282.8	696.4	493.9	157.9	159.5	17.5	17.7	–174.3	–154.5	1,435.4	1,248.5
Unclassified liabilities													2,771.0	1,938.6
Total liabilities													**4,206.4**	**3,187.1**
Investments	66.2	93.4	34.0	38.8	32.1	17.6	44.8	19.2					177.1	169.0
Depreciation/amortisation	63.1	61.8	25.7	25.0	56.6	24.2	12.8	10.2					158.2	121.2
External sales per market														
Sweden	1,030.7	966.2			13.4	8.6							1,044.1	974.8
UK	7.3	6.4	1,110.4	1,100.9	47.1	22.6							1,164.8	1,129.9
Germany	19.3	28.8	11.6	15.4	407.5	338.0	0.1	0.2					438.5	382.4
Australia	0.1	0.5			108.9	13.1	282.4	242.8					391.4	256.4
Norway	230.8	223.9			3.0	1.2							233.8	225.1
Finland	165.6	164.6			2.1	1.0							167.7	165.6
United Arab Emirates	–				33.4	15.3	134.7	129.1					168.1	144.4
The Netherlands	9.0	6.3			125.8	133.6		1.4					134.8	141.3
Denmark	135.0	137.0			2.0	1.2		0.1					137.0	138.3
Spain	0.4	1.4			197.3	130.6							197.7	132.0
South Africa					1.6	6.7	106.3	121.3					107.9	128.0
USA		5.7			136.4	98.0							136.4	103.7
Russia	53.5	93.1			1.7	2.0							55.2	95.1
Turkey	5.8				0.7	1.2	81.2	79.9					87.7	81.1
France	8.3	8.5			280.7	71.2							289.0	79.7
Poland	8.0	8.9			62.1	40.5							70.1	49.4
Other	84.8	86.1	34.2	25.3	206.4	122.7	20.7	29.4					346.1	263.5
Total	**1,758.6**	**1,737.4**	**1,156.2**	**1,141.6**	**1,630.1**	**1,007.5**	**625.4**	**604.2**					**5,170.3**	**4,490.7**
Non-current assets per market														
Sweden	318.3	302.6											318.3	302.6
UK			404.3	398.6	26.1								430.4	398.6
Germany					1,503.2	1,183.6							1,503.2	1,183.6
France					276.2	44.9							276.2	44.9
Turkey							215.0	255.6					215.0	255.6
Thailand					135.0								135.0	–
Australia					104.9		121.6	100.5					226.5	100.5
Finland	80.9	81.2											80.9	81.2
China	10.5	10.6											10.5	10.6
South Africa							108.9	99.0					108.9	99.0
Other	38.6	41.6	10.7	10.4	87.8	13.5	1,3	1.0			6.0	4.5	144.4	71.0
Total	**448.3**	**436.0**	**415.0**	**409.0**	**2,133.2**	**1,242.0**	**446.8**	**456.1**			**6.0**	**4.5**	**3,449.3**	**2,547.6**

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.
- *the 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 (previously Rest of Europe) includes operations in Germany, the Netherlands, France, Spain, Poland, Thailand, Switzerland and the US. The companies in WE-EF acquired during the year are also consolidated into this segment. The dominant operations are the German companies LTS Licht & Leuchten GmbH and LED Linear GmbH as well as WE-EF in Germany and Thailand, 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	
	2017	**2016**
Indoor Lighting	2,975.2	2,979.0
Retail Lighting	1,139.6	1,124.8
Outdoor Lighting	1,055.5	386.9
Total	**5,170.3**	**4,490.7**

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.

The Group has no single customer where sales comprise more than 10 per cent of the Group's revenue.

Note 2 | Salaries, other remuneration and social security contributions

	Salaries and other remuneration		Social security contributions		(of which pension expenses)	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Parent Company	18.2	17.3	13.1	13.9	(4.7)	(4.8)
Subsidiaries	1,202.3	1,005.1	293.7	246.1	(64.3)	(55.6)
GROUP	**1,220.5**	**1,022.4**	**306.8**	**260.0**	**(69.0)**	**(60.4)**

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

	Salaries and other remuneration	(of which variable remuneration)	Pension expenses	Salaries and other remuneration	(of which variable remuneration)	Pension expenses
	2017	**2017**	**2017**	**2016**	**2016**	**2016**
Parent Company, 10 (11) employees	22.3	(4.1)	2.3	24.2	(4.7)	2.7
Subsidiaries, 34 (28) employees	73.7	(14.1)	8.9	52.3	(7.7)	4.5
GROUP	**96.0**	**(18.2)**	**11.2**	**75.5**	**(12.4)**	**7.2**

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	0.6	–	–	–	–	0.6
Board Member, Eric Douglas	0.5	–	–	–	–	0.5
Board Member, Cecilia Fasth	0.3	–	–	–	–	0.3
Board Member, Morten Falkenberg	0.3	–	–	–	–	0.3
Board Member, Catherina Fored	0.3	–	–	–	–	0.3
Board Member, Fredrik Palmstierna	0.3	–	–	–	–	0.3
President and CEO	4.5	1.8	0.1	1.5	4.9	12.8
Other senior management (3 individuals)	5.3	2.3	0.2	0.8	1.2	9.8
	12.1	**4.1**	**0.3**	**2.3**	**6.1**	**24.9**
Subsidiaries						
Other senior management (3 individuals)	5.5	1.2	0.2	2.2	1.5	10.6
GROUP	**17.6**	**5.3**	**0.5**	**4.5**	**7.6**	**35.5**

Remuneration to the Board of Directors was determined at the 2017 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 2014 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 2015, 2016 and 2017. In the first plan, a total of 34 people were offered the opportunity to participate, of which 31 accepted. In the second plan, 33 people were offered the opportunity to participate, of which 8 accepted. In the third plan, 35 people were offered the opportunity to participate, of which 28 accepted. In the fourth plan, 37 people were offered the opportunity to participate, of which 25 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, 2016 and 2017 AGMs, all share awards are so-called performance share awards, meaning that they are conditional on a financial performance target.

The 2014 plan was concluded in 2017. The conditions for the performance share awards pertaining to average earnings per share for 2014–2015 were fulfilled and 197,331 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 around 52,497 shares in Fagerhult. A total of approximately 159,000 share awards have been allocated to plan participants, of which 0 to the CEO and 159,030 to other senior management.

For the 2015 plan, the financial performance target pertains to average earnings per share for the 2015 to 2016 financial years, while the financial performance target for the 2016 plan pertains to average earnings per share for the 2016 to 2017 financial years and the financial performance target for the 2017 plan pertains to average earnings per share for the 2017 to 2018 financial years. For the 2015 plan, achievement of the financial performance target was 55.2 per cent, which implied an allocation of 8,070 shares. Based on the profit for the year, this results in an impact of approximately SEK 0.01. Accordingly, a maximum of about 159,000 Fagerhult shares (including the 2015 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 2017 for all share-savings plans was MSEK 7.3 (5.4) or SEK 0.06 (0.05) 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 item

	GROUP		PARENT COMPANY	
	2017	**2016**	**2017**	**2016**
Interest income	2.6	1.8	40.2	28.0
Exchange-rate gains	12.4	15.0	–	4.2
Total	**15.0**	**16.8**	**40.2**	**32.2**
Of which Group companies			39.8	27.9

Note 4 | Interest expenses and similar profit/loss items

	GROUP		PARENT COMPANY	
	2017	**2016**	**2017**	**2016**
Interest expenses	35.3	21.9	31.5	17.1
Exchange-rate losses	1.9	–	8.9	–
Other financial expenses	3.2	4.4	3.2	2.8
Total	**40.4**	**26.3**	**43.6**	**19.9**
Of which Group companies			0.4	0.6

Note 5 | Trade receivables

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Maturity analysis of trade receivables outstanding				
Trade receivables, not yet due	569.0	482.5	–	–
Past-due trade receivables with no need for impairment:			–	–
<3 months	233.2	233.8	–	–
3–12 months	30.1	40.2	–	–
>12 months	5.4	4.8	–	–
	268.7	278.8	–	–
Past-due trade receivables requiring impairment:				
<3 months	0.4	0.4	–	–
3–12 months	6.6	4.8	–	–
>12 months	25.0	22.9	–	–
	32.0	28.1	–	–
Provision for doubtful receivables	–32.0	–28.1	–	–
Carrying amount	**837.7**	**761.3**	–	–
Change in provision for doubtful receivables				
Opening provision	–28.1	–23.5	–	–
Acquisitions of subsidiaries	1.3	–	–	–
Confirmed losses	2.0	0.6	–	–
Reversed, unutilised provisions	0.7	1.3	–	–
Provision for the year	–10.7	–8.0	–	–
Translation differences	2.8	1.5	–	–
Closing provision	**–32.0**	**–28.1**	–	–

Note 6 | Income from shares in subsidiaries

	PARENT COMPANY	
	2017	2016
Dividends received	143.3	46.9
Total	**143.3**	**46.9**

Note 7 | Depreciation/amortisation and impairment

Amortisation of intangible assets in the Group was MSEK 49.9 (27.2) and depreciation of property, plant and equipment totalled MSEK 108.3 (94.0). 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	
	2017	2016	2017	2016
Brands				
Cost of goods sold	5.6	3.2	–	–
Total	**5.6**	**3.2**	–	–
Other intangible assets				
Cost of goods sold	42.5	22.9	–	–
Selling expenses	1.1	0.5	–	–
Administrative expenses	0.7	0.6	–	–
Total	**44.3**	**24.0**	–	–
Land and buildings				
Cost of goods sold	9.3	5.4	–	–
Selling expenses	0.3	0.4	–	–
Administrative expenses	2.1	1.7	–	–
Total	**11.7**	**7.5**	–	–

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Plant and machinery				
Cost of goods sold	60.3	58.0	–	–
Total	**60.3**	**58.0**	**–**	**–**
Equipment, fixtures and fittings				
Cost of goods sold	12.3	13.2	–	–
Selling expenses	13.7	7.4	–	–
Administrative expenses	10.3	7.9	–	–
Total	**36.3**	**28.5**	**–**	**–**

Note 8 | Tax on profit for the year

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Current tax	169.2	133.7	42.6	31.5
Deferred tax	–11.1	0.1	–	–
Total	**158.1**	**133.8**	**42.6**	**31.5**
Difference between the Group's tax expense and the tax expense based on current rates				
Reported profit before tax	652.5	514.7	343.5	188.8
Tax according to current tax rates	143.6	113.2	75.6	41.5
Tax effect of non-deductible expenses	7.1	11.1	0.3	0.3
Tax effect of non-taxable income	–9.4	–7.1	–33.3	–10.3
Effect of foreign tax rates	16.8	16.6	–	–
Tax on profit for the year recognised in profit or loss	**158.1**	**133.8**	**42.6**	**31.5**

Note 9 | Deferred tax

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Deferred tax expense/income for the year				
Deferred tax income referring to temporary differences	–17.3	–14.1	–	–
Deferred tax expense referring to temporary differences	6.2	14.2	–	–
Total	**–11.1**	**0.1**	**–**	**–**

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.

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Deferred tax liabilities				
Surplus in acquired subsidiaries	247.9	104.8	–	–
Other intangible assets	10.6	2.8	–	–
Buildings	5.0	4.3	–	–
Machinery and equipment	1.3	5.1	–	–
Current receivables	0.1	0.1	–	–
Untaxed reserves	12.3	12.3	–	–
Non-current liabilities	2.3	1.7	–	–
Current liabilities	3.4	–	–	–
Total deferred tax liabilities	**282.9**	**131.1**	**–**	**–**
Deferred tax assets				
Buildings	1.3	–	–	–
Machinery and equipment	0.1	–	–	–
Other financial assets	0.4	–	–	–
Inventories	6.1	6.3	–	–
Current receivables	1.1	0.7	–	–
Pension provisions	6.9	4.2	–	–
Non-current liabilities	2.8	3.0	–	–
Current liabilities	13.2	6.7	–	–
Total deferred tax assets	**31.9**	**20.9**	**–**	**–**
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised, as a sale would not result in taxation.	1,190.2	1,057.9	–	–

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Change in deferred tax assets				
Opening provision	20.9	23.5	–	–
Change in temporary differences recognised in profit or loss	10.0	–1.0	–	–
Change in temporary differences recognised in equity	0.8	–1.6	–	–
Translation differences	0.2		–	–
Closing provision	**31.9**	**20.9**	**–**	**–**
Change in deferred tax liabilities				
Opening provision	131.1	63.0	–	–
Acquisitions of subsidiaries	148.7	66.3	–	–
Change in temporary differences recognised in profit or loss	–1.1	–0.9	–	–
Translation differences	4.2	2.7	–	–
Closing provision	**282.9**	**131.1**	**–**	**–**

Note 10 | Intangible assets

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Goodwill				
Opening cost	1,626.1	1,257.8	–	–
Acquisitions of subsidiaries	214.3	355.2	–	–
Purchases	3.6		–	–
Translation differences	–13.0	13.1	–	–
Closing accumulated cost	1,831.0	1,626.1	–	–
Carrying amount	**1,831.0**	**1,626.1**	**–**	**–**
Brands				
Opening cost	370.1	189.4	–	–
Acquisitions of subsidiaries	357.3	178.6	–	–
Purchases	6.9			
Translation differences	5.4	2.1	–	–
Closing accumulated cost	739.7	370.1	–	–
Opening amortisation	–34.9	–34.9	–	–
Amortisation for the year	–5.6	–3.2	–	–
Translation differences	–	3.2	–	–
Closing accumulated amortisation	–40.5	–34.9	–	–
Carrying amount	**699.2**	**335.2**	**–**	**–**
Other intangible assets				
Opening cost	259.5	160.5	–	–
Acquisitions of subsidiaries	80.7	45.2	–	–
Purchases	46.7	52.5	–	–
Translation differences	0.6	1.3	–	–
Closing accumulated cost	387.5	259.5	–	–
Opening amortisation	–152.1	–124.6	–	–
Acquisitions of subsidiaries	–10.4	–1.4	–	–
Amortisation for the year	–44.3	–24.0	–	–
Translation differences	–1.5	–2.1	–	–
Closing accumulated amortisation	–208.3	–152.1	–	–
Carrying amount	**179.2**	**107.4**	**–**	**–**

The item Brands includes brands with book values of MSEK 677.4 (306.6) and indefinite useful lives. These assets are subject to annual impairment testing.

The item Other intangible assets includes capitalised expenditure for product development which is internally generated, at a carrying amount of MSEK 18.3 (13.4) and an IT system with a carrying amount of MSEK 70.7 (50.6).

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Construction in progress and advance payments				
Opening cost	0.0	17.5	–	–
Land improvements during the year	0.1	–	–	–
Reclassifications	–	–17.5	–	–
Carrying amount	**0.1**	**0.0**	–	–

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 follows.

	GROUP	
	2017	2016
Northern Europe	154.1	151.5
UK and Ireland	256.6	257.9
Western and Southern Europe	1,731.1	1,127.3
Africa, Asia and the Pacific	366.6	396.0
Total	**2,508.4**	**1,932.7**

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 1.0–2.5 per cent 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:

Northern Europe	1.0 (2.0)%
UK and Ireland	1.0 (2.0)%
Western and southern Europe	2.5 (2.0)%
Afrika, Asia and the Pacific	2.0 (2.0)%

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 per cent (10) for all CGUs except Africa, Asia and the Pacific where a rate of 12 per cent (12) is applied.

Exchange rates
EUR 9.58 (9.44)
GBP 10.97 (11.59)

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	
	2017	2016	2017	2016
Land and buildings				
Opening cost	222.9	199.4	–	–
Acquisitions of subsidiaries	244.0	2.0	–	–
Purchases	7.6	21.7	–	–
Sales and disposals	–1.2	–	–	–
Translation differences	1.2	–0.2	–	–
Closing accumulated cost	474.5	222.9	–	–
Opening depreciation	–110.9	–103.0	–	–
Acquisitions of subsidiaries	–90.3	–0.2	–	–
Depreciation for the year	–11.7	–7.5	–	–
Sales and disposals	1.1	–	–	–
Translation differences	–1.5	–0.2	–	–
Closing accumulated depreciation	–213.3	–110.9	–	–
Carrying amount	**261.2**	**112.0**	**–**	**–**
Plant and machinery				
Opening cost	856.7	824.2	–	–
Acquisitions of subsidiaries	133.5	20.8	–	–
Purchases	74.9	59.7	–	–
Sales and disposals	–8.7	–36.0	–	–
Translation differences	–2.1	–12.0	–	–
Closing accumulated cost	1,054.3	856.7	–	–
Opening depreciation	–648.7	–631.2	–	–
Acquisitions of subsidiaries	–118.7	–2.8	–	–
Depreciation for the year	–60.3	–58.0	–	–
Sales and disposals	8.5	33.5	–	–
Translation differences	1.4	9.8	–	–
Closing accumulated depreciation	–817.8	–648.7	–	–
Carrying amount	**236.5**	**208.0**	**–**	**–**
Equipment, fixtures and fittings				
Opening cost	407.8	354.6	–	–
Acquisitions of subsidiaries	125.8	25.1	–	–
Purchases	37.4	35.1	–	–
Sales and disposals	–11.0	–6.9	–	–
Translation differences	5.9	–0.1	–	–
Closing accumulated cost	565.9	407.8	–	–
Opening depreciation	–302.7	–266.2	–	–
Acquisitions of subsidiaries	–95.0	–12.1	–	–
Depreciation for the year	–36.4	–28.5	–	–
Sales and disposals	10.7	5.3	–	–
Translation differences	–5.0	–1.2	–	–
Closing accumulated depreciation	–428.4	–302.7	–	–
Carrying amount	**137.5**	**105.1**	**–**	**–**
Construction in progress and advance payments				
Opening cost	22.6	14.6	–	–
Acquisitions of subsidiaries	0.4	–	–	–
Land improvements during the year	29.1	9.1	–	–
Reclassifications	–2.1	–1.5	–	–
Translation differences	0.4	0.4	–	–
Carrying amount	**50.4**	**22.6**	**–**	**–**

Note 12 | Financial assets

	PARENT COMPANY 2017	PARENT COMPANY 2016
Shares and participations in subsidiaries		
Opening cost	616.6	616.3
Acquisitions during the year	–	0.3
Carrying amount	**616.6**	**616.6**
Receivables from subsidiaries		
Opening receivables	1,913.6	1,458.5
Change during the year	925.2	455.1
Closing receivables	**2,838.8**	**1,913.6**

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Other shares and participations				
Opening cost	11.8	9.2	–	–
Acquisitions during the year	6.5	2.6	–	–
Closing receivables	**18.3**	**11.8**	–	–
Other non-current receivables				
Opening receivables	1.3	2.7	–	–
New receivables	2.6	–	–	–
Paid receivables	–	–1.4	–	–
Closing receivables	**3.9**	**1.3**	–	–

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 office	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	1000	1.0
Ateljé 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, Netherlands	96121	IJsselstein	2,250	10.3
Waco NV, Belgium	BE 0492.822.044	Baaigem	9,400	20.1
Fagerhult GmbH, Germany	13135 B	Hamburg	1	10.3
LTS Licht & Leuchten GmbH, Germany	HRB 630906	Tettnang	1	672.3
LED Linear GmbH, Germany	HRB8188	Neukirchen-Vluyn	1	514.5
LED Linear USA Inc, USA	SRV 131038296	Niagara Falls	3,000	54.3
LED Linear UK Ltd, England	8280741	London	150	29.5
Arlight Aydinlatma A.S., Turkey	790,361,767	Kazan/Ankara	50,000	318.4
Lighting Innovations Africa (pty) Ltd, South Africa	2015/099974/07	Port Elizabeth	1	16.5
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

	Corporate Identity Number	Registered office	No. of shares	Carrying amount
Fagerhult Sp.z.o.o, Poland	260213	Warsaw	1000	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
Organic Response Pty Ltd, Australia	ACN618122	Melbourne	100	5.1
Fagerhult (NZ) Ltd, New Zealand	3233074	Christchurch	1	0.2
Fagerhult SPb, Russia	1097847074544	Saint Petersburg	1	0.0
WE-EF Leuchten GmbH, Germany	HRB 101311	Bispingen	1	3.4
WE-EF Leuchten GmbH & Co. KG, Germany	HRA 100660	Bispingen	1	313.2
WE-EF Trading & Design GmbH, Germany	HRB 101286	Bispingen	1	0.3
WE-EF Lighting Co. Ltd, Thailand	105524015230	Bangplee	16,800	132.8
WE-EF Helvetica SA, Switzerland	CHE-115970534/CH-6	Geneva	1,000	11.1
WE-EF Lighting Ltd, England	5925012148	Nottingham	30,000	3.9
WE-EF Lighting Pty. Ltd, Australia	64570065	Braeside	50,000	110.0
WE-EF Lighting USA LLC, USA	2922528	Warrendale	1	27.9
WE-EF Lumiere S.A.S., France	398371088	Satolas-et-Bonce	5,000	202.8
Flux Eclairage S.A.S, France	504356346	Satolas-et-Bonce	4,000	52.5

Note 14 | Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Prepaid rent	16.6	15.4	–	–
Insurance	6.7	5.7	–	–
Licences	4.7	2.9	–	–
Consultancy fees	3.3	2.7	0.4	–
Supplier bonus	7.1	2.8	–	–
Advertising and marketing	2.9	2.3	–	–
Taxes and social security contributions	3.5	4.2	–	0.2
Financial items	7.6	7.6	6.5	6.8
Non-invoiced income	3.3	5.2	14.2	–
Other items	8.6	10.5	0.4	0.8
Total	**64.3**	**59.3**	**21.5**	**7.8**

Note 15 | Inventories, etc.

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Raw materials and consumables	350.6	260.5	–	–
Work in progress	53.6	41.9	–	–
Finished products and goods for resale	319.8	350.2	–	–
Advance payments to suppliers	37.5	32.1	–	–
Total	**761.5**	**684.7**	–	–

Expenses arising for inventories that have been expensed are included in the item Cost of goods sold and amounted to 1,952.4 (1,802.7).
Provision for obsolescence is included in the value of the inventories. Impairment amounted to 33.7 (43.2) and the amount recovered from previous years amounted to 9.3 (10.1).

Note 16 | Bank overdraft facilities and other borrowings

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

The Group's interest-bearing borrowings	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Maturities for long-term loans:				
Within one year	4.8	133.2		133.0
Between one and five years	2,378.6	1,452.1	2,354.2	1,442.3
After five years	306.0	300.0	306.0	300.0
Total	**2,689.4**	**1,885.3**	**2,660.2**	**1,875.3**

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

	2017 Interest, %	2017 Liability, SEK	2016 Interest, %	2016 Liability, SEK
Average contracted interest rate on borrowings:				
Long-term borrowings, SEK	0.9	–	1.2	300.0
Long-term borrowings, EUR	1.0	2,465.8	0.9	1,324.7
Long-term borrowings, GBP	1.7	126.9	1.1	127.4
Long-term borrowings, ZAR	9.5	91.1	–	–
Long-term borrowings, THB	2.0	0.8	–	–
Total		**2,684.6**		**1,752.1**
Short-term borrowings, SEK		–	1.2	133.2
Short-term borrowings, EUR	2.0	4.4	–	–
Short-term borrowings, THB	2.0	0.3	–	–
Short-term borrowings, GBP	5.0	0.1	–	–
Total		**4.8**		**133.2**

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	
	2017	2016	2017	2016
Accrued salaries and remuneration	151.1	127.4	7.7	7.7
Customer bonuses	55.2	73.8	–	–
Accrued social security contributions	36.1	33.4	4.0	2.7
Claims	15.8	16.0	–	–
Financial items	23.3	42.4	2.7	4.0
Consultancy fees	17.1	7.9	1.2	1.3
Rent	11.6	12.3	–	–
Royalties	6.6	6.3	–	–
Audit fees	3.6	3.4	–	–
Shipping	4.3	4.0	–	–
Repair and maintenance	3.8	2.4	–	–
Temporary employees	4.6	2.2	–	–
Other items	38.7	23.5	0.2	0.1
Total	**371.8**	**355.0**	**15.8**	**15.8**

Note 18 | Pledged assets

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
For own liabilities				
Floating charges	–	4.3	–	–
Real estate mortgages	47.2	3.0	–	–
Total pledged assets	**47.2**	**7.3**	**–**	**–**

Note 19 | Contingent liabilities

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Guarantee FPG	0.9	0.9	–	–
Guarantees, customs authorities	0.6	0.6	–	–
Guarantees for subsidiaries	–	–	45.4	46.0
Total contingent liabilities	**1.5**	**1.5**	**45.4**	**46.0**

Note 20 | Provisions for pensions and similar commitments

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Provisions for pensions PRI (interest-bearing)	65.9	64.9	–	–
Provisions for other pensions	24.3	3.4	–	–
Total	**90.2**	**68.3**	**–**	**–**

Defined-benefit plans
Within the Group there are defined-benefit plans in Sweden, Turkey, Germany and France, 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 10, Classification of ITP plans financed by insurance in Alecta, this is a defined-benefit multi-employer plan. For the 2017 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 25.0 (2016: MSEK 20.2). 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 2017, Alecta's surplus in the form of the collective consolidation level was 154 per cent (2016: 149 per cent).

	2017	2016
DEFINED-BENEFIT PLANS		
The amounts recognised in the consolidated income statement are:		
Current service cost	1.2	–
Interest expenses	1.8	1.6
Total	**3.0**	**1.6**
Specification of changes in net debt recognised in the consolidated balance sheet:		
Net debt at beginning of year recognised in the approved balance sheet	68.3	66.4
Acquisitions of subsidiaries	23.0	–
Net cost recognised in profit or loss	3.0	1.6
Benefit payments	–2.8	–2.6
Settlement of pension plan	–3.5	–
Actuarial gains (–)/losses (+)	2.2	2.9
Net debt at year end	**90.2**	**68.3**
The amounts recognised in the balance sheet are determined as follows:		
Present value of commitments	90.2	68.3
Net debt at year end	**90.2**	**68.3**
TOTAL PENSION COSTS		
Total pension costs recognised in the consolidated income statement:		
Total costs for defined-benefit plans	3.0	1.6
Total costs for defined-contribution plans	66.0	58.8
Total pension costs	**69.0**	**60.4**
Pension costs are allocated in the consolidated income statement among the following items:		
Cost of goods sold	22.9	17.2
Selling expenses	30.5	29.4
Administrative expenses	13.8	12.2
Financial expenses	1.8	1.6
Total	**69.0**	**60.4**
ACTUARIAL ASSUMPTIONS		
Significant actuarial assumptions as of the closing date (expressed as weighted averages)		
Discount rate	2.15%	2.00%
Future annual pension growth rate	1.90%	1.50%

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

Note 21 | Other liabilities

Other liabilities pertain exclusively to liabilities for estimated earnout payments.

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
LED Linear GmbH, Germany	132.2	189.0	–	–
LED Linear USA Inc, USA	10.5	12.4	–	–
LED Linear UK Ltd, England	19.3	–	–	–
Lighting Innovations (pty) Ltd, South Africa		37.1	–	–
Total	**162.0**	**238.5**	**–**	**–**
Change in liabilities for estimated earnout payments.				
Opening liabilities	238.5	51.5	–	–
Liabilities paid:				
Arlight Aydinlatma A.S., Turkey	–	–10.0	–	–
Lighting Innovations (pty) Ltd, South Africa	–12.9	–	–	–
LED Linear GmbH, Germany	–58.6	–	–	–
New liabilities:				
LED Linear GmbH, Germany	–	189.0	–	–
LED Linear USA Inc, USA	–	12.4	–	–
LED Linear UK Ltd, England	18.6	–	–	–
Reversal of liabilities in profit or loss:				
Arlight Aydinlatma A.S., Turkey	–	–11.3	–	–
Lighting Innovations (pty) Ltd, South Africa	–23.9	–	–	–
Translation differences	0.3	6.9	–	–
Closing liabilities	**162.0**	**238.5**	**–**	**–**

Note 22 | Reconciliation of net debt

Net debt and changes in net debt are analysed below

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Cash and cash equivalents	949.9	731.6	547.9	184.8
Borrowings – due in <12 months (incl. overdraft facility)	–4.8	–133.2	–	–133.0
Borrowings – due in >12 months	–2,684.6	–1,752.1	–2,660.2	–1,742.3
Net debt	**–1,739.5**	**–1,153.7**	**–2,112.3**	**–1,690.5**
Cash and cash equivalents	949.9	731.6	547.9	184.8
Borrowings – floating interest	–2,689.4	–1,885.3	–2,660.2	–1,875.3
Net debt	**–1,739.5**	**–1,153.7**	**–2,112.3**	**–1,690.5**

GROUP	Cash and cash equivalents/ overdraft facility	Borrowings due <12 months	Borrowings due >12 months	Total
Net debt at 1 January 2016	471.9	–1.3	–1,340.9	–870.3
Cash flow	252.2	–131.9	–411.2	–290.9
Exchange-rate differences	7.5	–	–	7.5
Net debt at 31 December 2016	**731.6**	**–133.2**	**–1,752.1**	**–1,153.7**
Cash flow	224.2	128.4	–932.5	–579.9
Exchange-rate differences	–5.9	–	–	–5.9
Net debt at 31 December 2017	**949.9**	**–4.8**	**–2,684.6**	**–1,739.5**

PARENT COMPANY	Cash and cash equivalents/ overdraft facility	Borrowings due <12 months	Borrowings due >12 months	Total
Net debt at 1 January 2016	49.8		–1,321.1	–1,271.3
Cash flow	135.0	–133.0	–421.2	–419.2
Net debt at 31 December 2016	**184.8**	**–133.0**	**–1,742.3**	**–1,690.5**
Cash flow	363.1	133.0	–917.9	–421.8
Net debt at 31 December 2017	**547.9**	**0.0**	**–2,660.2**	**–2,112.3**

Note 23 | Purchases and sales between Group companies and other related parties

The Parent Company's total income from operations of MSEK 14.2 (18.0) 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 24 | Average number of employees

	2017		2016	
	Number	Men %	Number	Men %
Parent Company	**6**	**67**	**6**	**67**
Subsidiaries				
Sweden	749	64	732	64
UK	713	73	729	72
Germany	555	72	359	71
Turkey	176	86	151	84
South Africa	172	70	200	70
Australia	169	66	121	61
Thailand	148	61	–	–
China	129	32	162	33
France	93	76	19	63
Finland	57	61	62	63
Norway	47	72	46	74
Spain	42	74	31	81
The Netherlands	32	84	32	78
USA	28	72	9	64
United Arab Emirates	27	74	24	67
Denmark	26	69	27	63
Russia	25	40	26	38
Poland	18	89	19	84
Belgium	10	80	11	73
Estonia	8	63	8	63
New Zealand	6	100	5	80
Ireland	5	80	4	75
Switzerland	2	0	–	–
Slovakia	–	–	4	50
Total in subsidiaries	**3,235**	**69**	**2,781**	**67**
Group total	**3,241**	**69**	**2,787**	**67**

Board members and senior management	2017		2016	
	Number	Men %	Number	Men %
Group				
Board members	6	67	6	67
CEO and other senior management	38	87	33	85
Parent Company				
Board members	6	67	6	67
CEO and other senior management	4	75	4	75

Note 25 | Operational leasing agreements

	GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Leasing fees for the year	84.5	82.6	0.1	0.2
The nominal value of future minimum leasing fees for non-cancellable leasing agreements				
Within one year	88.1	84.8	0.1	0.1
Between one and five years	208.7	194.1	0.2	–
After five years	237.3	235.3	–	–
Total	**534.1**	**514.2**	**0.3**	**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 552.1 (533.5).

Note 26 | Remuneration to auditors

	GROUP		PARENT COMPANY	
PricewaterhouseCoopers	**2017**	**2016**	**2017**	**2016**
Audit	4.6	4.2	0.3	0.3
Audit activities other than audit assignment	0.7	1.3	–	–
Tax consulting	2.0	1.8	0.5	0.5
Total	**7.3**	**7.3**	**0.8**	**0.8**
Other accounting firms				
Audit	1.7	1.1	–	–
Audit activities other than audit assignment	0.1	0.3	–	–
Tax consulting	0.5	0.3	–	–
Total	**2.3**	**1.7**	**–**	**–**

Out of the remuneration to the auditors for 2017 the following relates to the audit firm Öhrlings PricewaterhouseCoopers AB: Audit 1.7 MSEK, audit activities other than audit assignment 0.7 MSEK and tax consulting 1.3 MSEK.

Note 27 | Expenses by nature

	GROUP		PARENT COMPANY	
	2017	**2016**	**2017**	**2016**
Raw materials and consumables	1,933.7	1,863.6	–	–
Changes in inventories of finished products and goods for resale, and work in progress	18.7	–60.9	–	–
Expenses for employee benefits (Notes 2 and 20)	1,527.3	1,282.4	31.3	31.2
Transportation expenses	103.4	96.7	–	–
Expenditure for own properties and rented premises	118.4	99.4	1.2	1.2
Advertising and selling expenses	123.0	97.0	0.7	1.2
External services	65.6	96.4	6.0	13.7
Temporary employees	66.0	58.4	–	–
Travel expenses	48.8	44.0	1.3	1.2
Consumables	43.5	41.2	0.4	0.3
Own vehicle expenses	47.4	41.4	0.4	0.5
Contract manufacturing	21.3	19.1	–	–
Depreciation/amortisation and impairment (Notes 7, 10 and 11)	158.2	121.2	–	–
Other costs	274.7	216.3	6.3	5.1
Total	**4,550.0**	**4,016.2**	**47.6**	**54.4**

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

Note 28 | Expenses for product development

	GROUP		PARENT COMPANY	
	2017	**2016**	**2017**	**2016**
Expensed overheads for product development	181.6	143.1	–	–

Note 29 | 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 seven months was, as per the closing date, NOK 73 per cent, EUR 39 per cent, GBP 44 per cent, AUD 42 per cent, CNY 41 per cent and PLN 83 per cent. The nominal value of these hedging contracts was MNOK 60.0 (4.5), MEUR 3.5 (0.9), MGBP 2.8 (1.2), MAUD 1.8 (0.0), MCNY 28.0 (6.4) and MPLN 4.6 (0.0). 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 a negative amount of MSEK 0.2 (pos: 0.1). 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 504 (796) and accumulated borrowings of MSEK 217 (215). Translation differences that affected comprehensive income amounted to an expense of MSEK 1.8 (expense: 9.8) before deferred tax of MSEK 0.4 (2.2).

Refer also to Note 34.

Note 30 | Changes in the Group's composition – Acquisitions

Acquired companies

WE-EF and Flux

As announced previously in the reports for the first and second quarters, which were published on 3 May and 17 August 2017 respectively, Fagerhult has acquired 100 per cent of the shares in WE-EF based in Bispingen, Germany and in Flux Eclairage based in Lyon, France. The companies have been consolidated in the Fagerhult Group from 1 March 2017 and reported under the business area Western & Southern Europe. Refer also to the press releases dated 23 December 2016 and 9 March 2017 as well as the 2016 Annual report.These acquisitions mean that the Group's sales from outdoor applications have an extrapolated value in excess of SEK 1 billion and that Outdoor Lighting's share of net sales is around 20 per cent.

WE-EF designs and manufactures outdoor lighting fixtures for a wide range of lighting application sectors. The company has two manufacturing units in Germany and one in Thailand together with assembly facilities in Australia and France. Sales activities primarily take place in Europe, particularly in Germany and France but also in other regions such as Australia, the UK, and the US. WE-EF is a leading brand in outdoor lighting with global recognition. Due to its extremely strong portfolio of outdoor lighting solutions, the company is highly reputed in the industry. This reputation is based on a long history of extremely innovative outdoor solutions designed and realised in Germany.

During the financial year that ended June 2016, WE-EF had 484 employees. The group had sales of MEUR 57 and profitability on a par with the Fagerhult Group. Fagerhult paid MEUR 83.9 for 100 per cent of the shares in the companies in the WE-EF group. Moreover, Fagerhult paid MEUR 5 for 100 per cent of the shares in the French outdoor lighting company Flux Eclairage S.A.S., which like WE-EF LUMIERE is located in Lyon, France. In the financial year that ended 31 December 2015, Flux Eclairage had sales of around MEUR 5 and 20 employees.

The acquisition of WE-EF was financed through new credit facilities and 5 per cent was paid for through existing treasury shares in AB Fagerhult. The acquisition of Flux was financed solely through new credit facilities.

The WE-EF group companies included in the acquisition were;
– WE-EF Leuchten GmbH; Bispingen, Germany
– WE-EF Leuchten GmbH & Co. KG; Bispingen, Germany
– WE-EF Trading & Design GmbH; Bispingen, Germany
– WE-EF Lumiere S.A.S; Satolas-et-Bonce, France
– WE-EF Lighting Co. Ltd; Bangplee, Thailand
– WE-EF Helvetica SA; Geneva, Switzerland
– WE-EF Lighting Ltd; Nottingham, UK
– WE-EF Lighting Pty. Ltd; Braeside, Australia
– WE-EF Lighting USA LLC; Warrendale, USA
Also included:
– Flux Eclairage S.A.S.; Satolas-et-Bonce, France.

Based on our analysis, goodwill (including labour) amounts to approximately MEUR 20.1, or approximately 35 per cent of the total proportional fair value of the identified assets. Identified assets primarily comprise technology MEUR 5.6, brands MEUR 37.3, customer relationships MEUR 1.2 and land MEUR 7.9. Goodwill comprises labour and the opportunities created through future product offerings, new markets and customers. Goodwill is supported by WE-EF group's growth potential and strong market position.

Synergies include the following:
- Sales synergies, where the Fagerhult Group can achieve increased sales through marketing WE-EF's range of lighting solutions to the group's customers.
- Cost synergies, where Fagerhult can obtain lower prices on components from suppliers, who WE-EF share, mainly related to higher purchase volumes.
- Cost synergies, where Fagerhult can conduct product improvements based on WE-EF's experiences in the manufacture of outdoor products.
- Synergies in product development, where Fagerhult can take advantage of WE-EF's technology and know-how with other outdoor products.

The consideration consists of the following components:	
Cash paid	781.4
Paid with Fagerhult treasury shares (476,922 shares)	45.6
Total consideration	**827.0**
Net assets acquired	634.6
Goodwill	192.4

The company had an impact of MSEK 501.1 on Group sales and an impact of MSEK 23.0 on consolidated net profit, before transaction costs. If the company had been part of the Group from the beginning of the year, this would have meant an increase in sales and a net profit of around MSEK 600 before transaction of about MSEK 27.

The assets and liabilities arising from the acquisition	**Fair value**
Cash and cash equivalents	73.2
Property, plant and equipment	199.0
Financial assets	3.5
Intangible assets	426.8
Inventories	115.8
Receivables	116.6
Liabilities	–151.6
Deferred tax liabilities	–148.7
Net assets	**634.6**
Net assets acquired	634.6
Cash purchase consideration	827.0
Cash and cash equivalents in the acquired company	–73.2
Change in consolidated cash and cash equivalents on acquisition	**753.8**

The nominal value of the acquired receivables was MSEK 116.6 and the fair value amounted to MSEK 116.6. Transaction costs amounted to MSEK 23.6 and were recognised under the item Administrative expenses in the Q4 2016 income statement.

Organic Response

As part of the Fagerhult Group's strategy for developing lighting control solutions that meet the markets' and customers' needs within this technology segment and with the aim of increasing sales of the Group's luminaire brands, on 3 April 2017, Fagerhult acquired the intellectual property rights and certain assets of Organic Response Pty Ltd (Administrators Appointed) and Organic Response Investors Pty Ltd (Administrators Appointed).

These rights and assets pertain to the lighting control solution known under the brand name Organic Response.

Fagerhult paid MSEK 21.9 for the rights and the other assets. The acquired assets were valued at MSEK 18.2

Based on our analysis, goodwill (including labour) amounts to approximately MSEK 3.7. The identified assets comprise technology MSEK 11.9, brand MSEK 5.5 and other assets MSEK 0.8. Goodwill comprises labour and the opportunities created through future product offerings, new markets and customers. Goodwill is supported by the growth potential of Organic Response and its strong market position.The business has been consolidated in the Fagerhult Group from 1 May 2017 in the business area Africa, Asia and the Pacific.

LED Linear UK

On 4 September 2017, the Fagerhult Group acquired the remaining 49 per cent of the shares in LED Linear UK whereupon, this successful UK sales company became a wholly owned subsidiary.

In the first stage, Fagerhult paid MSEK 10.4 for 100 per cent of the shares in LED Linear UK, and a further MSEK 18.6 may be paid out depending on the company's performance over the three-year period until March 2020. The acquired assets were valued at MSEK 7.1 and the difference of MSEK 21.9 was recognised as goodwill. Transaction costs amounted to MSEK 0.5 and were recognised under the item Administrative expenses in the Q3 2017 income statement.

The business has been consolidated in the Fagerhult Group from 1 September 2017 and reported under the business area Western & Southern Europe.

Note 31 | Share capital

The share capital in AB Fagerhult totals SEK 65,535,000 (65,535,000) distributed amongst 115,650,000 (38,550,000) shares, with a quotient value of SEK 0.57 (1.70) per share. The number of treasury shares was 1,157,778, with a quotient value of SEK 656,074. 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.

	2017	2016
Change in the number of shares outstanding		
Number of shares outstanding at beginning of year	37,939,323	37,863,051
3-for-1 share split	75,878,646	–
Allocation of treasury shares; refer to Note 2 and 30	674,253	76,272
Number of shares outstanding at year end	**114,492,222**	**37,939,323**

Note 32 | 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 5,559 shareholders. The ten largest shareholders together hold 84.1 (86.1) per cent of the shares outstanding.

Ownership structure (at 31 Dec 2017)

Shareholder	No. of shares	%
Investment AB Latour	55,861,200	48.8
SSB CL Omnibus AC, USA (US)	9,758,859	8.5
The Svensson family, foundation and company	7,944,557	6.9
Lannebo Fonder	7,595,314	6.6
Swedbank fonder	5,076,126	4.4
The Palmstierna family	3,018,600	2.6
Nordea Fonder	2,404,217	2.1
SEB Fonder	2,020,131	1.8
NTC Fidelity Funds (US)	1,325,439	1.2
La Financière de l'Echiquier (FR)	1,275,000	1.1
Small business funds, Nordic (FI)	1,114,300	1.0
Johan Hjertonsson	813,537	0.7
Other	16,284,942	14.2
Number of shares outstanding at the end of the period	**114,492,222**	**100.0**

Note 33 | Proposed appropriation of profits

The Group's retained earnings according to the consolidated balance sheet amount to MSEK 1,818.7 (1,495.2).

The following profits are at the disposal of the AGM:

Profit brought forward	174.5
Net profit for the year	300.9
To be carried forward	475.4

The total number of dividend-bearing shares on 14 March 2018 amounted to 114,492,222. The Board of Directors proposes that the profit be appropriated as follows:

To be distributed as dividends to shareholders, SEK 2.00 per share	229.0
To be carried forward	246.4
Total	**475.4**

Note 34 | 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 351 (474). 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 4 (5). 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 1,904 (1,583) 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 504 (796) and accumulated borrowings of MSEK 217 (215).Translation differences that affected comprehensive income amounted to an expense of MSEK 1.8 (expense: 9.8) before deferred tax of MSEK 0.4 (2.2).

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 19 (16) 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 39 (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 90.2 (68.3), interest-bearing liabilities totalled MSEK 2,689.4 (1,885.3) and cash and cash equivalents were MSEK 949.9 (731.6). 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 2017 and 2016, 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 percentage point change would be a maximum of MSEK 18, 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 2017 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 2.7 (1.9) 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 2017 or 2016. The majority of receivables from customers are guaranteed through credit insurance. A total provision of MSEK 32.0 (28.1) 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 contractual 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 2017						
Repayment of bank loans	4.8	770.4	426.6	788.2	393.4	306.0
Interest payments	35.5	31.9	26.8	23.1	11.3	5.1
Trade payables and other liabilities [1]	981.9	142.7	19.3	–	–	–
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	–	–	–

1) Of this amount, MSEK 412.2 (354.1) pertained 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 2017 was 2.2 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, thereby creating co-ordination gains and cost advantages.

SUSTAINABILITY RISKS
In various ways, Fagerhult's operations are associated with sustainability risks. In conjunction with the preparation of the Sustainability Report, the most significant sustainability risks in our own operations and in our value chain were identified. The analysis resulted in an number of areas among those stated in the Swedish Annual Accounts Act where the operations significantly impact people and the environment: the environment; personnel; social conditions; respect for human rights; and anti-corruption.

The environment
On the environmental side, financial risks are associated with rising energy costs. Therefore, Fagerhult continuously improves energy efficiency across all operations and diligently follows and estimates the need for energy.

Personnel
To create safe and healthy workplaces means that the employees do not risk being harmed. This is a core belief for Fagerhult. Based on procedures and guidelines, intensive and proactive efforts are driven to minimise risk in the work environment. This is partly to build a safety culture and attitude whereby employees look to their own and their colleagues safety.

Social conditions and human rights
Social risks apply mainly to a lack of respect for human rights in countries where Fagerhult operates. The Group's Code of Conduct forms the basis for everything we do and how we act. The Code of Conduct has been translated into a number of languages, for example Chinese, and all employees — current and new — are introduced to its contents.

Anti-corruption
Zero tolerance for corruption applies to all operations in the Fagerhult Group. The risks associated with corruption comprise not only the generally negative effect on a community, but also the risks that could impact the Group, for example fines and reputational damage as well as lost business and customers. The Code of Conduct is the basis for Fagerhult's ongoing work with this issue, which is also of central importance for acquisitions. Further support is available in the form of the Group's anti-corruption policy, whereby online training is now mandatory for employees who, for example, work with purchasing and sales.

Sustainable supply chain
Both social and environmental risks can arise along the supply chain, often associated with the type of product or service being produced. Each of the Group's brands owns and is responsible for its own supply chain. They are also responsible for acquiring knowledge of the suppliers' operations, for example, through dialogue, self assessments and site visits. The normal approach is to apply the prudence concept for all partnerships.

Product development
The main risk for the Group's product development comprises inadequate product quality, which can, in the worst case scenario, lead to someone being harmed. In other cases it could lead to the Group's reputation being negatively impacted and lost customers. A quality policy together with product development guidelines is in place to minimise risk in terms of product quality. These are complemented by regular product quality training.

Note 35 | Events after the balance-sheet date

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 23 April 2018.

Habo, 14 March 2018

Jan Svensson
Chairman

Eric Douglas
Vice Chairman

Cecilia Fasth
Board member

Morten Falkenberg
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 15 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 2017. The annual accounts and consolidated accounts of the company are included on pages 46–93 in this document.

In our opinion, the annual 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 2017 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 2017 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.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content in the supplementary report presented to the parent company's and group's Audit Committees in accordance with the Auditors Ordinance (537/2014), article 11.

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. This includes that, based on our best knowledge and belief, no disallowed services as stipulated in the Auditors Ordinance (537/2014), article 5.1, have been provided to the audited company or, as applicable, its parent company, nor as regards the companies it controls within the EU.

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

Our audit approach

The focus and scope of the audit

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 slightly less than 30 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 quite distributed, the four entities, Fagerhults Belysning AB, Fagerhults Belysning Sverige AB, Whitecroft Lighting Ltd. in the UK and LTS Lich & 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 work has been performed, 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 29 units where full audits have been executed. A total of 16 of these units in the various countries have been audited by the PwC network.

As regards just a few companies, whose combined operations represent only a very limited portion of the total operations of the group, the group audit 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 acquisition analyses and impairment testing of intangible assets with indefinite useful lifetimes, brands and 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.

Materiality

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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of intangible assets with indefinite useful lifetimes, brands and goodwill On page 72 in the section, Significant Estimates and Assumptions, amongst the Accounting Principles and in Note 10, Fagerhult describes its valuation of intangible assets with indefinite useful lifetimes which are comprised of brands and goodwill. Of the group's balance sheet total, MSEK 2 508 or 41% is comprised of intangible assets with indefinite useful lifetimes. As these assets are not amortised 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 2017. Such a test includes 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 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 particularly significant area for the audit.	As a first step, we determined, together with PwC's valuation specialists, that the applied impairment tests, one per segment, were implemented according to established principles and methods. The assumptions of greatest importance to the impairment tests which were made by the management and Board of Directors, referred to growth, profitability and the discount rates. We have assessed these 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 intangible assets with indefinite useful lifetimes, that is, the brands and goodwill, we have made no observations which are significant to the audit as a whole.
Acquisition analysis regarding WE-EF and Flux Eclairage Fagerhult publically announced its acquisition of WE-EF and Flux Eclairage on 9 March 2017. The acquisition is described in detail in Note 30. As stated in this Note, the total price, including the calculated additional purchase price, is MSEK 827. Reported equity in the companies amounted, at point of acquisition, to MSEK 285 which implies that the company management and Board of Directors would, at that point in time, have allocated an excess value of MSEK 542. This allocation is based on the fair value of the assets and liabilities in WE-EF and Flux Eclairage at point of acquisition. The calculation of such an allocation, that is an acquisition analysis, includes a number of estimations and assessments, each of which can have a significant impact on the reported assets and liabilities. Both the size and complexity of the estimations required in the acquisition analysis has implied that we deem this matter to be of major significance in the audit.	We have, together with PwC's valuation specialists, examined the acquisition analysis to ensure that it has been prepared on the basis of accepted principles and models. When we examined the analysis, we found that Fagerhult 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. Finally, we have also examined the information provided by Fagerhult in Note 30. Based on our examination of the acquisition analysis, we made no observations which were significant to the audit in its entirety.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Obsolescence in the inventories due to technological developments On page 70 under the heading, "Inventories", and in Note 34, Fagerhult describes the valuation and risks associated with the inventories. Fagerhult manufactures products which are primarily based on LED technology. There continues to be a rapid development of this technology in which the next LED generation can be both cheaper and more energy effective than with previous generation. As a result of this, management and the Board of Directors are required to evaluate and assess the manner in which LED technological changes will impact the demand for the existing inventories during future years. That it has been of significance in the audit to examine obsolescence arising from technology development is due to the fact that the value of the inventories is significant, with a total book value of MSEK 724, and is also due to the fact that the management's and Board of Director's obsolescence assessments include estimations and judgments.	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 1–45 and 98–101. 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.

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 the Swedish Inspectorate of Auditors' website: *www.revisorsinspektionen.se/revisornsansvar*. 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 2017 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 the Swedish Inspectorate of Auditors' website: *www.revisorsinspektionen.se/revisornsansvar*. This description is part of the auditor's report.

Öhrlings PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed AB Fagerhult's auditors by the general meeting of shareholders held on 3 May 2017. We have served as auditors in the company for more than 20 years.

Jönköping, 15 March 2018

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Auditor in Charge

Martin Odqvist
Authorized Public Accountant

Shareholder information

2018 Annual General Meeting

The Annual General Meeting of shareholders in AB Fagerhult will be held on Monday 23 April 2018, 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 Tuesday, 17 April 2018 and register their intention to take part in the meeting to Fagerhult no later than 17 April 2018.

Registrations can be made via e-mail to arsstamma@fagerhult.se or by telephone on +46 8-522 359 75 or by post to AB Fagerhult, SE-566 80 Habo, Sweden. Shareholders who have registered their shares with a nominee shareholder must, in good time prior to 17 April 2018, 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 2.00 per share. The proposed record date is 25 April 2018. In the event that the AGM adopts this proposal, the dividend will be distributed through the offices of Euroclear Sweden AB starting on 30 April 2018.

Nomination Committee

The Nomination Committee for the 2018 AGM comprises the following members:

- Jan Svensson, Chairman of AB Fagerhult
- Eric Douglas, Investment AB Latour,
- Göran Espelund, Lannebo Fonder.
- Evert Carlsson, Swedbank Robur Small business fund
- Jan Särlvik, Nordea 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 2018

- 23 April 2018, 2018 AGM
- 23 April 2018, Interim report for Q1, 2018
- 22 August 2018, Interim report for Q2, 2018
- 23 October 2018, Interim report for Q3, 2018

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 36-10 85 00. All of Fagerhult's annual reports from previous years are available at www.fagerhultgroup.com

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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 Candela per m^2 (cd/m^2).

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.

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