FAGERHULT

2019

ANNUAL REPORT

Business | Sustainability | Financials

CONTENTS

BUSINESS

SUSTAINABILITY

FINANCIALS

The official Annual Report which has been examined by the company's auditors comprises pages 48–109.

Together, Fagerhult's Annual Report and Sustainability Report should be viewed as the company's summary for 2019. The Sustainability Report, pages 26–46, with the accompanying GRI appendix at fagerhultgroup.com, has been prepared in accordance with the GRI Standards; Core option and has been externally reviewed.

THIRTEEN STRONG BRANDS

FAGERHULT

ateljé Lyktan

Whitecroft lighting

eaglelightingaustralia 'Member of the Fagerhult Group'

LTS LOVE TO SHINE

designplan LIGHTING

i VALO

ARLIGHT

LIGHTING INNOVATIONS

LED LINEAR™ lighting solutions

we-ef

VEKO LIGHTSYSTEMS

iGuzzini

The Fagerhult Group is one of Europe's leading lighting companies with a total of 4,465 employees in 28 countries.

The Group's companies' design, develop, manufacture and market innovative and energy efficient lighting solutions for professional applications offering a wide range of products and solutions developed using seventy-five years of experience, expertise and insight into the positive impact of better light on people in a wide range of application areas.

During the last decade, Fagerhult has added many strong and leading brands through acquisitions. Fagerhult's share is listed on Nasdaq Stockholm.

THREE PRODUCT AREAS

INDOOR

Interior lighting for offices, schools, healthcare, hospitality, museums and culture plus more demanding indoor environments such as industrial warehousing and manufacturing, prisons and transport sectors.

Share of sales

56%

RETAIL

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

Share of sales

19%

OUTDOOR

Outdoor lighting that contribute 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

25%

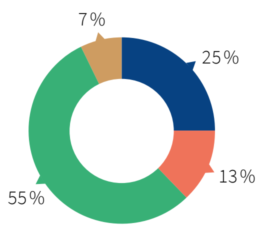
A HISTORY ROOTED IN VÄSTERGÖTLAND, SWEDEN

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 600 employees.

INTERNATIONAL BUSINESS

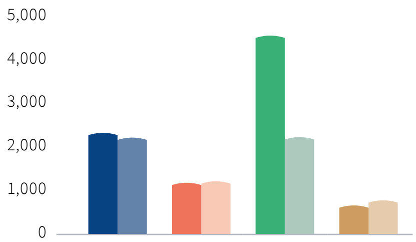
The Fagerhult Group is one of Europe's leading lighting companies. The Group's largest markets are Sweden, the UK, Germany, Italy, Australia and France. The Group also has strong positions in the Netherlands, Norway, Spain and Finland and a growing position in the USA. The recent acquisitions of LED Linear (2016), WE-EF (2017), Veko (2018) and particularly iGuzzini in 2019, continue to expand and strengthen the international business and the global product offering serving 10 focussed application segments. The Western & Southern Europe business area is the Group's largest reporting segment. With subsidiaries in 28 countries, the international business is 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. R&D, design and production units are located in Sweden, Italy, Finland, the UK, Germany, Australia, Turkey, South Africa, China, Thailand, the Netherlands and Canada.

SALES SHARE PER BUSINESS AREA, 2019



The strategy continues to deliver a more geographically diversified and balanced position. Refer to Note 1 on page 84 for details.

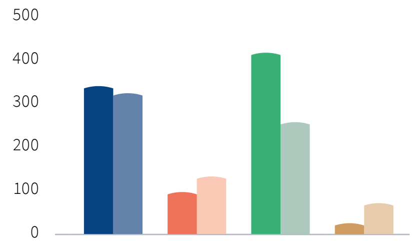
NET SALES PER BUSINESS AREA, MSEK



2019:	2,220	1,099	4,404	589
2018:	2,113	1,131	2,123	704

In the medium term all main regions continue to develop and grow positively. In the recent two years growth has been driven by acquisition.

OPERATING PROFIT PER BUSINESS AREA, MSEK

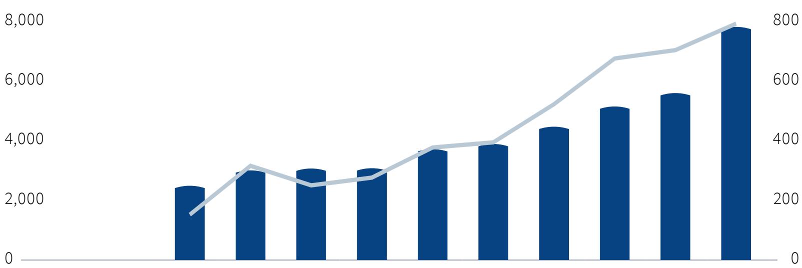


2019:	328	90	403	20
2018:	312	125	247	65

Development of the rate of profitability across the business areas has been mixed. Whilst Northern Europe continues to set the standard, some geo-political situations affect UK & Ireland and Africa, Asia & the Pacific.

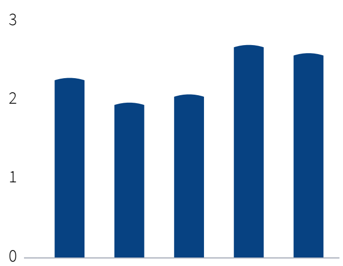
GEOGRAPHICAL BUSINESS AREAS: ■ Northern Europe ■ UK and Ireland ■ Western and Southern Europe ■ Africa, Asia and the Pacific

TRENDS FOR SALES AND OPERATING PROFIT, MSEK



YR	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales	2,506	3,023	3,085	3,095	3,736	3,909	4,491	5,170	5,621	7,845
Operating profit	153	317	251	277	379	396	524	678	706	795

DIVIDEND YIELD, %



YR	2015	2016	2017	2018	2019
	2.2	1.9	2.0	2.6	2.5

2019

EVENTS OF THE YEAR

Q1

Acquisition of iGuzzini is completed
During the first quarter, Fagerhult completed the acquisition of iGuzzini, the most significant acquisition in the Group's history adding 40 per cent to net sales.

Profit improvement
A short to medium profit improvement programme was initiated.

Northern Europe
The business area sets new benchmark performances as it continues to focus on the market and customer service.

Q2

Scale becomes in excess of 8 BSEK
Following the acquisition of iGuzzini in March, the scale of the Group in terms of annualised order intake becomes in excess of 8,2 BSEK.

Strategic review continues
Initiated in the first quarter, the strategic alignment review accelerated in the second quarter. The review is focussed on delivering growth.

Rights issue fully subscribed
During June, the rights issue, approved by the shareholders at the EGM in February delivered a confidence boosting 123 per cent subscription.

Q3

Organic Response doubles
The sales of the new ORT sensor node 3, launched in Q4 2018 records just over an annualised 100 per cent increase in units, 2019 v 2018.

Record profitability and cash flow
Q3 2019 delivered a record 255 MSEK operating profit and an all-time high operating cash flow of 400 MSEK.

Performance improvement
The Q2 executed headcount reduction (175) delivered the required result and organic profitability for the third quarter out-performs 2018.

Q4

Whitecroft wins awards
During the final quarter of the year, the Whitecroft business in the UK won two notable awards, interior luminaire of the year award at Lux and supply chain partner of the year with one of the UK's largest M&E installers.

Strategic alignment
The strategic alignment process moves into the communication and execution phases. The process will take a further 12 months to complete and this will be done during 2020.

AWARD HIGHLIGHTS

VarioLED™ Flex VENUS 3D

LED Linear received a total of five rewards in 2019

ICONIC AWARDS: Innovative architecture
LYRA 36 NANO and XOOCOVE.

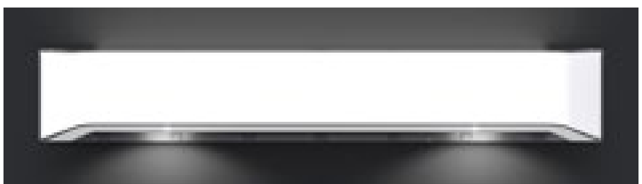
ICONIC AWARDS: Innovative interior
MARS NANO and XOOLUX™ NANO.

Sapphire Awards: the Modular LED Light Engine category
VarioLED™ Flex VENUS 3D

German Brand Award
Winner category "Industry Excellence in Branding – Lighting"

German Design Award
Winner: ECLIPSE and XOOLUX™ NANO
Special Mention: VarioLED™ Flex VENUS True Color

WE-EF received the Focus Open 2019 Special Mention for FLC220 LED Profile Projector and The German Design Award Special 2019 for CFY259 LED Series.



Whitecroft's Florence+ won the Interior Luminaire of the Year at Lux Awards.

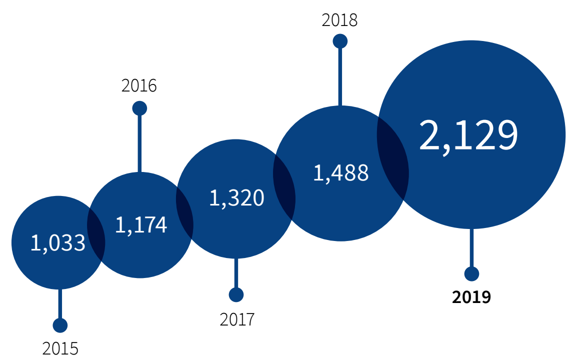
iGuzzini has received an award for being among the first 15 big companies in Italy in terms of outstanding Health & Safety practices and promoting a corporate culture of safety.

KEY PERFORMANCE INDICATORS

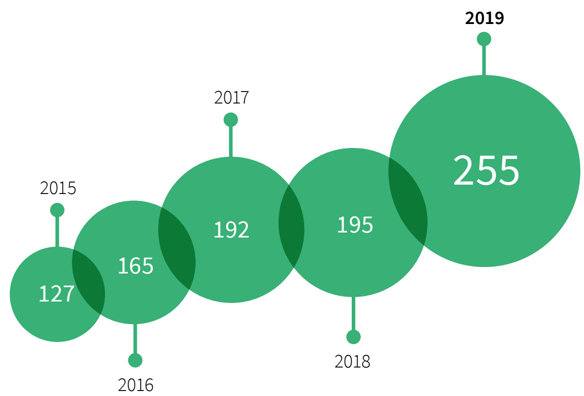
	2015	2016	2017	2018	**2019**
Net sales, MSEK	3,909	4,491	5,170	5,621	**7,845**
Operating profit, MSEK[1]	396	524	678	706	**795**
Profit after financial items, MSEK[1]	337	515	653	667	**696**
Earnings per share, SEK[1]	2.54	3.35	4.32	4.39	**3.32**
Sales growth, %	4.6	14.9	15.1	8.7	**39.6**
Operating margin, %[1]	10.1	11.7	13.1	12.6	**10.1**
Net debt/EBITDA ratio[1]	1.9	1.9	2.2	2.0	**2.9**
Equity/assets ratio, %[1]	38	34	31	32	**42**
Return on capital employed, %[1]	14.4	16.8	16.8	14.8	**10.8**
Return on equity, %[1]	20.9	24.9	28.1	25.0	**13.5**
Net debt, MSEK[1]	937	1,222	1,830	2,073	**3,737**
Net investments in non-current assets, MSEK	118	169	177	123	**243**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected. For additional information see Accounting principles, page 79 and Note 26, page 102.

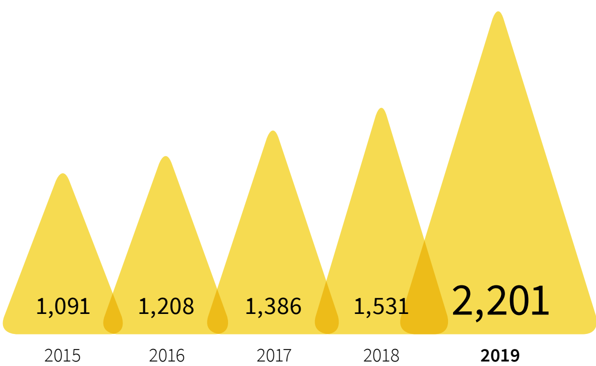
NET SALES Q4, MSEK



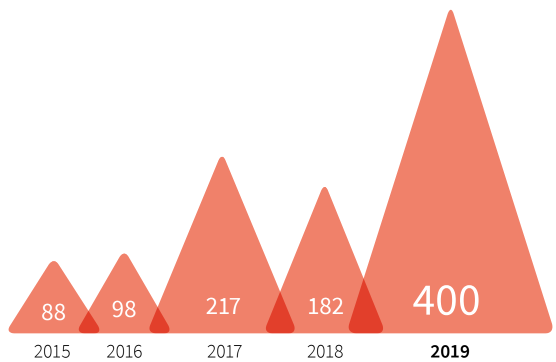
OPERATING PROFIT Q3, MSEK



ORDER INTAKE Q2, MSEK



OPERATING CASH FLOW Q3, MSEK



"Now we are taking the next step for organic growth"

How would you summarise 2019 – your first year as CEO?
– It has been a positive and eventful year. The acquisition of iGuzzini, one of the biggest events of the year, was completed in March 2019. It was a strategic acquisition – our largest to date – and it has provided us with several exciting possibilities for the future. iGuzzini's products, partners and geographic presence are very important and very favourable complements for us. Now that the acquisition is complete, there has been a lot of focus on getting to know each other. I have spent a great deal of time in Italy and the team from iGuzzini also visited us, and a number of our other companies, here in Sweden.

– We also accomplished a lot during the year in terms of strategy. The focus has been on reviewing the Group's structure and developing a model that helps us grow and create new business opportunities for the future. When we look back on our history, we have a lot to be proud of. All of our successful acquisitions have helped create a leading global lighting group. We have also been highly innovative. We were early in the shift to LED and have managed that change successfully. Our model, with decentralised responsibility for product development and local manufacturing, also puts us in a unique position and provides a solid foundation for continued growth. Financially, we are a strong and well-run company despite the challenges with organic growth. Our strategy going forward is based on these success factors, with a focus on identifying a structure that creates the preconditions for future organic growth.

What is your view on the year's performance?
– We had a difficult start to the year, with a declining order intake, which required taking certain measures to improve earnings. We saw some results by the autumn, but others will take longer. As the year went on, we also saw an improved order intake so the year ended better than it started. Looking at 2020 and beyond, organic growth is our top priority and it forms the basis of our strategy.

Strategy initiatives have led to a new structure with four new business areas. What tangible effects will this have?
– The goal is to strengthen collaboration within the Group and to identify new business opportunities. All of our brands offer high-quality products and market-leading professional lighting solutions. All the brands also work primarily with partners at the specifier level, so there are many similarities between our companies.

– The new structure is based on the customer perspective. We have maintained each brand's different focus on specific partners, products or their geographic presence. Based on this, we developed four new business areas – Collection, Premium, Professional and Infrastructure. I see major organic growth possibilities in all four business areas.

– As a part of our strategy work, we are also increasing our focus on Connectivity, where we develop connected smart control systems. Connected solutions are noting increasing interest in the market, driven both by increased energy savings and new functionalities. With a shared approach, we will make connected smart control systems a competitive advantage for all of our companies. Our goal is to make it simple for customers to use our solutions.

All brands within the Group have strong positions in their respective markets. What will the brand strategy be going forward?
– All of our brands will of course be retained. That is the basis for our strategy work. To strengthen the shared identity in the Group we will start using a shared copyline this year – "A Fagerhult Group Company."

– We will also strengthen Fagerhult Group as a clearer brand for the Group. This is why we have developed a new, shared vision and mission. Our new vision has a strong connection to our origins and what drives us as a company, while our mission will explain what we want to achieve. It will be inclusive and have strong references to both innovation and sustainability.

Sustainability has a clearer place in the new strategy. What does sustainability mean for you?
– The importance of trying to contribute to sustainable development in every way possible is self-evident for us. There are several important factors to sustainability, including one of the biggest challenges of our time – environmental impact and climate change. Our total environmental impact is mostly indirectly from energy

consumption during the lifetime of our products, though design and choice of materials also have a significant effect.

– The transition to LED over the last few years has had a very positive impact and we now have products with significantly reduced energy consumption. The increased demand for connected smart control systems is also lowering total energy consumption.

– Another important focus for us going forward is, through continued innovation, to find new material that increases the proportion of recycled material in our products. Several products in the Group are currently being developed with a focus on sustainable materiel choice, which is very gratifying.

What are the priorities for 2020 and beyond? Can we expect more acquisitions?

– In the short term, the focus is on returning to organic growth in Group companies. An important part of this will be implementing the new structure and the four new business areas in 2020. This will create new collaborative opportunities and strengthen our global position. We of course will continue to keep an eye on the market and take advantage of acquisition opportunities presented by different companies that would complement our new business areas.

– Individual strategies will be developed and implemented by the new business areas in 2020. From a Group perspective, focus will be on supporting these processes and we will also drive work with our shared values to create a shared Group culture.

Without a doubt, 2019 was an intense year and we have an exciting 2020 ahead of us. I would like to take the opportunity to thank our customers, partners, owners and, not least, our employees for their hard work and deep commitment. I look forward to taking the next step together in our shared journey.

Habo, March 2020

Bodil Sonesson
President and CEO

13 Strong brands

A common characteristic of Fagerhult's portfolio of the thirteen strong brands is the position they each hold in the market, often this is the domestic market, sometimes it is the international market. They all play a central role in the growth of our product areas, reaching broader market coverage and increasing the Group's market share.

1945 – FAGERHULT

Head office: Fagerhult, Sweden
Product areas: Indoor, Retail, Outdoor

Fagerhult accounts for the second largest part of the Group's total sales and has the strongest brand position in the North European markets.

1974 – ateljé Lyktan

Head office: Åhus, Sweden
Product areas: Indoor, Outdoor

A design-focused brand with a high end position offering Swedish design for public places. Strongest position remains in Sweden, but with a growing international presence in Norway and the UK.

2005 – Whitecroft lighting

Head office: Manchester, UK
Product areas: Indoor, Retail, Outdoor

The Group's largest UK based brand and also the second largest luminaire manufacturer in the UK market.

2007 – eaglelightingaustralia 'Member of the Fagerhult Group'

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, Designplan and LED Linear.

2010 – LTS LOVE TO SHINE

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 in Germany.

2013 – i 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, Outdoor

Arlight has a strong position in the Turkish market for indoor lighting and a growing international dimension.

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 neighbouring countries.

2016

LED LINEAR™ lighting solutions

Head office: Neukirchen-Vluyn, Germany
Product areas: Indoor, Retail, 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. The WE-EF brand is internationally recognised among designers, specifiers and architects.

2018

VEKO LIGHTSYSTEMS

Head office: Schagen, the Netherlands
Product areas: Indoor

With its linear LED lighting solutions, consisting of LED modules and luminaires with integrated or separate control systems, Veko has created a strong position in the industrial segment.

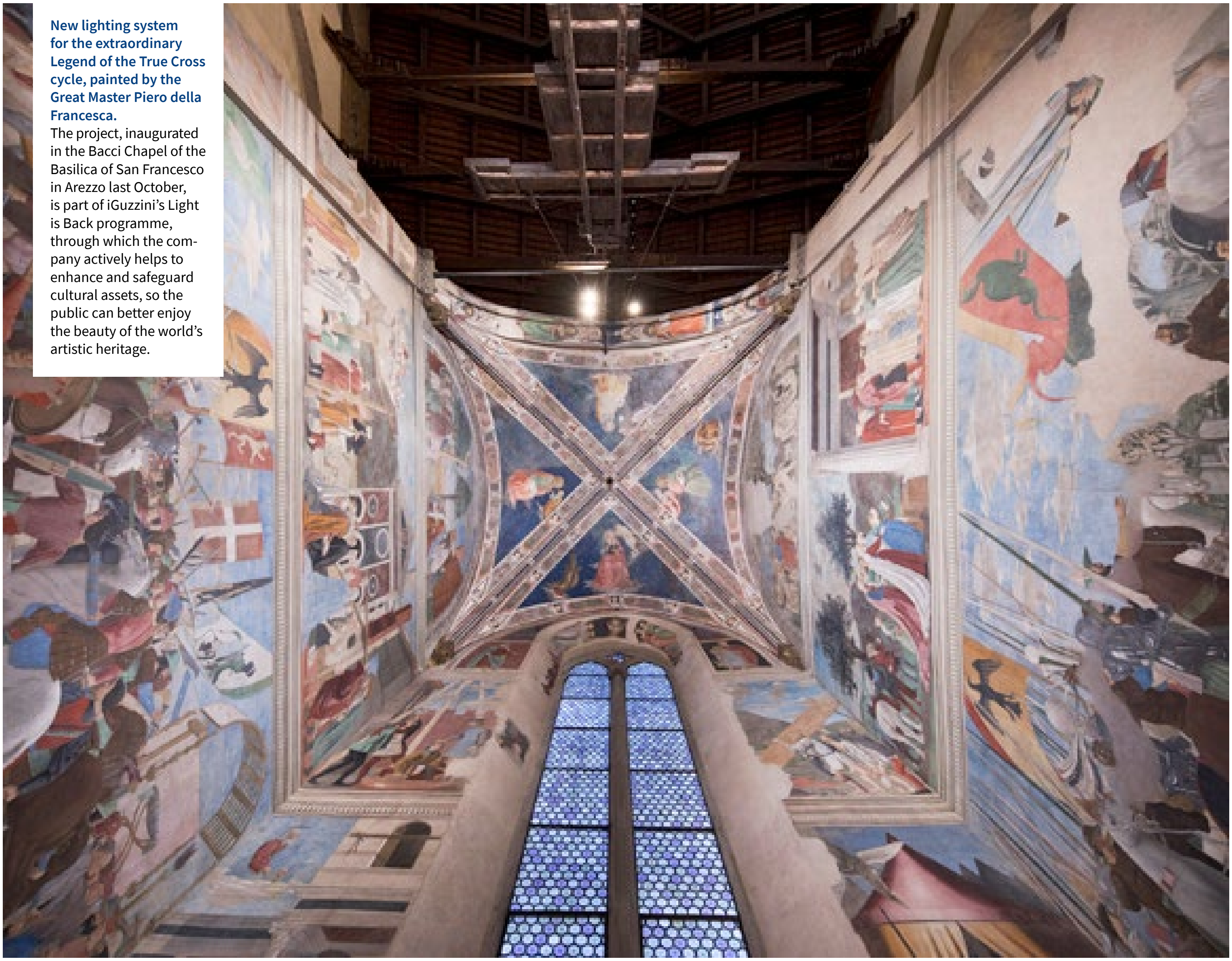
2019

iGuzzini

Head office: Recanati, Italy
Product areas: Indoor, Retail, Outdoor

The latest and largest acquisition. iGuzzini is the Group's leading high end brand offering outstanding lighting solutions for a wide range of application areas. The operation in Recanati is supported by manufacturing in China and Canada and a world-wide sales network with over 20 subsidiaries.

Read more next page



New lighting system for the extraordinary Legend of the True Cross cycle, painted by the Great Master Piero della Francesca.
The project, inaugurated in the Bacci Chapel of the Basilica of San Francesco in Arezzo last October, is part of iGuzzini's Light is Back programme, through which the company actively helps to enhance and safeguard cultural assets, so the public can better enjoy the beauty of the world's artistic heritage.

Creating social innovation through lighting

Driven by its Manifesto and the strong belief in the value of light for people and societies, iGuzzini has gained a position as a well-known and globally respected professional lighting company with a high brand awareness. Since 2019, the company is part of the Fagerhult Group.

Year 2019 was an eventful year, what does it mean for iGuzzini to be part of the Fagerhult Group?
– We are very proud to have joined the Fagerhult Group and be part of creating one of the leading players in professional lighting in Europe. For us, this also entails exciting opportunities to strengthen our market position both geographically and in terms of business strategic areas and product portfolio. We will also strengthen our own ability to handle the current technological discontinuity and to satisfy market demands both in terms of technology as well as applications.

What is the position of the iGuzzini brand globally?
– Our current position is the result of a history spanning 60 years. The company was founded in 1959 and has grown from a small firm in Recanati to become a leading international player in the architectural lighting sector. Over the years, we have gained a strong position especially among specifiers and lighting designers, one of the reasons being the steady commitment by the company in the design sector which has made it an expression of Made in Italy excellency. Equally important, our reputation has grown from a commitment to the quality and efficiency of lighting as well as product performance from a technical point of view. In addition, we have nurtured our genuine belief in the cultural and social value of light.

The vision and philosophy of iGuzzini are summarized in the Manifesto. What is the vision?
– Many companies define their mission and vision, but just a few companies question the reasons for their work. The Manifesto is the expression of the philosophy which has constantly guided iGuzzini and forged our identity over the years. Summed up in the 'Social innovation through lighting' vision, it communicates what we want our company to be and do; our future as well as our present, because our future is built on a daily basis. We make 'Social Innovation' and we do so 'through lighting'.

What is the impact of light on people and society? How to describe the value creation?
– Nowadays, the biological, physical and social effects of light are almost taken for granted. Already in the '80s, we conducted the first research in the biodynamic light, along with the Italian National Research Centre (CNR), the Troy University of New York and Mark Rea, the director of the Lighting Research Center. The aim of the research was to study the influence of light on the biological clock and circadian rhythms. Based on this research we developed SIVRA (which stands for Automatically Regulated Adjustable Lighting System) which made it possible to create a biodynamic light. This prototype then led to a product that had its first applications in hospitals and offices. Today, after thirty years, human centric lighting has become a trend, also supported by LED technology and connectivity. This was just one example. Besides its functional role, light can act as a connection element in the urban tissue, enhance historical cities, be a creative tool for temporary interactive shows, represent an infrastructure of connectivity for smart cities, boost tourism and economic growth.

What role does innovation play for iGuzzini?
– Whether we are talking about product, process or service innovation, it has always represented our strategic and cultural approach, driven by aspects of social significance – from the reduction in lighting pollution to sustainability, from the importance of the effects of light on the Circadian rhythm to smart cities. But it has also been a constant process innovation, aimed at maintaining high standards in quality and service and meeting the demands from a global market.

Looking ahead, what does the future hold?
– With an increasing global population and acceleration of the ongoing urbanisation, and the growing focus on matters linked to improving the quality of life, with respect to its environmental sustainability standards, the role of the light industry as part of new social dynamics is becoming even more important. Aspects such as light efficiency, circular economy, connectivity, 'on demand' light and smart cities, can all be attributed to a 'human centric' light which we at iGuzzini started supporting thirty years ago. For us, this creates an incentive to increasingly invest in research in order to continually improve our processes, products and services, to benefit people and society. Once again, creating 'Social Innovation through Lighting', and now together with our new colleagues in the Fagerhult Group.

December, 2019

Massimiliano Guzzini
Vice President and Chief Marketing Officer

Acquisition creates platform for continued global growth

With iGuzzini's global presence and complementary product portfolio, the Fagerhult Group is one of the leading professional lighting companies in Europe. The acquisition strengthens the Group's position at the specifier level and opens the door to new application areas in a global market.

iGuzzini in brief

- **Net sales in 2018:** MEUR 238
- **Number of employees in December 2018:** 1,470
- **Registered office:** Recanati, Italy
- **Local presence:** Headquarters and main R&D and production facility in Recanati, Italy. Two further production facilities in Shanghai, China and Montreal, Canada and sales offices in most European countries as well as other global locations. Italy is the largest market and there exists a 60:40% mix of indoor and outdoor sales.

iGuzzini was founded in 1959. The company designs, manufactures and markets professional indoor and outdoor lighting solutions. Through a strong focus on technical innovation, design and high-quality lighting, the company has contributed several advanced solutions to many prestigious projects. The driving force has always been the conviction of light's meaning for people. iGuzzini is very accomplished within application areas such as cultural institutions, hotels and restaurants, offices and retail. Many of the projects have been at famous landmarks with significant cultural or historical value, for example renowned artwork or historical buildings and architecturally interesting environments.

80 per cent of iGuzzini's sales are international. The company has a strong presence in many European markets. Sales in North America are also growing, and in the autumn the company invested in a new showroom in central New York. iGuzzini has also had sales in Asia for several years, and its own factory in Shanghai.

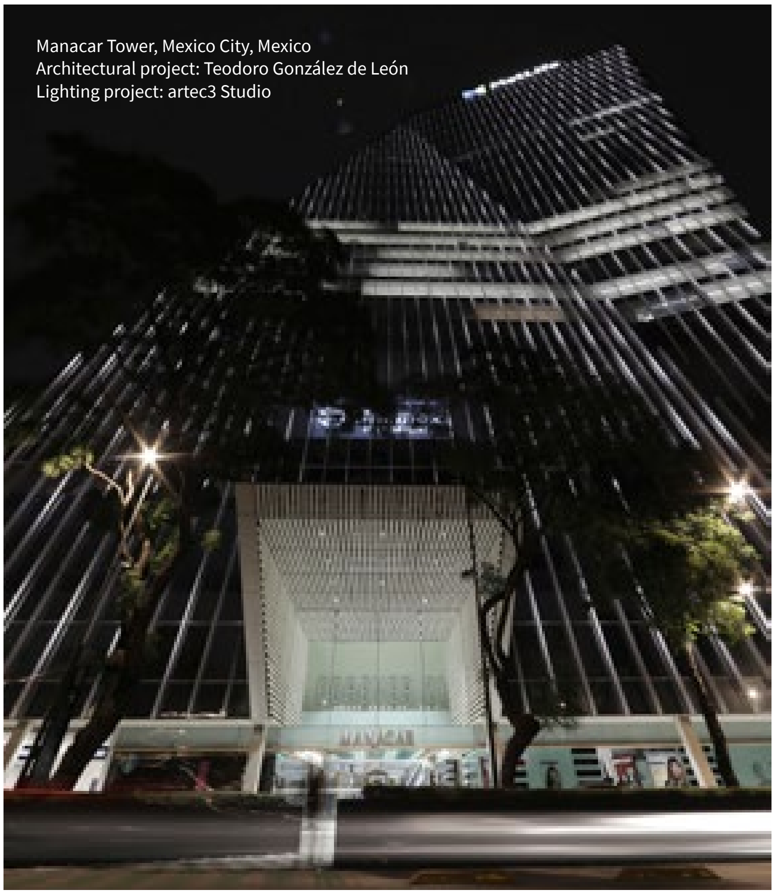
STRATEGIC COMPLEMENTARY ACQUISITIONS

For the Fagerhult Group, the acquisition of iGuzzini is of great strategic importance. The company's broad offering of high-quality lighting solutions complements the Group's. At the same time, iGuzzini opens the door to a broader base of partners at the specifier level. iGuzzini's brand has a strong position among lighting designers as well as architects. Its broad international client base also expands the geographic reach, with new possibilities for increased global growth for the Group at large.

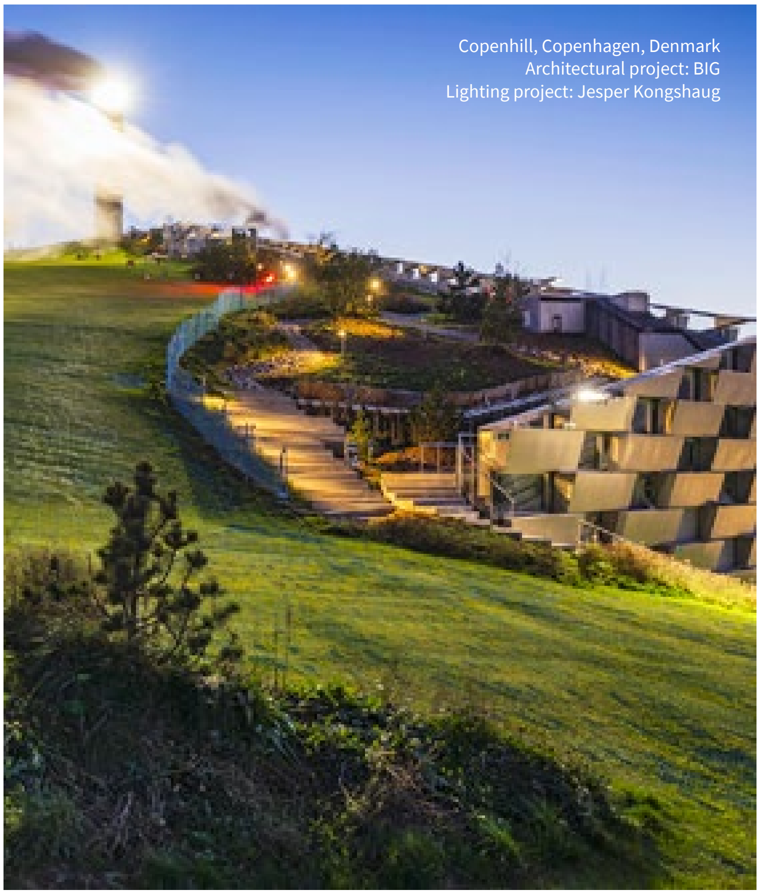
The knowledge and experience that iGuzzini has built up over several decades of research and development into light's meaning for people will also create value in the development of the Group's future lighting solutions. With its visionary approach and as one of the pioneers in the lighting industry, iGuzzini has participated in a number of research and development projects together with universities and colleges that have led to technical innovations and created societal value. These efforts have also played an important role in building the company's internal culture and values, which in many ways have much in common with the Group's entrepreneurial culture.

The acquisition of 100 per cent of the shares in iGuzzini was announced in autumn 2018 and completed in the first quarter of 2019 following approval from competition authorities.

Doha Metro, Doha, Qatar
Architectural project: UN Studio
Lighting project: AG Licht



Manacar Tower, Mexico City, Mexico
Architectural project: Teodoro González de León
Lighting project: artec3 Studio



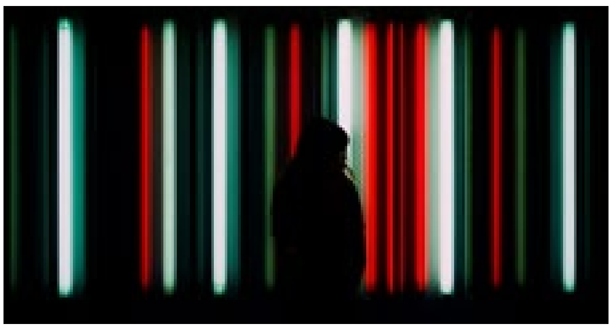
Copenhill, Copenhagen, Denmark
Architectural project: BIG
Lighting project: Jesper Kongshaug

Trends, drivers and stakeholders

Demand for flexible high quality lighting, digitalisation and sustainability are all examples of drivers that impact the design of today's lighting solutions. Customers and other stakeholders take part in influencing development.

FLEXIBLE, HIGH-QUALITY LIGHTING

Today's lighting environments are shifting further towards customised solutions that are developed together at specifier level and with clients. We often start with a standard LED-based product that is then adapted to meet the specific requirements for light distribution or quantity and luminaire design. The underlying driver is the flexibility and the opportunities offered by LED lighting, combined with increased overall requirements for project-adapted solutions when it comes to light comfort and design.



DIGITALISATION CREATING INCREASED BUSINESS VALUE

Even if we have yet to see full penetration, customers are beginning to express interest in how intelligent lighting can contribute to improved efficiency and business value in other areas, for example in property management. Development is enabled by luminaires equipped with sensors and combined with advanced control systems that are internet-connected via cloud solutions. The demand for and growth in new applications is driven by the increasing number of user-friendly interfaces.

SUSTAINABILITY IN FOCUS

Sustainability for the lighting industry today is not only about energy-efficient LED solutions. The discussion increasingly focuses on future-proof lighting environments, and therefore on the product's environmental and climate impact throughout its entire lifecycle. Societal sustainability is also of increasing interest to customers. In line with the growing demand for sustainable products and solutions, sustainability has become an important success factor in the lighting market.

FAGERHULT'S RESPONSE

With our thirteen brands, we have a broad offering of both luminaires and smart control systems. Our decentralised business model results in strong positions for all of our brands and good opportunities to build close relationships at customer and specifier levels – a strength when developing these customer-specific solutions.

FAGERHULT'S RESPONSE

We offer a large variety of control systems for indoor and outdoor use, and several of these are also offered as online cloud solutions. One example is the Organic Response control system for offices, schools and hospitals. Another is Seneco's solution for controlling lighting on streets and roads. Both of these solutions use luminaires equipped with motion sensors, which also provides a significant amount of energy savings.

FAGERHULT'S RESPONSE

Sustainability is an integral part of our business model. Having control over the entire value chain, from designing and developing products and solutions and manufacturing in our own plants to sales and after-market services for customers, creates the preconditions for better understanding and managing risks and possibilities in sustainability.

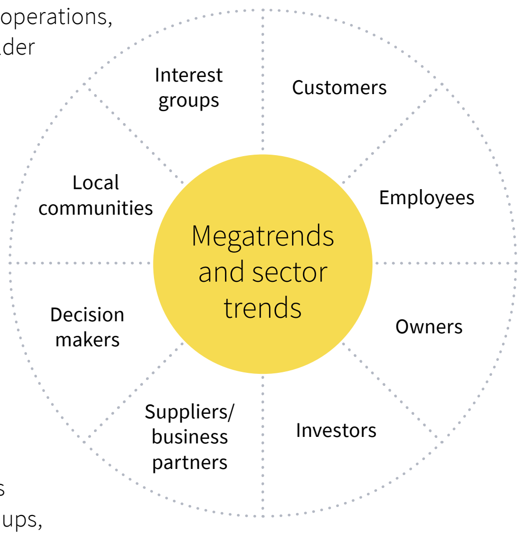
STAKEHOLDERS' VOICES GIVE FOCUS TO THE WORK

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 Group and how our lighting solutions can contribute to sustainable value creation.

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
- Interest groups



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

For more information on stakeholder collaboration in 2019 and which issues were in focus, *see p. 28–29 and the GRI appendix at fagerhultgroup.com*

New structure with a focus on collaboration and growth

Work on a new operating structure was started during the year to create increased opportunities for organic growth and to strengthen local positions. Focus was on our 13 brands and how we can increase collaboration in terms of customers, geographic markets and applications.

Over the years, the Fagerhult Group has completed numerous successful acquisitions. The focus has been on companies that complement operations with new markets or product areas, for example, outdoor lighting, where we have strengthened our position of late. Several important milestones have been passed on this journey and the acquisition of iGuzzini in 2019 is the latest in a line of successful acquisitions. Today, the Group comprises a total of 13 brands that together support the Group's strong positions in local markets and our global presence.

ONE STRUCTURE THAT BUILDS ON OUR STRENGTHS

We are basing our new structure on the Group's strengths. At the core are the 13 product companies with considerable know-how and experience of professional lighting that has been accumulated over decades. This forms the foundation of the respective companies' innovative product portfolios, with proprietary luminaires and lighting solutions for selected applications, and which entail substantial breadth in the Group's total product offering.

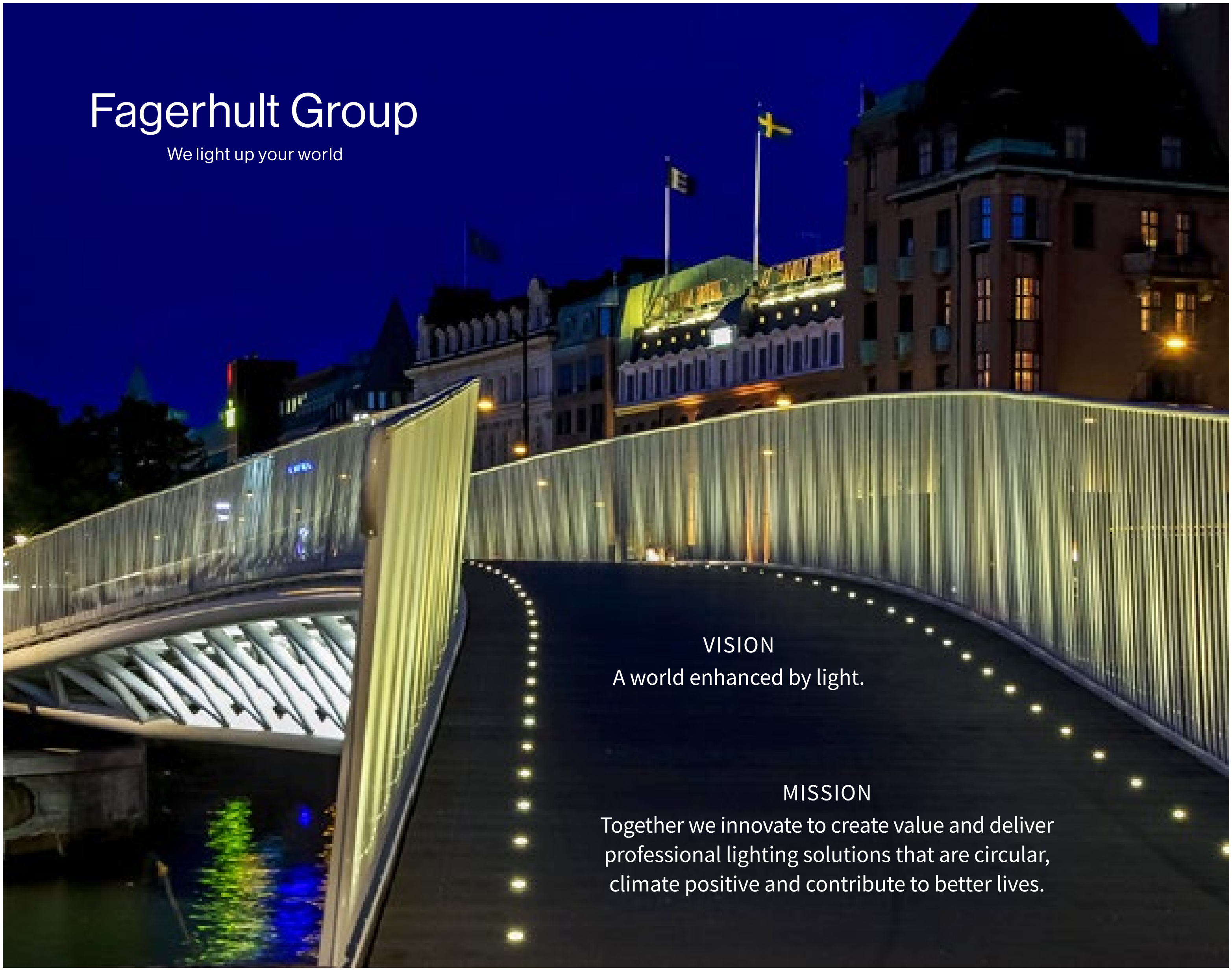
Moreover, many of our companies have a strong presence in local markets, with close relations with customers and partners. The success of these companies is also due to our local manufacturing operations in our largest markets, which enable rapid delivery even for customised products. At the same time, some of our most recent acquisitions comprised companies with a presence and strong relationships with players in the global lighting market, thereby opening new possibilities moving forward.

NEW BUSINESS AREAS FOR INCREASED COLLABORATION

We are launching a Group structure with four new business areas to create new opportunities for growth. Each business area is comprised of a number of product companies with similar strategies in terms of applications, customer groups and markets. The objective is to strengthen collaboration between product companies and to create new business opportunities. The new structure was introduced on 1 March 2020. In the future, we will also position the Fagerhult Group

New Business Areas

Collection	Premium	Professional	Infrastructure
Exceptional lighting solutions for architectural applications worldwide.	Lighting solutions for all European markets and for global customers.	Lighting solutions for selected applications, tailored to local market demands.	Specialty lighting solutions for critical infrastructure and industry applications.
ateljé Lyktan, iGuzzini, LED LINEAR lighting solutions, we-ef	FAGERHULT, LTS	ARLIGHT, eaglelighting, LIGHTING INNOVATIONS, Whitecroft lighting	designplan LIGHTING, i VALO, VEKO LIGHTSYSTEMS



more clearly to show the connection between our brands in the different markets.

STRONG FOCUS ON CONNECTIVITY AND SUSTAINABILITY

Interest in smart and connected solutions is rising and is being driven by a host of factors, from energy savings to the possibility of simplified installation and the integration of lighting solutions with different property management systems. As part of these developments, we will increase our focus on Connectivity through coordinating the Group's activities in one central function that also includes Organic Response.

Sustainability is already an important part of our daily operations and at the core of our values. Over the next year, we will strengthen our commitment to sustainability by focusing on the entire value chain.

NEW VISION, MISSION AND BRAND STRATEGY

A key objective of the new structure is to strengthen collaboration within the Group. Together, we have started to prepare a new vision, mission and brand promise.

Our new vision addresses the significance of light in all environments and reflects the drivers that, from the very start, have characterised and unified the entrepreneurial companies that comprise the Fagerhult Group.

Our shared path forward is summarised in our new mission, which clarifies the importance of collaboration, innovation and strong focus on sustainability in everything we do.

To encapsulate the essence of what we as a Group do and to strengthen our shared identity we have also chosen to profile the Fagerhult Group with a new brand promise "We light up your world".

Viaduct – Chaumont, France.
Architectural project: Jean Francois Touchard.

OUR PRODUCT AREAS

With thirteen strong brands and a broad selection of luminaires and control systems, the Fagerhult Group is well positioned to act as a global supplier of innovative and energy-efficient professional lighting solutions. The focus is on people and light's ability to create attractive and high-quality indoor and outdoor environments.

Indoor is the Group's largest product area and offers complete lighting solutions for indoor environments such as offices, hospitals and schools as well as environments such as hotels, museums, prisons and institutional environments. Smart and connected control systems provide energy savings and optimise lighting to create attractive environments. By integrating with other systems in property management, our control systems can provide extra value through, for example, motion data.

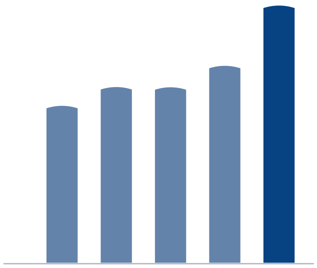
The Retail product area offers tailored lighting solutions for fashion and food retail chains and car dealerships. In retail, smart and connected control systems make it possible to easily vary lighting with suitable lighting strength and colour. The right lighting helps strengthen brands by creating the right presentation and enhancing the customer experience. As needed, special luminaires are also developed in close collaboration with the end customer for unique customer concepts.

Outdoor offers comprehensive lighting solutions for roads, parks, squares and other outdoor environments that contribute to the development of attractive, safe environments suited for people. Smart and online control systems help save energy, improve light control and simplify installation. This broad product offering also includes solutions for cultural environments, cities and prestigious buildings.

DEVELOPMENTS IN 2019

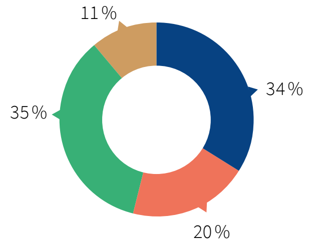
For the year 2019, Indoor sales grew to MSEK 4,380 (3,344), +31 per cent overall growth with strong organic growth in Northern Europe. iGuzzini added significantly in the product area and organically net sales saw a very slight reduction of 0,6 per cent. The further expansion of our connected solutions will increase sales in Indoor.

NET SALES INDOOR, MSEK



YR	2015	2016	2017	2018	2019
	2,656	2,979	2,975	3,344	4,380

NET SALES PER BUSINESS AREA

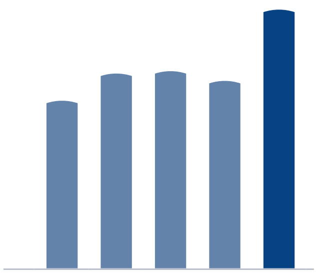


- Northern Europe, 34 %
- UK and Ireland, 20 %
- Western and Southern Europe, 35 %
- Africa, Asia and the Pacific, 11 %

DEVELOPMENTS IN 2019

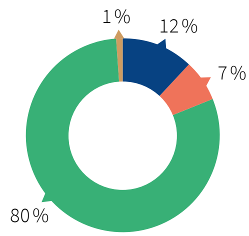
In the Retail product area net sales grew overall from MSEK 1,082 to MSEK 1,499. iGuzzini added MSEK 554. Organically net sales declined 15.3 per cent as the global retail industry faces many challenges from the growth of e-commerce. New business models by all retailers are being looked at.

NET SALES RETAIL, MSEK



YR	2015	2016	2017	2018	2019
	966	1,125	1,139	1,082	1,499

NET SALES PER BUSINESS AREA

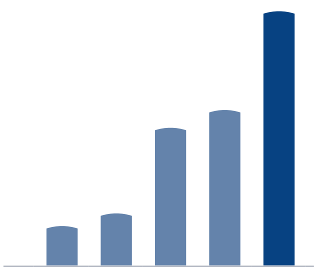


- Northern Europe, 12 %
- UK and Ireland, 7 %
- Western and Southern Europe, 80 %
- Africa, Asia and the Pacific, 1 %

DEVELOPMENTS IN 2019

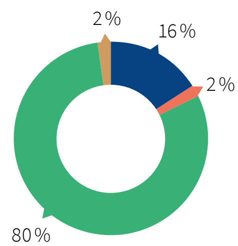
We are pleased with the continued steady development in Outdoor. Net sales grew overall from MSEK 1,195 to MSEK 1,967. The market has been tough during 2019 and we have managed to hold sales almost flat organically. Many new products are under development, so too controls solutions.

NET SALES OUTDOOR, MSEK



YR	2015	2016	2017	2018	2019
	288	387	1,056	1,195	1,967

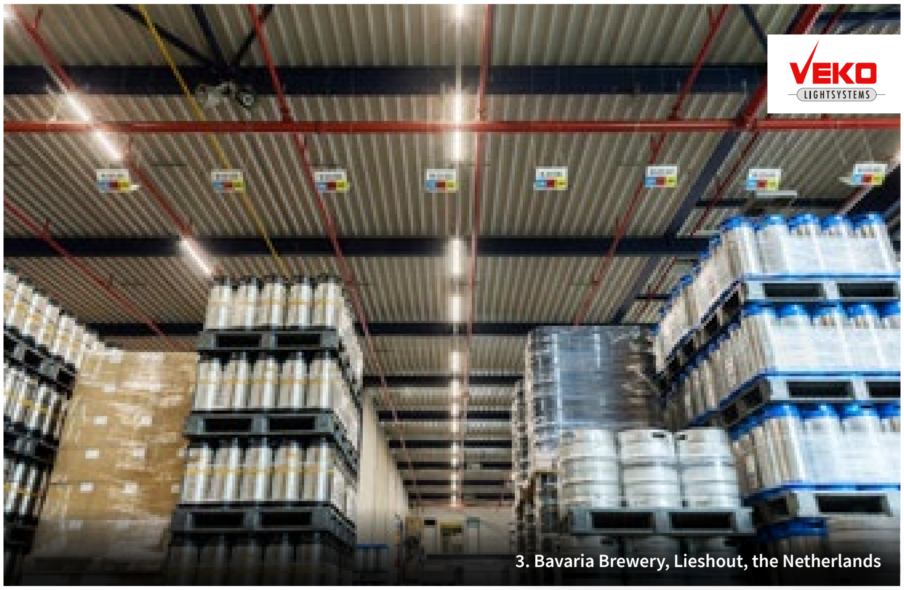
NET SALES PER BUSINESS AREA

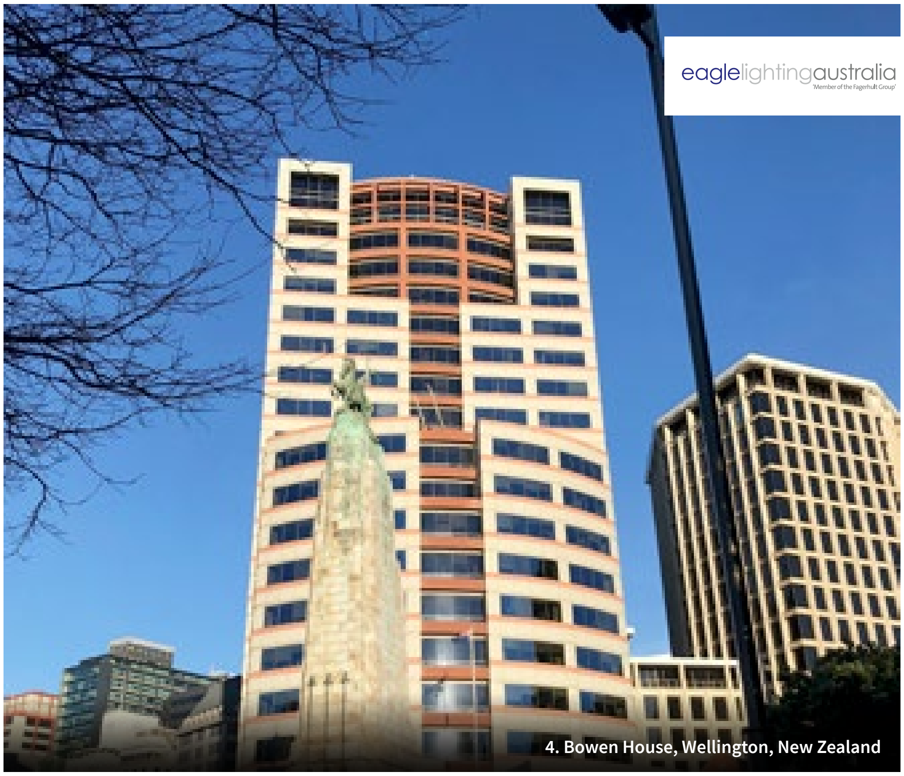


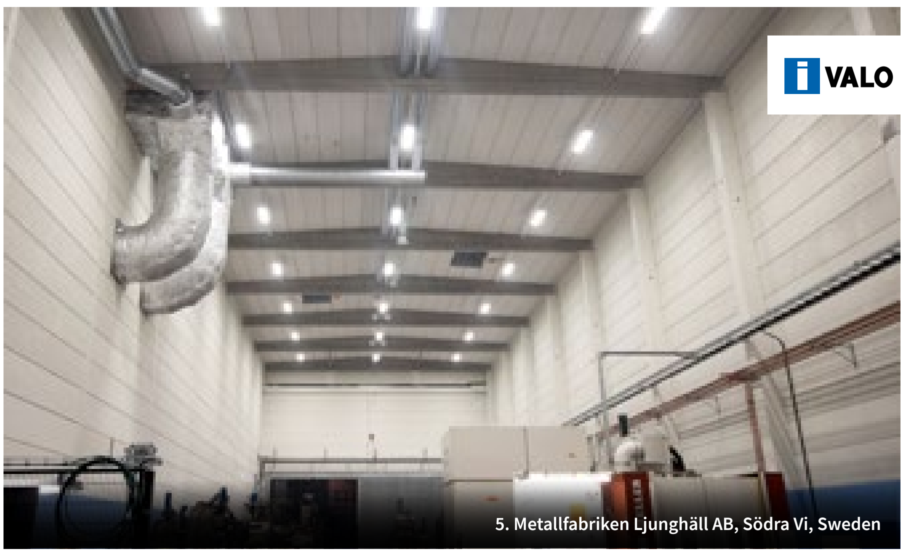
- Northern Europe, 16 %
- UK and Ireland, 2 %
- Western and Southern Europe, 80 %
- Africa, Asia and the Pacific, 2 %

1. Manchester Airport, UK

2. Ing Bank,
Istanbul, Turkey


3. Bavaria Brewery, Lieshout, the Netherlands


4. Bowen House, Wellington, New Zealand


5. Metallfabriken Ljunghäll AB, Södra Vi, Sweden

INDOOR

1. BESPOKE SOLUTIONS HELP STRENGTHENING CUSTOMER EXPERIENCE

Whitecroft Lighting has received “The Supply Chain Forum Collaboration 2019” award from Laing O’Rourke in recognition of the company’s outstanding contribution to the Manchester Air-port Transformation Project.

2. DESIGN EXCEEDING THE LIMITS OF A CLASSICAL BANK

By synthesizing the aesthetic aspect of light with superior skills in design, Arlight has successfully carried out the concept design at the General Directorate and Branches of ING Bank. The unique project, including customized lighting products, is an inspiration for the future.

3. FUTURE-PROOF LIGHTING THROUGH HIGH-PRECISION OPTICS

Bavaria Brewery, one of the six breweries owned by Royal Swinkels Family Brewers recently celebrated its 300th anniversary. To ensure the best possible results, Veko first installed a test set-up. Now, the robust Magnus linear provides the distribution centre with modern lighting.

4. COST AND ENERGY SAVINGS WITH NEW INTELLIGENT LIGHTING SOLUTION

Bowen House is an office building leased by the New Zealand Parliament in Wellington. The 22-storey building was the first high-rise in the country to install a new lighting solution from Eagle Lighting and a control system from Organic Response.

5. INDUSTRIAL LIGHTING SOLUTION WITH EMPLOYEES IN FOCUS

Metallfabriken Ljunghäll AB is expanding and renovating its metal works in Södra Vi, Sweden. While the work still continues, I-Valo luminaires have already been installed in the old production area of 5,000 m^2 as well as in the storage and outdoor recycling areas.

1. Åhus Gästgivaregård, Åhus, Sweden

2. Gabor Outlet, Mindelheim, Germany

3. Tshwane Regional Mall, Pretoria, South Africa

4. The Storey, Oberpollinger, Munich, Germany

RETAIL

1. WORLD-CLASS LIGHTING ENHANCES HOTEL EXPERIENCE

Based on an idea born in a worn out, old Chesterfield armchair in London, Ateljé Lyktan and 21 partners have transformed eight rooms at Åhus Gästis hostelry into a new hotel experience. Ateljé Lyktan supplied all lighting to all rooms.

2. SPECIAL LIGHTING CONCEPT CREATES NATURAL LIGHT

The well-known shoe brand Gabor has been growing steadily for decades, and last spring, just in time for the opening of the new logistics centre in Mindelheim, Gabor also established the first factory outlet in an area of approx. 300 m^2. LTS took care of providing a special lighting concept so that all the products could be presented in the right light.

3. NEW SHOPPING EXPERIENCE WITH CUSTOMIZED LIGHTING SOLUTION

Lighting Innovations Africa was approached by Quad Africa Consultants to develop and manufacture large pendant luminaires for a retail project, Tshwane Regional Mall. Lighting Innovations Africa provide the luminaires for the complete shopping centre.

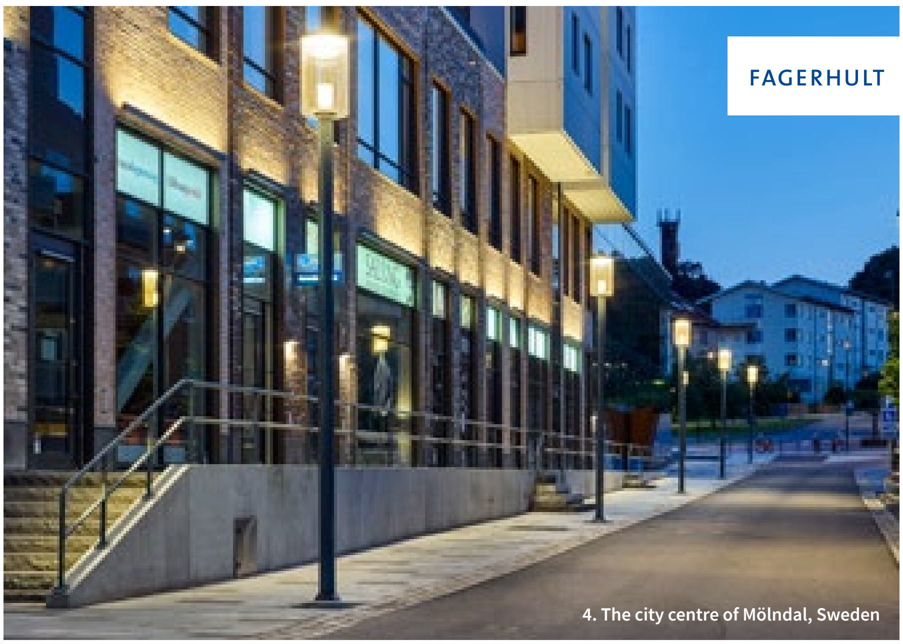
4. LINEAR LIGHTING STRENGTHENING THE URBAN ATMOSPHERE

“The Storey” in Oberpollinger, Munich impresses with its urban atmosphere. Characteristic is the rough, partly open ceiling design. A functional grid extends over the entire sales area and creates an industrial look. The linear lighting was realized with differently sized XOOLINE™ HYDRA from LED Linear.

1. Evolution Tower, Moscow, Russia

2. London Bridge Station, UK

3. The Shrine of Remembrance, Melbourne, Australia



4. The city centre of Mölndal, Sweden

OUTDOOR

1. TOTAL LIGHTING SOLUTION ILLUMINATES ARCHITECTURAL LANDMARK

The 55-floor skyscraper Evolution Tower is a distinctive landmark in Moscow's new urban skyline. For the largest and most efficient office complex in Russia, iGuzzini has provided a total lighting solution.

2. LIGHTING SOLUTION ENHANCING ARCHITECTURAL VISION

The redevelopment of London Bridge Station was part of the UK government's £7bn Thames-link programme involving a major track upgrade, a new rail underpass with platforms being widened and extended to handle a 30 per cent increase in trains. Designplan Lighting's Flair luminaire was chosen because of its lighting performance and output which reduced the number of lighting points required.

3. NEW LIGHTING EXPERIENCE WITH TAILORED LED SOLUTION

The Shrine of Remembrance, located in the Royal Botanic Gardens of Melbourne, was illuminated in red for one week during November. This special celebration coincided with the completion of an extensive lighting upgrade project to relight the façade of the building using the latest LED lighting technology from WE-EF.

4. OUTDOOR LUMINAIRE BUILDING CITY BRAND EXPERIENCE

The city centre of Mölndal is in the middle of a major facelift, and the outdoor lighting needed an update as well. The client was inspired by the warmth and softness of Fagerhult's Devina Höst-glöd, but chose to create a new unique luminaire to help build brand in their overall city concept.

Offering increasingly energy-efficient luminaires and lighting solutions is the Fagerhult Group's greatest contribution to more sustainable development. We thereby help our customers to reduce their environmental impact and contribute to creating economic value by reducing the energy consumption.

In addition the materials used has a large impact, all the way from extraction and manufacturing to recycling. An important focus is therefore to harness innovation to increase the portion of sustainable materials so as to find new ways to reduce our impact.

Our lighting solutions are also developed using expertise and insight into the positive impact of light on people in a variety of environments and situations. On the Group level, sustainability is a top priority and a natural part of our daily work, as well as a condition for our continued success in the lighting market.

ABOUT THE GROUP'S SUSTAINABILITY REPORT

The Sustainability Report is prepared in accordance with the GRI Standards: Core option. This covers pages 4–5, 13, 26–46 and the GRI appendix available at fagerhultgroup.com The Sustainability Report also covers the statutory sustainability report in accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act. The report is published once each year and the most recent sustainability report was published on 15 March 2019. The Sustainability Report has been subjected to a limited assurance review by a third party, PwC.

Sustainability is part of our business

Fagerhult Group takes a broader perspective on sustainability efforts, and we include the operation's entire value chain in our continuous work to minimise the negative and maximise the positive effects we have.

The goal of the Group's sustainability efforts is to apply societal and environmental responsibility to what we do best: develop and manufacture energy-efficient professional lighting solutions that help create sustainable value for people, society and the environment. Our sustainability work is a continuously on-going process where strategic connections, not least between innovation and the circular economy, are strengthened.

OUR MOST SIGNIFICANT SUSTAINABILITY TOPICS

The materiality analysis conducted in 2015 identified the topics shown on next page as the 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. During 2019, each company conducted a review and evaluation of the identified topics to ensure that they are still the most relevant for our sustainability effort. Specifically, they weighed the extent to which the topics influence our stakeholders' decision-making and expectations, together with the impact the operations have on the economy, society, people and the environment.

Our assessment is that the topics that have been previously identified remain relevant for our sustainability efforts. The results also made it clear that focus on anti-corruption, business ethics, human rights, health and safety, product safety, materials and energy use should be prioritised.

In 2020, the ambition is to further clarify our vision and set targets at the Group level. The goal is to create concrete, measurable and visionary targets for the next five year period.

WITH THE GOAL OF SUPPORTING THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

Out of the UN's 17 Sustainable Development Goals, we have identified four where the Group has the most impact as well as the greatest opportunity to make a positive contribution. The aim going forward is to clarify the goals' connection to the Group's existing ambitions and initiatives.

7 AFFORDABLE AND CLEAN ENERGY

Affordable and clean energy
Ensure access to affordable, reliable, sustainable and modern energy for all

11 SUSTAINABLE CITIES AND COMMUNITIES

Sustainable cities and communities
Make cities and human settlements inclusive, safe, resilient and sustainable

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

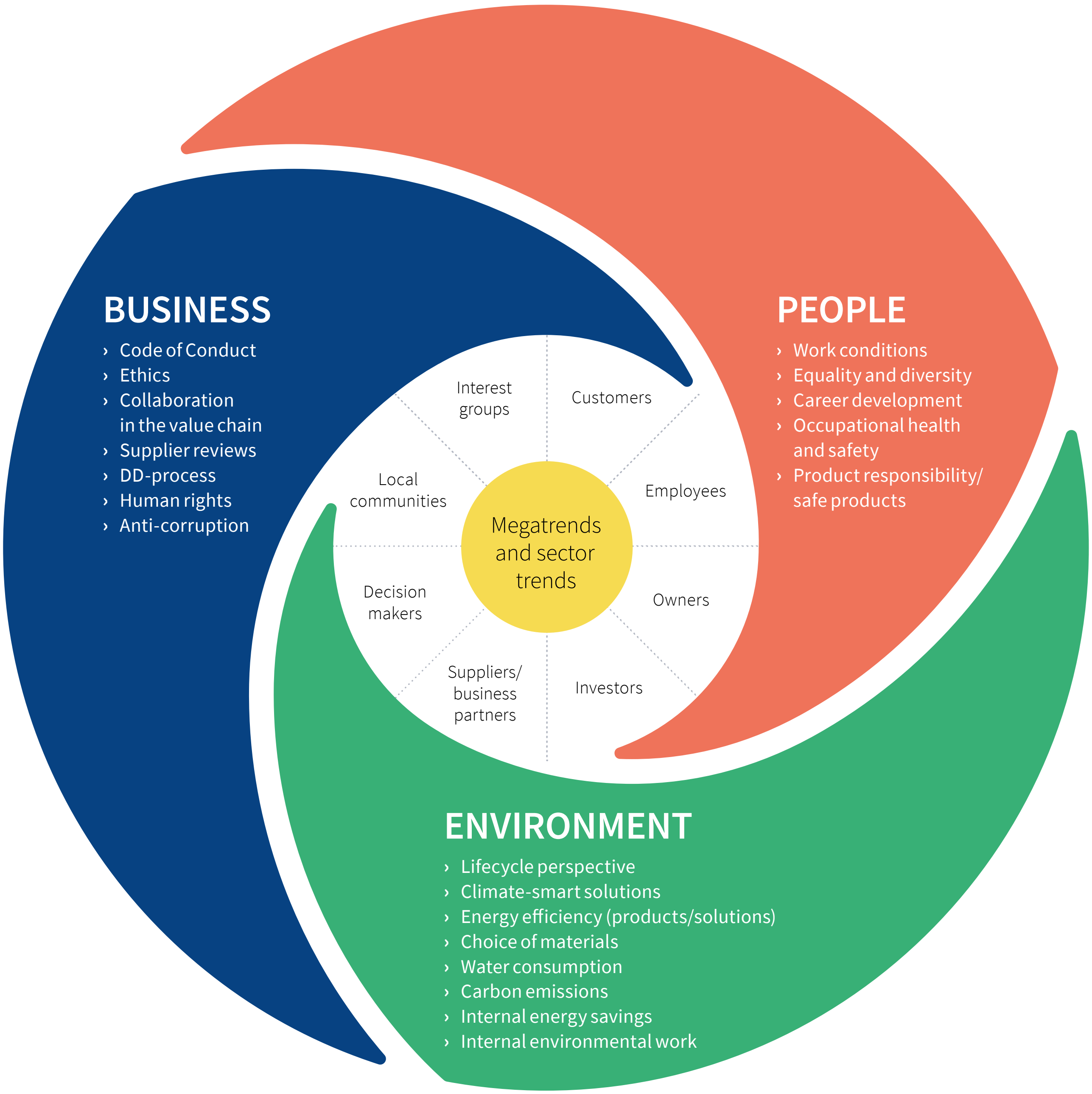
Responsible consumption and production
Ensure sustainable consumption and production patterns

13 CLIMATE ACTION

Climate action
Take urgent action to combat climate change and its impacts

THE FAGERHULT GROUP'S CORE STAKEHOLDERS AND MATERIAL TOPICS

We have chosen to group our most important sustainability topics in three areas: **People**, **Environment** and **Business**. In summary, the topics shown below are the most important for the Group to address and communicate on.



A Value Creation Business Model

The Fagerhult Group's value creation model explains how we use our resources to create value for our customers.

INPUT RESOURCES

- Motivated and competent employees
- Strong global and local brands
- Sales models adapted to local markets
- Manufacturing facilities
- Financial means

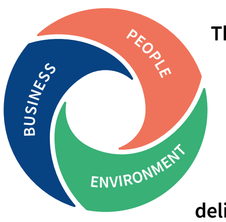
BUSINESS MODEL

- Group-wide functions, support and resources
- Thirteen brands that generate value through entrepreneurship, local decision-making and execution.

VALUE CHAIN

Suppliers Partners	Product development Manufacturing	Indoor Retail Outdoor	Controls and Connectivity	Locally adapted marketing and sales	Customer segments
3	1 2 3	1 3	1 2 3	1 2 3	1 2 3

The business model – an illustration of the value chain



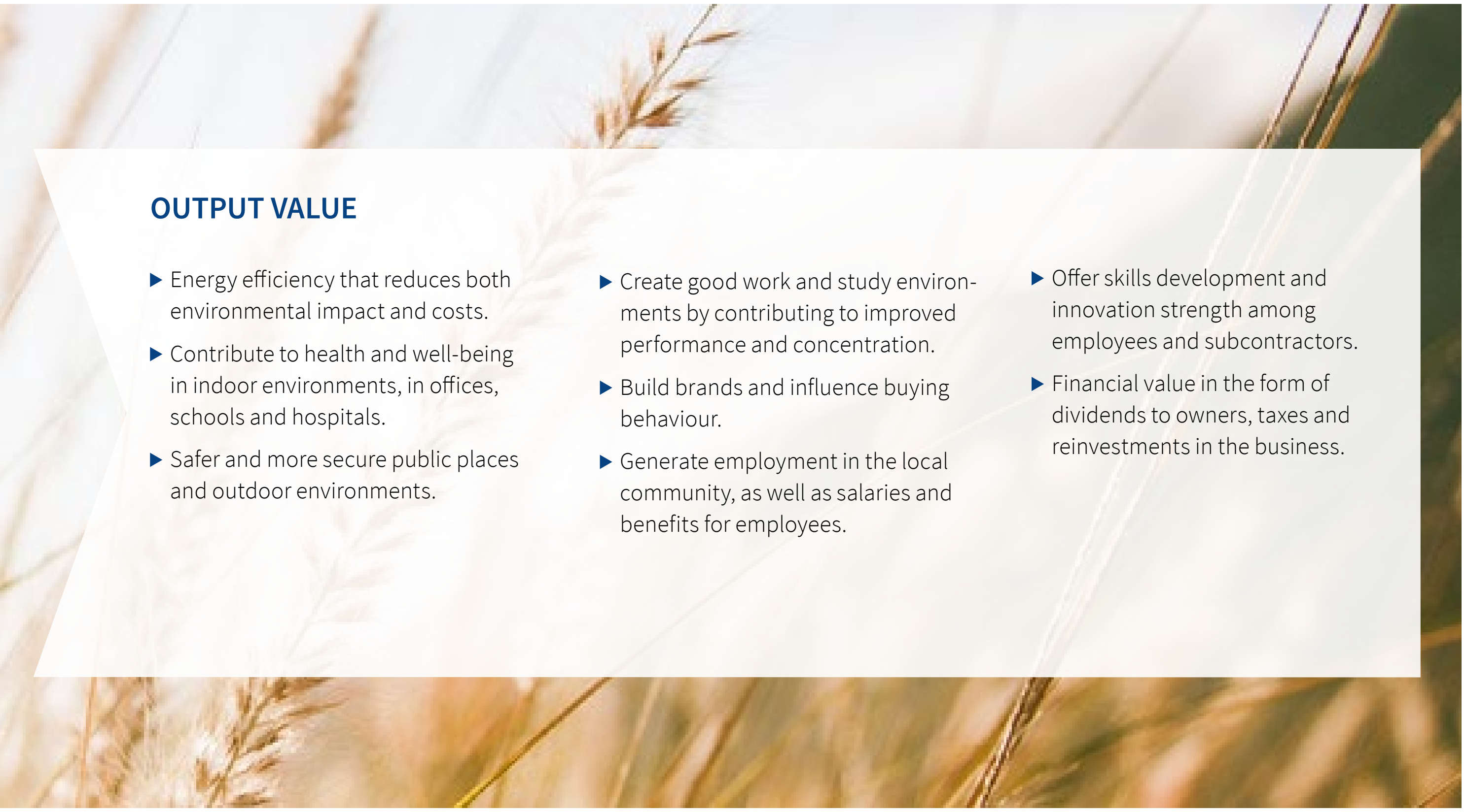
The sections of the business model also illustrate the Group's value chain — from the purchase of input materials from suppliers, via manufacturing, to delivery to customers and end-users. To address both possibilities and risks along the value chain, the Group needs to allocate responsibilities and commitments as follows:

1 Objectives for human rights/People

- To ensure our employees' health, safety and human rights.
- To endeavour to have a constructive dialogue and collaboration between Group companies.
- To meet and exceed expectations in terms of quality, service and value creation.

2 Objectives for environmental responsibility/Environment

- To realise business opportunities and energy savings brought about by LED technology and lighting control solutions.
- To meet and exceed customer expectations in terms of quality, service and sustainable value creation.
- To ensure that all products and services adhere to regulations and accepted standards.
- To ensure environmental consideration.



OUTPUT VALUE

- Energy efficiency that reduces both environmental impact and costs.
- Contribute to health and well-being in indoor environments, in offices, schools and hospitals.
- Safer and more secure public places and outdoor environments.
- Create good work and study environments by contributing to improved performance and concentration.
- Build brands and influence buying behaviour.
- Generate employment in the local community, as well as salaries and benefits for employees.
- Offer skills development and innovation strength among employees and subcontractors.
- Financial value in the form of dividends to owners, taxes and reinvestments in the business.

3 Objectives for responsible enterprise/Business

- That all companies conduct business according to current laws and regulations.
- That our shared Code of Conduct forms the basis for everything we do and how we act.
- That a thorough due diligence is conducted for every company acquisition.

The negative effects of our operations along the value chain consist mainly of:

- Indirect effect of CO_2 emissions from choice of materials, and from energy consumption during the user phase of the lighting.
- Indirect effect of emissions from the energy mix purchased for manufacturing and premises.
- Indirect CO_2 emissions from the transportation of purchased input materials to plants, and from purchased transportation from plants out to the customer.
- Direct CO_2 emissions from service journeys, for example between plants or for purchases from suppliers and delivery to customers.

Fundamental values uniting the global and the local

The Fagerhult Group's goal is for our workplaces to be characterised by participation, commitment and well-being that provide every employee good conditions to develop. We also strive to offer a work place where the local and the global are intertwined. Our core values, which should be present in all processes and daily routines, unite and guide all employees and are an integral part of all processes and daily work. They can be summarised as customer focus, performance culture and innovative thinking.

With this year's acquisition of iGuzzini based in Recanati, Italy, the number of employees in the Group increased significantly to a total of 4,465 (3,384) individuals.

SUSTAINABLE LEADERSHIP AND CONFIDENT LEADERS

The Group's overall ambition is to develop leaders who are confident in their roles and apply a coaching style of leadership. Also leaders who have the ability to meet requirements for change through dialogue with their employees, as well as, to ensure a positive and safe work environment. Sustainable leadership is also about the ability to encourage employees and capitalise on the advantages of their differences and skills.

The Group's leadership model is to provide guidance and governance for all managers. At the Group level, the Bright Leaders international leadership programme, based on a decentralised business model and focused on developing leadership and collaboration, has been running for several years. It is also an important tool for the inter-company integration handled by the people who run the day-to-day operations. In total, 73 of the Group's mangers have completed the programme and a new round started in December 2019 with 18 senior leaders from a total of 14 companies.

Employees' continuous competence development is primarily conducted within the framework of each company and with directed training activities that are adapted to local needs.

Examples from operations

- With the goal of building a stronger, more confident leadership, a second round of the leadership program Chefsettan was completed during the year, where a total of 22 managers from the Fagerhult and Ateljé Lyktan brands participated in regular training for 18 months. A third round of Chefsettan is planned for spring 2020, when a Swedish representative from iGuzzini will be invited to participate in order to build networks and strengthen relations between companies.

OBJECTIVES FOR HUMAN RIGHTS

To ensure our employees' health, safety and human rights.

To endeavour to have a constructive dialogue and collaboration between the Fagerhult Group companies.

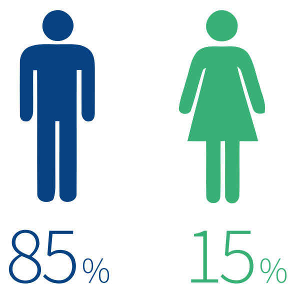
To meet and exceed expectations in terms of quality, service and value creation.

INCREASED DIVERSITY CONTRIBUTES TO A MORE INNOVATIVE CORPORATE CULTURE

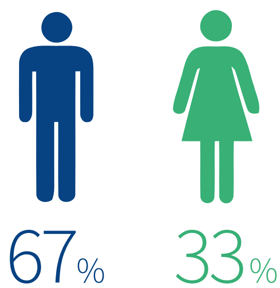
Fagerhult's Group-wide Code of Conduct states that all employees, irrespective of gender, age, religion, sexual orientation, or ethnic background, should be given the same opportunities for development and advancement as well as equal pay for equal work. Appreciating people's differences and various skills is also a way to increase diversity and gender parity, something that in turn leads to better conditions for creating a more innovative company culture. That is why there is a clear overall intention to create a better balance between the genders. At year end, the composition of the Group's Board of Directors and management was 85 per cent men and 15 per cent women, respectively. For the Group as a whole, the gender balance among employees was 67 per cent men and 33 per cent women.

In general, recruitment and assembling work teams are good occasions for strengthening both diversity and the gender balance. For the Group at large, competence is always prioritised, though the goal is to have at least one candidate of the under-represented gender on the "short list." This is also a requirement from the Group when a company purchases external recruitment services.

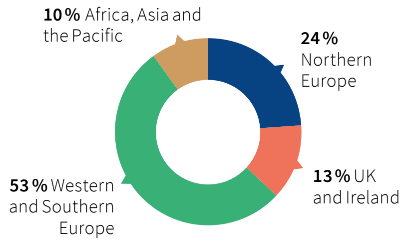
MEMBERS OF THE BOARD AND SENIOR MANAGEMENT BY GENDER



EMPLOYEES BY GENDER



PERCENTAGE OF EMPLOYEES PER GEOGRAPHICAL MARKET



A LOCAL AND GLOBAL ARENA TO GROW IN

Our fundamental approach is that both existing and potential employees at all companies should feel that they have good opportunities for an interesting future with us. Each company makes a dedicated effort to offer its employees an inclusive environment characterised by good development opportunities and attractive career paths, locally as well as globally.

The skill supply challenge must also be met through a long-term effort to attract more young talents to the lighting industry. This requires a presence at labour markets and job fairs, and conducting regular dialogues with students at universities.

The Bright Prospects trainee programme is an essential part of the Group's skills supply and an attractive way into the Group. The 18-month programme is designed for university graduates, and includes three project periods of six months at one of the Group's companies, alternating with shorter periods for learning and development workshops. After a completed trainee period, all participants are offered a permanent position. The third round, with four participants (including two women and two men representing three different nationalities), will conclude in spring 2020, in conjunction with the selection process for the fourth round, which will begin in autumn 2020.

Based on the need for competence and experience that the Group has today and in the future, a talent review of employees at all companies is performed every other year.

Examples from operations

- In parallel with the Group-wide trainee program, local versions are conducted at Fagerhults Belysning Dubai, Designplan, Whitecroft Lighting and iGuzzini. At LTS and LED Linear in Germany, internal skills supply is supplemented with an apprenticeship programme.
- For several years, the Fagerhult brand has had strategic agreements with Jönköping University for a knowledge exchange regarding the direction of course programs and thesis projects that meet the industry's needs for future skills.

THE IMPORTANCE OF AN ACTIVE DIALOGUE WITH EMPLOYEES

The recommendation from the Group management is that all employees should have at least one development dialogue with their immediate supervisor every year. The goal is also to establish greater consensus regarding the benefits of development dialogues and what they should include. Variation between companies is comparatively large, however, and during 2019 54 per cent (52) of the Group's employees engaged in some kind of development dialogue.

Various forms of employee surveys are conducted at different times around the Group.

Examples from operations

- At the Swedish companies, 72 per cent of employees participated in at least one development dialogue in 2019. For example, at LTS, I-Valo, WE-EF and Fagerhult Russia, at least one annual performance review is conducted per year, focused on performance and personal development.
- The FOKUS Employee Engagement Survey is carried out at Fagerhults Belysning AB, Fagerhults Belysning Sverige AB, and Ateljé Lyktan every other year. The first survey was in 2017 and the improvement areas that were identified have since been prioritised for continued future work. The overall goal is to ensure we correctly prioritise our efforts to create a healthy work situation and a sustainable work environment. FOKUS touches on five different areas: goals and commitments, engagement, leadership, well-being and health, and the company as an employer. A new addition for the 2019 survey was to measure employee engagement, which will be followed by targeted employee well-being efforts connected to productivity, creativity and profitability.
- A very high level of participation in this year's FOKUS Employee Engagement Survey. 91 (91) per cent of employees at Fagerhults Belysning, 93 (93) per cent of employees at Fagerhults Belysning Sverige and 97 (93) per cent of employees at Ateljé Lyktan participated in the employee survey. This testifies how keen employees are to share their opinions and all index numbers rose compared to previous results.
- Starting in 2019, Designplan has been conducting regular surveys to assess employees feelings in four areas: personal development, cooperation, remuneration/salary and how the company handles social responsibility.
- Eagle Lighting has worked with a similar project for several years, where they replaced the formal development dialogue with several, less formal meetings called "Check Ins". With at least four meetings per year, these meetings should be used to reconcile individual performance to the stated goals and evaluate the need for further support to reach these goals.

THE RELATIONSHIP BETWEEN LIGHT AND WELL-BEING

Lighting plays a key role in creating safety and security, along with the ability to have a major impact on people's 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.

A good way of describing this would be to visualise it as a needs staircase where each step follows a logical order. The first and second steps cover our basic needs by creating safety and security as well as sufficiently good light conditions to enable performance of a specific task. On the third step, we can start to create lighting that contributes to well-being, productivity and creativity. 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 and support our biological daily rhythm.

Based on the latest research findings and in close collaboration with scientists, much is being done at the Group to design innovative lighting solutions that cover all steps.

Technology development that generates sustainable value

The Fagerhult Group converted to LED technology early, which means that LEDs now account for essentially 100 per cent of the companies' net sales. In many ways, it is now a mature market, where both costs and prices have stabilised and where demand is primarily driven by new builds and renovations. Also, the need to change existing lighting to LED is extensive and provides another powerful driving force in the market.

The combination of LED technology's long life and low energy consumption with smart control systems has quickly become the next major driving force in lighting professional indoor and outdoor environments. The technology is already applied today for proximity sensor-controlled lighting that automatically regulates comfortable and energy-efficient lighting according to the time of day and presence in a space or in an outdoor environment. The combination can, depending on application, potentially reduce energy consumption by up to 70 per cent. A connected luminaire can also collect valuable information about how efficiently an office space is actually being used by measuring presence in the space 24/7. Or about how customers move within a store space, where they stand and where they decide to just pass by. This provides input about how décor and signs can be changed and moved to optimise customer experience.

The continuous investments that our companies make in product development and manufacturing position us well to effectively meet the next stage of development.

Examples from operations

- Part of the development in recent years has focused on the possibility to create more energy-efficient diodes with a maintained effect, in part by developing the Constant Light Output (CLO) technology[1]. By combining efficient linear LED modules with CLO, LTS has developed luminaires that reduce energy use by 20 per cent with lumens retained[2].
- The Fagerhult brand launched new LEDs this year with "flip chip" technology. In addition to reducing energy consumption up to 20 per cent, the technology contributes to an extremely long burn time of up to 100,000 hours.
- The advantage of combining LED and smart control systems is clear in e-Sense Motion from the Fagerhult brand and Eco Step Dim® Motion from WE-EF, which both illuminate trails, bike paths, parks and ski trails based on presence and light need. Using motion detection, a predetermined number of luminaires brighten ahead of a moving person and remain illuminated for a pre-set time period after the person has passed, providing a secure environment[3]. This solution also streamlines maintenance of the luminaires by registering faults and submitting information about energy consumption via the internet. An exciting possibility for the future is the ability to expand the concept to several application areas, for example rural roads and major road networks.

1. A light diode's luminous flux decreases with use. This decrease is more or less linear over the diode's life. With a programmable controller that increases the effect over time, the luminaire itself can compensate for this decrease. This is called Constant Light Output (CLO) and is designated as L100. The L100 CLO luminaire therefore has the same light level after a determined amount of burn time hours as it had at installation. The expected lighting decrease of an LED luminaire with an L rating 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. Example for a luminaire without CLO: L90 50,000h = after 50,000 hours, the luminaire produces a luminous flux equivalent to 90 per cent of the new value.
2. The luminous flux that the LED luminaire emits is expressed in lumens (lm).
3. The solution enables energy savings of up to 50 per cent, according to KTH in 2015: Bromma Research Project.

OBJECTIVES FOR OUR ENVIRONMENTAL RESPONSIBILITY

To realise business opportunities and energy savings brought about by LED technology and lighting control solutions.

To meet and exceed customer expectations in terms of quality, service and sustainable value creation.

To ensure that all products and services adhere to regulations and accepted standards.

To ensure environmental consideration.

LUMINAIRES' ENVIRONMENTAL IMPACT DURING THEIR LIFE CYCLE

The environmental impact of the business is primarily indirect and consists of the user phase of the luminaires and choice of materials used. A shared goal for all companies is to limit the environmental impact of their luminaires throughout their life cycle, from development, manufacturing and use to recycling. We have known for some time that the luminaire's environmental impact arises primarily during the user phase in the form of energy consumption. Development of energy-efficient LED technology and efficient control systems has therefore created major value by significantly reducing energy consumption and thus the luminaire's environmental impact.

We also know that the choice of material has a major environmental impact through out the luminaire´s life cycle. An innovative possibility and important focus going forward is therefore to increase the portion of sustainable material to reduce our impact. Data about the luminaire's environmental impact is produced by each company depending on the local market's requirements and regulations.

Examples from operations

- Environmental data sheets are produced for the majority of luminaires manufactured by the Swedish companies. Additionally the majority of the products are environmentally evaluated by a third party[4].
- To share knowledge about the luminaire's environmental impact, Fagerhults Belysning conducted life cycle assessment for three of their largest product families. Notor 65, Multilume Slim and Evolume 2. They represent a major portion of the products sold and can therefore provide comparable information for themselves and for the company's other products. Simulations can be performed with life cycle assessment software to estimate the material's performance and illustrate the potential effects of, for example, increased use of recycled aluminium, cardboard or bioplastics.
- WE-EF already offers Environmental Product Declarations (EPDs) based on life cycle assessment for a large number of products.
- In terms of recycling, the Swedish operations are affiliated with El-kretsen and FTI to fulfill the WEEE-directive.
- Whitecroft Lighting is actively working to develop a concept for sustainable product development from raw material to finished product. Additionally, "material passports" and how they can be used to demonstrate the products' circular economy potential are being researched.

4. Byggvarubedömningen and Sunda Hus.

THE IMPACT FROM THE USE OF ENERGY AND ELECTRICITY

The used energy and electricity from fossil fuels are part of the direct and indirect emissions from the Group's operations. As the range of renewable energy increases, the Group will endeavour to gradually attain CO_2-neutral production. An essential aspect of minimising Scope 2 emissions is handling the energy mix that is available in each country as efficiently as possible. At the same time, challenges remain for the plants in China, where a large portion of the country's energy consumption is still based on coal and the offering of renewable energy is limited.

A SUMMARY OF THE GROUP'S DIRECT AND INDIRECT CO_2 EMISSIONS 2019 (SCOPE 1 AND 2)[5]

Group's total CO_2 emissions	2019	2018
Total CO_2 emissions Scope 1, tons	7,452	8,478
Total CO_2 emissions Scope 2, tons	4,961	6,221

The Group's total energy consumption from renewable sources was 36 per cent (31).

For more details please see the GRI appendix available at fagerhultgroup.com

Examples from operations

- It is essential to increase the portion of energy from renewable sources as they become available. For example, all plants in Sweden have used renewable hydroelectric power that has a guarantee of origin for several years now[6]. Additionally, at the plant in the Netherlands electricity from 100 per cent renewable sources is used, and at plants in Germany, just over 50 per cent of the consumption is from renewable sources.
- Several companies also invest in solar energy. For example, VEKO installed solar panels at its plant in Schagen, the Netherlands, which contributes around 220,000 kWh of power annually.
- iGuzzini's plant in Recanati, Italy, is also equipped with several solar panels, which provided 22 per cent of their total electricity consumption in 2019.
- Starting in 2020, the plant in Habo, Sweden will also be equipped with solar panels, which are expected to produce 220,000 kWh annually.
- It is a continuous focus for all factories to increase energy efficiency in line with easier access to renewable energy.
- In accordance with the Act on Energy Audits in Large Companies, energy audits are performed regularly at the Swedish operations, with no more than four years between audits.

5. iGuzzini is excluded from CO_2 emissions 2019 (Scope 1, 2, 3). Total CO_2 emissions scope 3 is not available. The Group-wide emissions scope 3 reported for 2019 were from owned or leased vehicles and for business trips by plane. For more information see the GRI appendix at fagerhultgroup.com
6. The guarantee of origin is proof that the electricity is produced and regulated by the Act on Guarantees of Origin for Electricity (2010:601) and is certified by Fagerhult's electricity suppliers.

CONTINUED EFFORTS TO INCREASE THE SHARE OF SUSTAINABLE TRANSPORTATION

Transportation to and from the companies' plants has been deemed a minor part of the Group's total indirect emissions. During the last few years, attempts have been made to collect Group-wide data from external carriers and calculate the indirect emissions from transportation. The quality of the Group-level data is still considered insufficient and obtaining relevant data will remain a challenge. The only Group-wide emissions we can report for 2019 were from vehicles that we owned or leased, which are intended for transporting people, and for business trips by plane.

Examples from operations

- When the Swedish companies in the Group purchase transportation, it is centrally organised within the framework for the Latour Group (the main shareholder in Fagerhult), which sets requirements on observing laws, rules and environmental policy and evaluates vehicle and fuel types. Based on the latest environmental evaluation in 2019, the average amount of transportation made using vehicles with environmental class of at least Euro 5 or Euro 6 is 92 per cent and 51 per cent, respectively, for freight forwarders used. A new joint procurement of carriers is planned for 2020.
- A successful initiative to reduce indirect emissions has been moving certain shipments between Fagerhult Lighting Systems in Suzhou, China, and Fagerhults Belysning in Habo, Sweden from air and sea to rail. Shipment has mainly been via rail instead of sea for the last years, which reduces lead times compared to by sea. Additionally, reallocating shipments helps reduce both transportation costs and emissions compared with air- and sea transportation. In 2019, this resulted in 8,108 m^3 (1,800) of goods being shipped by rail between the two destinations.


In 2019 8,108 m^3 (1,800) of goods were shipped by rail between Suzhou and Habo.

SAFE PRODUCTS BASED ON UNIVERSAL STANDARDS

Each company in the Fagerhult Group is responsible for testing and assessing the safety of all of their luminaires (100 per cent) according to current industry requirements and other regulations. Since the regulations around safety testing in many areas are standardised, the same requirements apply regardless of company or country, generally speaking.

Examples from operations

- The Group has several certified laboratories, for example at iGuzzini, the Fagerhult brand and Arlight, where safety inspections and product approval are conducted.

  TeknikCentrum in Habo can serve as an example of luminaire safety testing where several risks are considered e. g. electrical, mechanical, and thermal risks, exposure to electromagnetic fields and photobiological safety[7]. Every manufactured luminaire also undergoes final testing in production according to set rules and procedures and is also certified in line with the EMPC, ErP and RoHS directives. Safety testing documentation conforms to the EU directives required for CE marking of luminaries.

  The assessment from leading Group companies is that, as luminaires continue to be connected to smart control systems, further requirements and standards will be added, which is a development that is being carefully watched and monitored.

7. Photobiological safety means that the different wavelengths and energy are safeguarded so as to not injure human eyes.

Sound business ethics are the foundation for everything we do

The Fagerhult Group conducts comprehensive work to ensure ethical, sustainable business in all parts of its operations. The guiding document is the Group's Code of Conduct (the Code), which includes the underlying principles for how to conduct responsible business. These include guidelines that encompass human rights, labour protection, business ethics, anti-corruption and environmental responsibility. Everyone who works within the Group, from the Board of Directors and management to individual companies' management and employees, must act in accordance with the Code.

FOCUS ON GOOD AWARENESS OF THE CODE'S CONTENTS

During the year, a new Group-wide online training module was created regarding the Code, with particular focus on anti-corruption. The training includes filmed episodes hosted by the Group's CEO Bodil Sonesson featuring several dilemmas and follow up questions designed to clarify how the Code is to be applied in daily operations. The training is primarily directed to the Group's management and to those employees who are exposed to different degrees of business ethics risks in their work. During 2019, 97 per cent of the identified managers and employees completed the online training. In total, this corresponds to 38 per cent of the managers and employees.[1]

The Group's Code[2] was also supplemented with a section on guidelines for how close and personal relationships between employees are to be managed professionally.

Examples from operations

Each company is responsible for implementing the Code and ensuring that its contents are easily accessible and comprehensible for employees. In general, the immediate supervisor is responsible for ensuring that new employees are acquainted with the Code. Efforts to incorporate the Code in operations take many forms throughout the companies.

- Arlight focuses on clear managerial responsibility for ensuring that employees have understood the Code, including through workshops that provide the opportunity to discuss its meaning and application in daily work.
- As a matter of routine, employees at Fagerhult Russia are to sign a statement that they have studied the Code.
- Whitecroft Lighting has supplemented the Code with a Modern Slavery Statement and a social media policy. During 2019, the company also conducted the Sedex Ethical Audit[3].
- At Fagerhult Lighting Systems Co, the Group's Code has been translated into Chinese, and all employees — current and new — are to be introduced to its contents.
- WE-EF has also had an internal Code of Conduct for several years.
- During the year, iGuzzini implemented the Group's Code in its organisation, and the Code will soon be available on iGuzzini's website as well.

1. The online training is based on Netigate's online survey software, which enables a precise measurement of the training sessions completed. For more information, visit www.netigate.net
2. You can read the Group's Code at fagerhultgroup.com
3. A set of requirements known as the Ethical Trade Initiative Base Code. Part of Tesco's supplier approval.

OBJECTIVES FOR RESPONSIBLE ENTERPRISE

That all companies conduct business according to current laws and regulations.

That our shared Code of Conduct forms the basis for everything we do and how we act.

That a thorough due diligence is conducted for every company acquisition.

DIRECT CHANNEL FOR REPORTING IRREGULARITIES

The Fagerhult Group's whistle-blower function is available on the intranet and allows employees to anonymously report deviations and irregularities in breach of the Code. The report recipients are the Group's Chief Financial Officer and Group Human Resources Director. There are guidelines and an internal process for how incoming reports are to be assessed, with the option to include external actors for support as needed. During 2019 two cases were reported directly to the CEO and to one of the companies' CFO respectively. Both cases concerned compliant issues with the Group's CoC.

In connection with the launch of the Group's new website, the whistle-blower function will also be made available via this channel.

A GLOBAL PRESENCE REQUIRES FOCUS ON COMPLIANCE

The Group respects and supports international conventions on human rights and child labour or forced or compulsory labour is not permitted under any circumstances. All Group employees are to enjoy freedom of association and the right to collective agreements. Corruption is never permitted and in cases where the risk of corruption exists, no business transactions will be entered into and no agreements signed. This is the basis for all operations conducted by the Group. Countries where the Group conducts operations and that are assessed as having the largest risk exposure in these issues include China, the United Arab Emirates, Russia, South Africa and Turkey.

COUNTRY	PRESENCE	CONTROL AND MONITORING OF COMPLIANCE
China	Operations comprise manufacturing entities; Fagerhults Belysning, located in the Suzhou Industrial Park, and iGuzzini, located in Fengxian, Shanghai.	A Swedish site manager is responsible for monitoring and ensuring that the working conditions comply with international conventions and that the Code and other policies are followed. Operations must comply with the local government authorities' requirements to comply with local laws and regulations governing forced labour and human rights. Working hours and other conditions follow the directives of the industrial park. As a way of reducing exposure to corruption, there is continual job rotation among vulnerable positions. The acquisition of iGuzzini also included a plant in Fengxia, Shanghai where an Italian manager is similarly responsible for ensuring compliance with international conventions and local legislation.
The United Arab Emirates	Operations comprise a small sales company and business representatives for iGuzzini, LED Linear and Fagerhult.	The Region Director, who is also part of the Group management, is responsible for monitoring and ensuring compliance with international conventions, the Code and other policies.
Russia	Operations comprise the sales companies in St. Petersbourg and Moscow.	The Regional Managing Director, who is part of the Group management, is responsible for monitoring and ensuring compliance with international conventions, the Code and other policies.
South Africa	Lighting Innovations.	The South African market is considered a high-risk market, with significant exposure to corruption. The Group's Code has clear guidelines about the zero-tolerance corruption policy. To ensure that the Code is followed and that any risk exposure is always met with relevant measures, the Group management and Lighting Innovation's management have established a close collaboration.
Turkey	Arlight.	The political risk and security situation in all of Turkey and neighbouring countries has worsened significantly since 2015. Even if the country's legislation guarantees citizens human rights, there are several gaps in compliance. Close contact and continuous visits to the company's management on the topic of development is of the greatest importance for the Group's Board and management. Additionally, both the Regional Managing Director and the Group Human Resources Director are involved in recruitment for management positions in the company.

A DUE DILIGENCE PROCESS FOR SUSTAINABLE ACQUISITIONS

Upon acquisition of companies, the Group management always initiates a due diligence process (DD) — an inspection of the company. Depending on the type of operation or the countries in which operations are conducted or there is a presence, the inspection is adapted primarily through broadening the analysis and including more detailed questions.

For example, there is a clear analysis structure that guides the effort to assess the senior management's competence and experience together with an analysis of the risks associated with succession management. Upon acquisition of iGuzzini, a complementary aspect in the form of in-depth interviews with all the senior management was included, with the help of an independent external actor. This was to both ensure a correct understanding of Fagerhult and to provide the individuals with the opportunity to discuss any questions, as well as, to ensure management's competence and values from a strictly financial and business ethics perspective. The underlying risk analysis of iGuzzini's global market presence indicated no direct risks at the time of analysis.

You can learn about the entirety of the Group's DD process in Fagerhult's Annual Report 2018, page 38.

EACH COMPANY OWNS AND IS RESPONSIBLE FOR ITS OWN SUPPLY CHAIN

The companies in the Group have some 13,000 suppliers, which deliver input materials. Input materials mainly consist of electronic components, metal and plastic for the manufacturing of luminaires. Based on figures from the companies, in 2019 the Group added a total of 180 new suppliers of which 57 were evaluated based on environmental criteria.[4]

In line with our decentralised business model, it is each company's responsibility to manage its supply chain sustainably and ethically. Regardless of number, which can vary significantly among the companies, the procurement function must acquire knowledge of and ensure that the contracted supplier lives up to the international guidelines for human rights, freedom of association, right to collective agreements, anti-corruption and efforts to combat child and forced labour.

The general assessment is that risk exposure for the Group's purchases are low since a large portion of the procurement is done with well-established global companies. Otherwise purchases are made from suppliers within the company's near environment, which provides good opportunities to perform supplier assessments in the form of dialogues and workplace visits. There has been a Group-wide forum for procurement for some time, with the task of realising the synergies that the Group's size generates. During the year, a joint procurement was made from a new, well-established global supplier of LEDs. The purchases of assembled electronics components containing earth metals, albeit in small quantities, are also purchased from well-established global companies. The Group has very limited insight into their extraction.

Examples from operations

Each company is responsible for ensuring a sustainable and ethical supply chain, and below are some examples of their work during 2019 with procurement and evaluating suppliers:

- Code of Conduct for suppliers to/of Fagerhults Belysning and Ateljé Lyktan are now part of the contract with suppliers. Each supplier is encouraged to confirm in writing that they commit to adhering to the Code. The objective is for all suppliers to sign the Code. By the end of 2019, the number of suppliers that have signed the Code will represent a purchase value of 93 per cent (90) of total purchases. To streamline efforts, a new service Supplier Quality Assurance (SQA) was launched, with the primary task of managing supplier evaluations and audits focused on quality. The objective going forward is for every new supplier to perform a self-assessment prior to starting the collaboration, and that the questions are posed to existing suppliers on a five-year basis. At the end of 2019, 15 (13) of the suppliers for Swedish companies had performed the self-assessment, of which two (four) were new suppliers.
- Designplan performed a supplier assessment of one existing and six new suppliers (seven in total). All were approved, with "Excellent" or "Good" ratings.
- Whitecroft Lighting evaluated new suppliers, of which ten were self-assessments and five were via direct contacts. All 15 suppliers were approved.
- VEKO performed 41 supplier reviews during the year, according to criteria such as quality, price, service and delivery times. Based on the results, one supplier relationship was terminated.
- Arlight conducted 15 site visits at local suppliers, of which ten were potential new suppliers. Based on the visits, Arlight chose to review six of them. Five of them were approved after review.

4. Excl iGuzzini.

VEKO LIGHTSYSTEMS

Leading the way with sustainable lighting solutions

Solar panels and electric cars are just a few of the initiatives taken by Veko Lightsystems to take the lead as a sustainability role model. Sustainability, focusing on circular lighting solutions, is in the company DNA and has been from the very start in 1975.

For more than 40 years, Veko Lightsystems in the Netherlands has been developing, producing and assembling linear LED-based lighting solutions for industrial applications. Sustainability – for people, environment and businesses – has been a central part of the company's history since it was founded. The main focus is to create circular lighting solutions, with no waste, efficient use of energy and minimized carbon footprint.

As one example, 100 per cent recyclable aluminium has been used in profiles and luminaires from the very start. Furthermore, lighting systems are delivered unpackaged, encoded and pre-assembled, saving customers more than 50 per cent of the assembly time: lighting solutions are installed in a blink of the eye without any waste.

Among the measures taken to become less dependent on fossil fuels and help mitigate climate change, is also the installation of 770 solar panels on the rooftop of two of the company buildings in the Netherlands. In addition, Veko Lightsystems has invested in electric cars and charging stations as well as hybrid cars. Naturally, the company's energy-efficient LED lighting solutions are installed in office premises, enabling further energy savings.

CREATIVE IDEAS AND A STRUCTURED APPROACH

Many of the ideas have been initiated by employees. Well aware that environmental performance requires more than an open mind and creativity, Veko Lightsystems has taken a structured approach and implemented the CO_2 Performance Ladder to manage its climate work – a Dutch initiative and instrument that helps organizations reduce direct as well as indirect greenhouse gas emissions.

Several new actions are already planned ahead to support climate goals as well as other environmental goals of the company. Among other things, the company is researching the possibilities of replacing the fixed electric engines in its factory's machines with frequency-controlled engines. By sharing experiences and working together with other companies, for instance in joint logistics solutions, Veko Lightsystems also hopes to spread their vision of sustainability to other stakeholders.

Sustainability governance

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

In 2020, the ambition is to further clarify our vision and set targets at the Group level. The goal is to create concrete, measurable and visionary targets for the next five year period.

SUSTAINABILITY GOVERNANCE AND RESPONSIBILITY — THE GROUP

The overall strategic direction for Fagerhult's work with sustainability is determined by the 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 laws and collective agreements that impact our operations.

The Group 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 35 (35) per cent of the companies 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.

SUSTAINABILITY GOVERNANCE AND RESPONSIBILITY — THE COMPANIES

In the same manner, the MDs at respective companies have the ultimate responsibility for implementing the Group's regulations and guidelines at the local level and for abiding by the relevant national laws and regulations, as well as competition rules, environmental legislation, labour laws and collective agreements.

Each company owns and is responsible for its own supply chain. Input materials mainly consist of electronic components, metal and plastic for the manufacturing of luminaires. Efforts to identify and monitor input materials must therefore be ongoing, not least in light of shifting legal requirements and any new substances and components brought on by a shift in technology.

Each company is also responsible for providing a safe and healthy workplace and working environment, along with a proactive effort to ensure an acceptable level of employee turnover and work-related illnesses. They are also responsible for ensuring ongoing competence development, primarily in the form of training activities that are based on local and individual needs. As part of strengthening the Group's Human Resource function, several new regional positions were introduced in 2019. They will eventually be given regional-level responsibility for employee issues and support local companies through developing more efficient processes to capitalise on and share the companies' collective skills. In 2019, the Group also initiated a joint HR-forum where senior HR managers meet two to three times per year to discuss strategic HR issues related to, for example, sustainability.

CODE OF CONDUCT AS GOVERNANCE INSTRUMENT

The Group's Code of Conduct applies to all companies and employees. The Code states the Group's views on human rights, labour conditions, diversity and equal opportunities, as well as, environmental responsibility. Managers within the company are responsible for communicating the content and importance of the Code to their own part of the organisation, and for ensuring that business partners are also aware of it.

Several companies also use a supplier version of the Code to clarify the central parts of the Code and expectations concerning suppliers' compliance with laws and regulations. Several companies also conduct regular supplier reviews.

The Group's general approach in terms of the Precautionary approach is described in the Code and the anti-corruption policy; see fagerhultgroup.com

CLEAR SOCIETAL 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 and the anti-corruption 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 Group must in all aspects seek to meet or exceed the requirements in applicable legislation. An overall ambition is to limit the environmental impact of the luminaire during its working life — from development, manufacturing and use to recycling. The environmental management system constitutes a key tool.

For a summary of the companies' management approach and governance of the most material issues, please see the GRI appendix available at fagerhultgroup.com

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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 Standards framework. Reports regarding the Fagerhult Group's most important areas of sustainability, business model, policies and performance indicators can be found on pages 26–46; the GRI Appendix at fagerhultgroup.com and in Note 36 /risk/ on pages 105–108.

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 topics relevant to the Group, given the companies' operations: the impact the operations have as regards the economy, society, people and the environment; and the topics that influence the stakeholders' decision-making and their expectations. This includes the environment, societal conditions, personnel, respect for human rights and counteracting corruption as well as the Group's business model, the risks that can be linked to the areas, the allocation of responsibilities. Also policies/guidelines for governing important areas of sustainability as well as central performance indicators of relevance to the operations.

Auditor’s Limited Assurance Report on AB Fagerhult’s Sustainability Report and Statement on the Statutory Sustainability Report

This is a translation of the original report in Swedish

TO THE ANNUAL GENERAL MEETING OF AB FAGERHULT, ORG.NR 556110-6203

INTRODUCTION

We have been engaged by the Group Management of AB Fagerhult to undertake a limited assurance of AB Fagerhult’s Sustainability Report for the year 2019. The company has defined the scope of the sustainability report on page 27 in Fagerhult’s Annual Report 2019. The statutory sustainability report is defined on page 46.

RESPONSIBILITIES OF THE BOARD AND GROUP MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the Statutory Sustainability Report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 27 of the Sustainability Report, and consist of the parts of the standard for sustainability reports published by GRI (Global Reporting Initiative) that are applicable to the sustainability report, as well as the accounting and calculation principles that AB Fagerhult has developed. This responsibility also includes the internal control which is deemed necessary to establish a sustainability report that does not contain material misstatement, whether due to fraud or error.

RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the sustainability report based on o the limited assurance procedures we have performed and to provide an opinion on the statutory sustainability report. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. 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. We have conducted our review regarding the statutory sustainability report in accordance with FAR’s recommendation RevR 12, the Auditor’s Opinion on the Statutory Sustainability Report. A limited assurance engagement and a statement according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to AB Fagerhult according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the security that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as 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, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A statutory sustainability report has been prepared.

Jönköping, 19th of March 2020

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorised Public Accountant

Isabelle Hammarström
Expert Member of FAR

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 10.5 billion.

Sales and trading

The share symbol is FAG and its ISIN code is SE0010048884. One trading lot corresponds to one share. In 2019, total turnover for the share on Nasdaq in Stockholm was 25.6 million shares, at a combined value of MSEK 1,520. Average share turnover per trading day was about 102,712, representing a value of SEK 6,104,000. An average of approximately 169 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 2019, the closing price for Fagerhult's share was SEK 59.50 per share, corresponding to a market capitalisation of approximately SEK 10.5 billion. The price of the Fagerhult share declined 22 per cent in 2019. Over the same period, the Nasdaq Stockholm PI rose 29 per cent. The highest closing price of SEK 73.76 was noted on 26 April and the lowest on 6 September at SEK 50.60. The average share price for the year was SEK 61.

Total shareholder return for the Fagerhult share, defined as the price trend including reinvestment of the dividend of SEK 2.00, was negative 7 per cent.

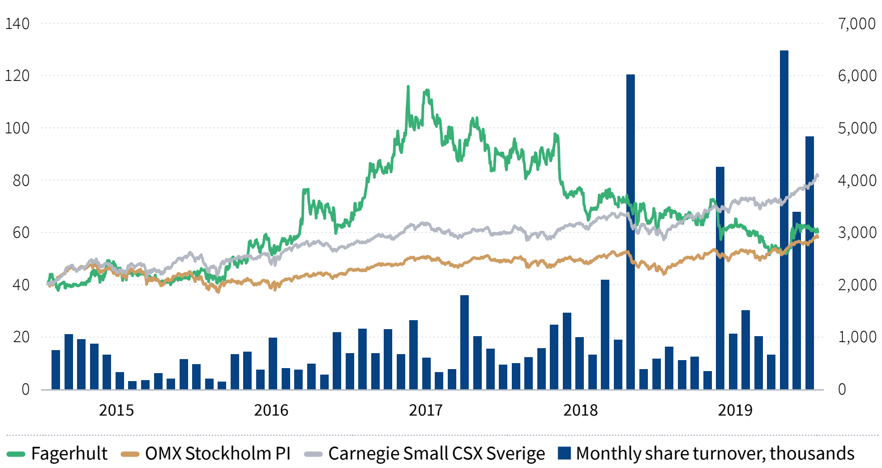
Share capital

At year end, Fagerhult's share capital amounted to MSEK 100.2 (65.5), allocated over 177,192,843 shares with a quotient value of SEK 0.57 per share. All shares have equal voting rights and an equal participation in the company's earnings and capital. At the Annual General Meeting (AGM) on 13 May 2019, it was resolved that the company be permitted to buy back its own shares. This option was not exercised in 2019. In connection with the allocation of shares tied to the Group's share-savings plan (see Note 2), treasury shares were used. The number of treasury shares totalled 1,056,544 (1,149,708) after allocation and the number of shares outstanding was 176,136,299. The percentage of shares held as treasury shares was 0.6 per cent. The Board of Directors proposes that the AGM resolve to grant the Board the continued right to buy back the company's shares until the next General Meeting.

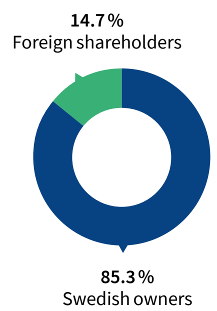
Ownership structure

At year end, Fagerhult had 7,568 (5,774) shareholders. The largest single shareholder was Investment AB Latour, in which the Douglas family are the main shareholders, with combined holdings of 46.6 per cent (48.3) of the share capital and votes in

FIVE-YEAR SHARE PRICE TREND



OWNERSHIP DISTRIBUTION



OWNERSHIP STRUCTURE (AT 31 DEC 2019)

Shareholder	No. of shares	Share capital and voting rights, %
Investment AB Latour	82,118,480	46.3
Lannebo Fonder	13,511,460	7.6
The Svensson family, foundation and company	9,618,442	5.4
BNP Paribas SEC Services	8,777,941	4.9
Swedbank Funds	5,674,183	3.2
FMR, Fidelity (US)	5,364,441	3.0
Nordea Funds	5,074,360	2.8
AP Funds	4,988,749	2.8
Handelsbanken Funds	4,449,494	2.5
The Palmstierna family	3,948,095	2.2
Clearstream Banking S.A. (LU)	3,449,135	1.9
Didner and Gerge Småbolag	2,254,268	1.3
Other owners with more than 20,000 shares (159 owners)	18,706,977	10.9
Other owners with 10,001–20,000 shares (125 owners)	1,682,939	0.9
Other owners with 1,001–10,000 shares (1,835 owners)	5,284,970	3.0
Other owners with up to 1,000 shares (5,436 owners)	1,232,365	0.7
AB Fagerhult, treasury shares	1,056,544	0.6
Number of shares at year end	**177,192,843**	**100.00**

SHARE TURNOVER

Year	2015	2016	2017	2018	2019
Volume of shares traded, millions	5.7	5.6	9.1	14.2	25.6
Value of traded shares, MSEK	275	373	954	1,188.2	1,519.9
Average volume of shares traded/trading day	22,821	22,269	36,092	56,828	102,712
Average value per trading day, SEK thousand	1,098	1,474	3,803	4,752	6,104
Turnover rate, %	4.9	4.9	7.9	12.3	14.5
Highest price paid during the year, SEK	56.00	92.83	136.67	111.00	73.76 [1]
Lowest price paid during the year, SEK	42.83	44.75	76.67	67.70	50.60 [2]

1) Paid 26 April 2019 2) Paid 6 September 2019

DATA PER SHARE

Year	2015	2016	2017	2018	2019
Earnings per share before dilution, SEK	2.54	3.35	4.32	4.39	3.32
Dividend per share, SEK	1.17	1.50	2.00	2.00	1.50 [1]
Share price 31 Dec, SEK	52.50	77.83	100.50	76.10	59.50
Dividend yield, %	2.2	1.9	2.0	2.6	2.5
Equity per share, before dilution, SEK	12.65	14.30	16.51	18.60	31.23
Cash flow per share, before dilution, SEK [2]	3.91	3.41	5.96	3.30	6.58

1) Proposed dividend 2) Cash flow from operating activities

the company, based on the number of shares outstanding. The ten largest shareholders accounted for 80.2 per cent (84.4) of the share capital and voting rights of the shares outstanding.

The proportion held by shareholders outside of Sweden was 14.7 per cent (13.6).

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 1.50 (2.00) per share, representing a dividend yield of 2.5 per cent (2.6) based on the share price on 31 December 2019.

Extraordinary General Meeting

The following was resolved at the Extraordinary General Meeting (EGM) at AB Fagerhult (publ) ("Fagerhult" or "the Company") on 7 February 2019.

The meeting passed a resolution to amend Fagerhult's Articles of Association as they concern the company's share capital (Section 4 in the Articles of Association) and the number of shares in the company (Section 5 in the Articles of Association). The resolution entails that Section 4 of the Articles of Association now reads "The share capital shall be no less than SEK sixty-five million (65,000,000) and no more than SEK two hundred and sixty million (260,000,000)," while Section 5 in the Articles of Association now reads "The number of shares shall be no less than one hundred and ten million (110,000,000) and no more than four hundred and forty million (440,000,000)."

The meeting passed a resolution to authorise the Board to, on one or more occasions prior to the next AGM, resolve to approve a new issue of shares in Fagerhult to be issued as a part of the acquisition price of iGuzzini Illuminazione S.p.A. ("Non-cash issue"). The owners of iGuzzini Illuminazione S.p.A., Filmag S.p.A. and Tip-Pre lPO S.p.A., will alone be entitled to subscribe for the new shares in the Non-cash issue by transferring shares in iGuzzini Illuminazione S.p.A. to Fagerhult.

The meeting also passed a resolution to authorise the Board to, on one or more occasions, before the next AGM, resolve to approve a new issue of shares against cash payment with pre-emption rights for shareholders to raise approximately SEK 2.2 billion for Fagerhult, to replace credit facilities that were used by Fagerhult in the acquisition of iGuzzini Illuminazione S.p.A.

Non-cash issue

In accordance with the resolution by the EGM and as part-payment for iGuzzini, the Board decided to issue 11,244,805 new shares in Fagerhult. The new shares were subscribed for by the sellers of iGuzzini (Fimag S.p.A. and Tip-Pre IPO S.p.A.), who paid for these shares through the transfer to Fagerhult of their shares in iGuzzini Illuminazione S.p.A. at an agreed value of MEUR 91.4 (MSEK 963.6). As a result of the non-cash issue, Fagerhult's share capital increased MSEK 6.4.

Preferential rights issue

On 2 May, the Board published the prospectus for a rights issue and a prospectus supplement to the rights issue was published on 13 May. The subscription period for the rights issue ended 22 May 2019. The final count showed that 49,861,704 shares, corresponding to approximately 99.1 per cent of the offered shares, were subscribed for with subscription rights. The remaining 436,334 shares, for which the rights were not subscribed for, were allocated to those who had applied to subscribe for shares without subscription rights. Interest in the rights issue was high and as a result, the rights issue was oversubscribed by 23.2 per cent. The rights issue raised proceeds of approximately MSEK 2,213 for Fagerhult, before the deduction of issue costs. As a result of the rights issue, Fagerhult's share capital will increase MSEK 28.4 to MSEK 100.2. The total number of shares will increase by 50,298,038 shares to 177,192,843 shares.

Five-year overview

Income items (MSEK)	2015	2016	2017	2018	2019
Net sales	3,909	4,491	5,170	5,621	7,845
Cost of goods sold [1]	–2,612	–2,917	–3,246	–3,474	–4,795
Gross profit	**1,297**	**1,574**	**1,924**	**2,147**	**3,050**
Selling expenses [1]	–678	–783	–919	–1,036	–1,698
Administrative expenses [1]	–246	–316	–385	–467	–631
Other operating income	23	49	58	201	74
Other operating costs				–139	
Operating profit [1]	**396**	**524**	**678**	**706**	**795**
Financial income	5	17	15	10	38
Financial expenses[1]	–24	–26	–40	–49	–137
Profit after net financial items	**377**	**515**	**653**	**667**	**696**
Balance-sheet items (MSEK)					
Intangible assets	1,466	2,069	2,709	3,160	6,042
Property, plant and equipment [1]	392	448	686	703	2,808
Financial assets [1]	35	34	54	52	205
Inventories	602	685	761	858	1,247
Trade receivables	678	761	838	925	1,427
Other current assets [1]	94	86	99	115	230
Cash and cash equivalents	472	731	950	808	1,133
Total assets	**3,739**	**4,814**	**6,097**	**6,621**	**13,092**
Equity [1]	1,437	1,627	1,890	2,129	5,501
Pension liabilities	66	68	90	93	190
Deferred tax liabilities	63	131	283	335	1,017
Other non-current interest-bearing liabilities [1]	1,341	1,752	2,685	2,372	4,458
Other non- non-interest-bearing liabilities	53	239	162	249	150
Current interest-bearing liabilities [1]	1	133	5	416	222
Current non-interest-bearing liabilities	778	864	982	1,027	1,554
Total equity and liabilities	**3,739**	**4,814**	**6,097**	**6,621**	**13,092**
Key performance indicators and data per share					
Sales growth, %	4.6	14.9	15.1	8.7	39.6
Increase/decrease in operating profit, %[1]	4.6	32.4	29.3	4.1	12.6
Increase/decrease in operating profit after financial items, % [1]	8.4	36.5	26.8	2.2	4.3
Operating margin, % [1]	10.1	11.7	13.1	12.6	10.1
Profit margin, % [1]	9.6	11.5	12.6	11.9	8.9
Liquid ratio, % [1]	61	73	96	56	64
Net debt/EBITDA [1]	1.9	1.9	2.2	2.0	2.9
Equity/assets ratio, % [1]	38	34	31	32	42
Capital employed, MSEK [1]	2,846	3,581	4,670	5,010	10,372
Return on capital employed, % [1]	14.4	16.8	16.8	14.8	10.8
Return on equity, % [1]	20.9	24.9	28.1	25.0	13.5
Net debt, MSEK [1]	937	1,222	1,830	2,073	3,737
Net investments in non-current assets, MSEK	118	169	177	123	243
Depreciation/amortisation of non-current assets, MSEK	107	121	158	320	479
Number of employees	2,451	2,787	3,241	3,384	4,465
Equity per share, SEK [1]	12.65	14.30	16.51	18.60	31.23
Earnings per share, SEK [1]	2.54	3.35	4.32	4.39	3.32
Dividend per share, SEK	1.17	1.50	2.00	2.00	1.50[2]
Cash flow per share, SEK[3]	3.91	3.41	5.96	3.30	6.58
Number of shares outstanding, thousands	113,589	113,818	114,492	114,500	176,136
Average number of shares outstanding, thousands	113,589	113,761	114,318	114,497	153,274

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected. For additional information see Accounting principles, page 79 and Note 26 page 102.
2) Proposed dividend 3) Cash flow from operating activities.

For more information about the Key ratios and the definitions applied, please refer to AB Fagerhult's website under "Investor/Financial data/Financial glossary."
The website also includes the definition of any Alternative Performance Measures used whereas this report details the financial aspect to these.

Administration report

The Board of Directors and CEO of AB Fagerhult (publ.), Corporate Identity Number 556110-6203, hereby present the Annual Report for the Group and the Parent Company for the year 2019.

Operations

The Fagerhult Group is one of Europe's leading lighting groups. We design, develop, manufacture, and market professional lighting solutions for public environments with a focus on aesthetics, function, flexibility and energy-efficient solutions. The Group has 11 manufacturing facilities in Europe, factories also in China (two), Australia, Turkey, South Africa, Thailand and Canada and sales companies in more than 25 countries.

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

Changes in the Group

On 7 March 2019, Fagerhult completed the acquisition of 100 per cent of the shares of iGuzzini Illuminazione S.p.A. based in Recanati, Italy. The iGuzzini group comprises three manufacturing entities, located in Recanati, Italy, Shanghai, China and Montreal, Canada as well as sales companies in approximately 20 other countries. The Canadian based entity operates under the Sistemalux name and is 70 per cent owned by iGuzzini following an acquisition in early 2018. There are a total of 19 legal entities, 4 branch offices and 3 representative offices included in the iGuzzini group of companies with the holding entity being iGuzzini illuminazione S.p.A. Refer to www.iguzzini.com for further details on legal entity names and locations.

The results of the iGuzzini group have been consolidated in the Fagerhult Group from 1 March 2019 and included in the business area Western and Southern Europe. The addition of iGuzzini to the Fagerhult Group will significantly strengthen the Group's position in the global high-end professional market for indoor and outdoor lighting in a wide range of application segments from offices to museums and from art galleries to monuments. Significant synergies are expected from the acquisition, from shorter term cost synergies to more medium term cost, sales and market synergies.

The key dates and stages of the acquisition were as follows. On 15 October 2018, Fagerhult signed a Letter of Intent with the shareholders of iGuzzini illuminazione S.p.A ("iGuzzini") to acquire 100 per cent of the shares, on 21 December 2018 Fagerhult signed a Share Purchase Agreement with the shareholders of iGuzzini to acquire 100 per cent of the shares, on 7 January 2019, the board of Fagerhult called for an Extraordinary General Meeting of Shareholders (EGM) to be held on 7 February 2019 and at the EGM all resolutions were passed by the shareholders attending the meeting. On 7 March 2019, the transaction was completed and Fagerhult acquired 100 per cent of the shares in iGuzzini.

Also on the 7 March 2019, the board of directors of Fagerhult decided on the Issue in Kind which formed part of the purchase price for the acquisition. On 26 April 2019, the board of directors of Fagerhult decided on the terms for the Rights Issue. The proceeds from the Rights Issue was used to pay down the bridging loan finance drawn down at completion on 7 March.

For more information refer to the press releases on 15 October 2018, 21 December 2018, 7 January 2019, 7 February 2019, 7 & 29 March 2019, 26 April 2019 and 2, 13 & 28 May 2019 as well as on 28 June 2019.

The Group's legal structure is regularly reviewed with the objective of reducing the number of legal entities and reducing administration. Sometimes this is driven from a customer-market perspective like the combination of Fagerhult Lighting Limited and WE-EF Lighting Limited in the UK and sometimes from a simple legal, administration and tax perspective similar to the holding company mergers in Germany and Italy in 2019.

Sales and earnings

Market activity levels across the Group's business areas was mixed for the year. For the Group overall, including iGuzzini, the Group continues to grow and expand its scale and operational footprint. Organically, and for the second year running the Group experienced a decline in order intake and net sales. The decline is primarily due to two reasons. Firstly, the tailwind of growth provided by the LED technology shift benefits no longer as the Group's share of net sales is above 95 per cent and secondly, there is a volume effect on demand as the switch to LED luminaires in some markets is slower than expected. The un-installed base of LED luminaires remains a significant opportunity.

In Northern Europe the business and results have seen good development with growth in net sales and profitability, although we note a slight slow-down in order intake in the fourth quarter. In the UK & Ireland business area, the activity remains at a low level as the political situations are resolved but in the third and fourth quarters we record an improving trend with positive organic order intake.

Western & Southern Europe is the Group's largest business area. It comprises not only iGuzzini, but also the recent acquisitions since 2016 of LED Linear, WE-EF and Veko. The business area records an organic decline in net sales the year, mainly due to the regions high share of retail sales as well as strong competition in the linear LED product area.

Three of the four luminaire businesses in Africa, Asia & the Pacific continue to face tough market conditions. Australia has been the exception in the APAC business area where we continue to see steady demand and good opportunities.

We continue to see geo-political situations affecting overall demand in the UK, Turkey, South Africa, China, the USA and Russia. We report a growing focus in the industry on sustainability and development of our approach is making good progress, refer to the sustainability sections of this report.

Fagerhult delivered good overall results for 2019. The positive operating profit contributed by iGuzzini was, however, partly offset in existing businesses as a result of the net sales decline. In the second quarter, to address this decline, Group Management initiated a performance improvement programme and the fixed cost was reduced. In total over 180 employees left the business.

Many countries, regions and businesses increased sales and profitability during the year and in overall financial terms, 2019 has been Fagerhult's best year to date, beating the previous best of 2018 for order intake, net sales, operating profit and operating cash flow.

The Group's order intake totalled MSEK 7,752 (5,692), adjusted for currency effects of MSEK –134 and acquisitions of MSEK –2,296, order intake declined 6.5 per cent year-on-year. Net sales totalled MSEK 7,845 (5,621), which is a decrease of 3.7 per cent adjusted for currency effects of MSEK –135 and acquisitions of MSEK –2,299.

Operating profit recorded a year-on-year increase of MSEK 89.0 to MSEK 794.8 (705.8) and during the year 38.3 MSEK one off costs for M&A items and execution of the performance improvement programme were charged to operating profits.

Financial items amounted to a negative MSEK 99.1 (negative 39.1). The increase of MSEK 60.0 was mainly attributable to higher interest charges of MSEK 22.5 on increased borrowings and MSEK 22.0 relating to IFRS16 accounting. The balance being currency losses.

Earnings per share, based on the earnings attributable to the shareholders of the parent company for 2019 was SEK 3.32 (4.39). For 2018 the average shares outstanding were 114.5m and for 2019, as a result of the issue in kind and the rights issue, the average increased to 153.3m. The number of shares at the year-end were 176,1m.

The Group continues to operate a decentralised business model and this combined with a high degree of cross Group collaboration and many leading lighting solutions have been the prime reasons behind the Group's continued positive development. Capital investment across the operational footprint remains at a high level. We consider that the transition to LED has been successfully completed and the focus turns to connected solutions.

BUSINESS AREAS

Fagerhult divides 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, and 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 operating units and companies in the Nordics, the Baltics, Poland and Russia. The factory in China, which engages in manufacturing and purchasing is also included. Development, manufacturing and sales are conducted in Sweden, Finland and China, while operations in other markets engage only in sales.

The business area has seen continued steady development in recent years with growth in sales and operating profits.

Net sales in 2019 were MSEK 2,220, up from MSEK 2,113 last year, adjusted for currency effects net sales increased 4.1 per cent compared with 2018. The operating profit for the period was MSEK 327.8 (312.5) and the operating margin 14.8 (14.8) per cent. The increase in operating profit was mainly as a result of improved gross margins and efficiency improvements.

UK and Ireland

This business area comprises Group companies in the United Kingdom and Ireland. The most significant unit is Whitecroft 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.

The business area for the last 2 years has seen a decline, mainly caused by the lack of certainty and confidence as a result of the unstable political situation. Net sales in 2019 were MSEK 1,099 compared with MSEK 1,131 in 2018, adjusted for currency effects, this represents a decline of 6.7 per cent. The operating profit for the period was MSEK 90.1 (125.0) and the operating margin 8.2 (11.1) per cent. The decline was due primarily to reduced public sector spend and the continued headwinds in the retail segment.

Western and Southern Europe

This business area comprises our operations in Germany, the Netherlands, France, Belgium, Spain and Italy. The largest operation, iGuzzini, is based in Italy which also has factories in China and North America. Operations also exist in Germany with WE-EF, LTS and LED Linear and in the Netherlands with Veko. These entities engage in the development, manufacture and sale of lighting systems.

The businesses of iGuzzini, LED Linear and WE-EF have operations across the globe but for governance reasons are reported within this business area. The Fagerhult branded business in the Netherlands, France, Spain and Belgium engage in sales. The results of the 20th April 2018 acquired Veko Lightsystems International B.V. business based in Schagen, the Netherlands, are consolidated in the business area from May 2018 and iGuzzini illuminazione S.p.A. which was acquired on 7th March 2019 has been consolidated from March 2019.

Net sales for 2019 were MSEK 4,404, up from MSEK 2,123 the year earlier. The operating profit for the period was MSEK 403.5 (246.9), where the increase was mainly attributable to the acquisition of iGuzzini and consolidating Veko for a full 12 months.

Africa, Asia and the Pacific

The business area comprises our operations in South Africa, Turkey, the United Arab Emirates, Australia and New Zealand.

Development, manufacture and sale of lighting systems and controls are conducted in South Africa, Australia and Turkey, while the operations in the United Arab Emirates and New Zealand engage in sales.

Net sales for 2019 were MSEK 589, compared with MSEK 704 in the preceding year.

Adjusted for currency effects, sales declined by 16.2 per cent, which was due to continued liquidity challenges in the Middle East, adverse currency effects and tough market conditions in Turkey as well as the poor economy in South Africa.

The operating profit was MSEK 20.3 (65.0) and the operating margin 3.4 (9.2) per cent.

Financial position

The Group's equity/assets ratio at the end of the year was 42 (32) per cent. Cash and bank balances at year end amounted to MSEK 1,134 (808) and consolidated equity totalled MSEK 5,501 (2,129).

Net debt amounted to MSEK 3,737 (2,073) where MSEK 928 (0) is due to the adoption of IFRS16, which was not applicable in 2018.

Cash flow from operating activities for the year totalled MSEK 1,008 (378). The increase of MSEK 630 (decrease 303) is due to MSEK 157 working capital decrease (prior year an increase of MSEK 159), plus MSEK 389 (66) adjustments for non-cash items, less the effect of increased taxes and financial items paid of MSEK 99 compared to last year. Pledged assets and contingent liabilities were MSEK 18.3 (46.4) and MSEK 4.1 (1.4), respectively.

Employees

In 2019, the average number of employees increased by 1,081 to 4,465 (3,384). Adjusted for acquired units, the average number of employees decreased by 120 (52 increase) people, or –3.5 (1.6) per cent. The number of employees in the Group's foreign companies amounted to 3,944 (2,649), which corresponded to 88 (78) per cent of the total number of employees. The proportion of women during the year amounted to 33 (32) per cent of all employees. To further strengthen the Group's knowledge capital, the established goals for individual and organisational development continue to increase, so too has the investment in developing talented individuals, both new and existing employees. The Bright Leaders programme and the Graduate Trainee programme are good examples of this.

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.

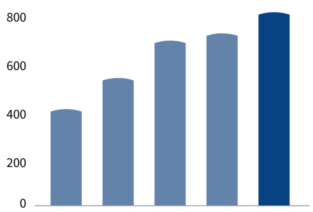
Guidelines for remuneration to senior management

Remuneration to the CEO and other senior management consists of a fixed basic annual salary plus an annual variable remuneration in the form of a bonus scheme tied to relevant and appropriate performance measures plus a company car benefit and a pension scheme with contributions made by the employer and employee. Annual variable remuneration is based on achieving goals and is maximised at 30–50 per cent of the fixed basic annual 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 and the AGMs in 2013 to 2019 inclusive also resolved to approve additional share-savings plans that each extended over three years.

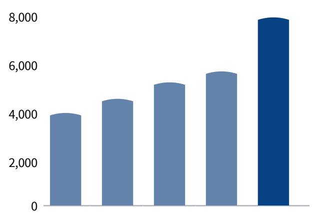
The remuneration to senior management supports the company's strategy and long term development and sustainability in several ways. Firstly, the total compensation is scheduled during the current year as a basic salary plus the annual bonus aimed at improving the overall result. Most importantly the long-term incentive scheme seeks performance in the longer, two-three year term by focusing on sustained delivery. Secondly, the annual bonus scheme is frequently focussed on specific longer term aspects, for example sustained growth. Also, the annual schemes and long term schemes tie employees in together working in teams.

OPERATING PROFIT, MSEK



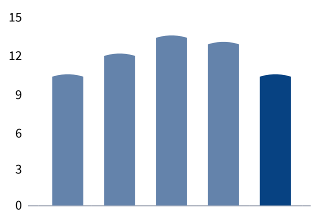
YR	2015	2016	2017	2018	2019
	396	524	678	706	795

SALES, MSEK



YR	2015	2016	2017	2018	2019
	3,909	4,491	5,170	5,621	7,845

OPERATING MARGIN, MSEK



YR	2015	2016	2017	2018	2019
	10.1	11.7	13.1	12.6	10.1

Fixed annual basic salaries for staff and senior management are reviewed simultaneously, thereby ensuring consistency of levels of increase. Often, there are many members of staff who are offered an annual bonus scheme, which again is tied to similar performance criteria to those of senior management.

The establishment and development of the executive remuneration policy is made by a combination of the board and the remuneration committee, sometimes with input from the market outside.

For additional information; see Note 2.

Investments

The Group's gross investments in property, plant and equipment amounted to MSEK 190 (126), and primarily pertained to machinery and equipment.

Investments in subsidiaries amounted to SEK 2,672 million (307).

At the year end, construction in progress of tangible assets amounted to MSEK 33 (34).

Gross investments in intangible assets amounted to MSEK 52 (33), excluding acquisitions of subsidiaries.

Depreciation/amortisation for the year amounted to MSEK 479 (320), of which property, plant and equipment accounted for MSEK 231 (129). In 2018 there was the goodwill write down in Western & Southern Europe of MSEK 139 which was included in the MSEK 320. Amortisation of intangibles accounted for MSEK 87 (52).

Product development

Continuous product development is undertaken within the Fagerhult Group across each of the 13 brands. The aim is to improve existing products, as well as the core focus of 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 two main technical laboratories and engineering centres, TeknikCentrum in Sweden and the laboratory in Italy, are two of Europe's best equipped facilities, where we can test the safety and performance of and approve our own products to international standards. Other developing technical facilities exist also in Sutton and Manchester in the UK.

A vitality index measures the share of net sales from products which are under 3 years old.

Development costs of MSEK 19 (16) were capitalised in the balance sheet for the year. Other costs are expensed as they arise.

For additional information; see Notes 11 and 29.

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 combine its sustainability report with its annual report. Refer to pages 26–47 of this document.

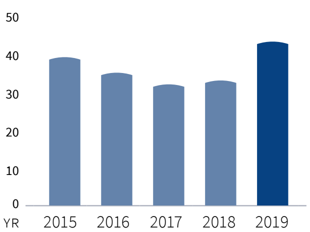
Share buybacks, new issues and treasury shares

The AGM on 13 May 2019 authorised the Board to buy back the company's own shares. No shares were bought back during the year. In connection with the allocation of shares tied to the expiring Group's share savings plan, 93,164 treasury shares were used. In connection with the acquisition and financing of iGuzzini, approved by the shareholders at the EGM on 7 February 2019, the Issue in Kind (see page 50) created 11,244,805 and the Rights Issue (see page 50) created a further 50,298,038 shares.

The number of treasury shares totalled 1,056,544 (1,149,708) after the allocation and the number of shares outstanding was 177,192,843 (114,500,292). The per centage of shares held as treasury shares was 0.6 (1.0) per cent.

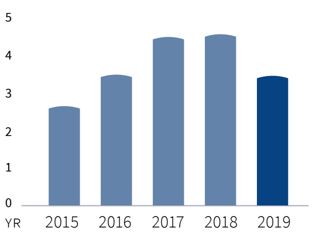
The Board of Directors proposes that the AGM resolve to grant the Board continued authorisation, until the next AGM, to buy back the company's own shares. As treasury shares are not

EQUITY/ASSETS RATIO, %



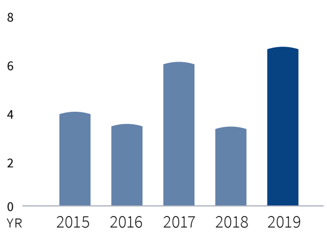
2015	2016	2017	2018	2019
38	34	31	32	42

EARNINGS PER SHARE, SEK



2015	2016	2017	2018	2019
2.54	3.35	4.32	4.39	3.32

CASH FLOW FROM OPERATING ACTIVITIES PER SHARE, SEK



2015	2016	2017	2018	2019
3.91	3.41	5.96	3.30	6.58

entitled to dividends, they are excluded from the total number of shares in the proposed appropriation of profits stated below.

Risks

A review of risks, including the manner in which these are managed, is found in Note 36.

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.

Extraordinary General Meeting

As a result of the signing of the SPA to acquire 100 per cent of the shares of iGuzzini the shareholders of AB Fagerhult held an Extraordinary General Meeting (EGM) of shareholders on 7 February 2019 in the company's offices in Habo, Sweden. The EGM approved all resolutions, refer to press release of 7 February 2019.

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 13.8 (15.1) for the period. The profit/loss after financial items was a profit of MSEK 144.0 (loss 3.8). The number of employees during the period was seven (seven).

Outlook for 2020

During the last two years, acquisitive growth has led to a strong positive sales and earnings trend for the Group. Organically, for the same period, net sales have declined.

During this period the Group's main markets have displayed mixed activity levels and overall we experience a reduction in volume driven by weaker than expected demand. The retail segment continues to provide headwinds as the industry undergoes a change.

The global installed base of LED luminaires remains low which is a significant opportunity for Fagerhult, especially with connected solutions. A further significant opportunity is the strategic alignment process that has been developed during the year and is now in the communication and implementation phases. The strategy will be worked on in the new business areas during 2020 and will begin to impact from Q4 and into 2021. For additional information see pages 4–5 and 14–15 in this report.

The Group's medium-to-long term strategy continues to include further acquisitions, both geographically in new markets and technology led acquisitions. The Group has a more balanced regional and operational footprint and the acquisition of iGuzzini, Veko, WE-EF and LED Linear in recent years creates significant opportunity to strengthen our position in many geographical and product areas, this is at the heart of the strategic alignment and the new business area set up.

For the future, the focus is on strategic alignment across the Group's brands to address the market and align with common stakeholders. The Group is in a strong position with healthy margins and through a successful implementation of the strategic alignment, management believe in the ability to return to organic growth and to grow market shares despite the overall weaker demand in some regions.

Proposed appropriation of profits

The following profits are at the disposal of the AGM:

Profit brought forward	3,210.3 MSEK
Net profit for the year	354.2 MSEK
Profit carried forward	3,564.5 MSEK

The total number of dividend-bearing shares on 18 March 2020 amounted to 176,136,299. The Board of Directors proposes that the profit be appropriated as follows:

To be distributed as dividends to shareholders:

SEK 1.50 per share	264.2 MSEK
To be carried forward	3,300.3 MSEK
Total	**3,564.5 MSEK**

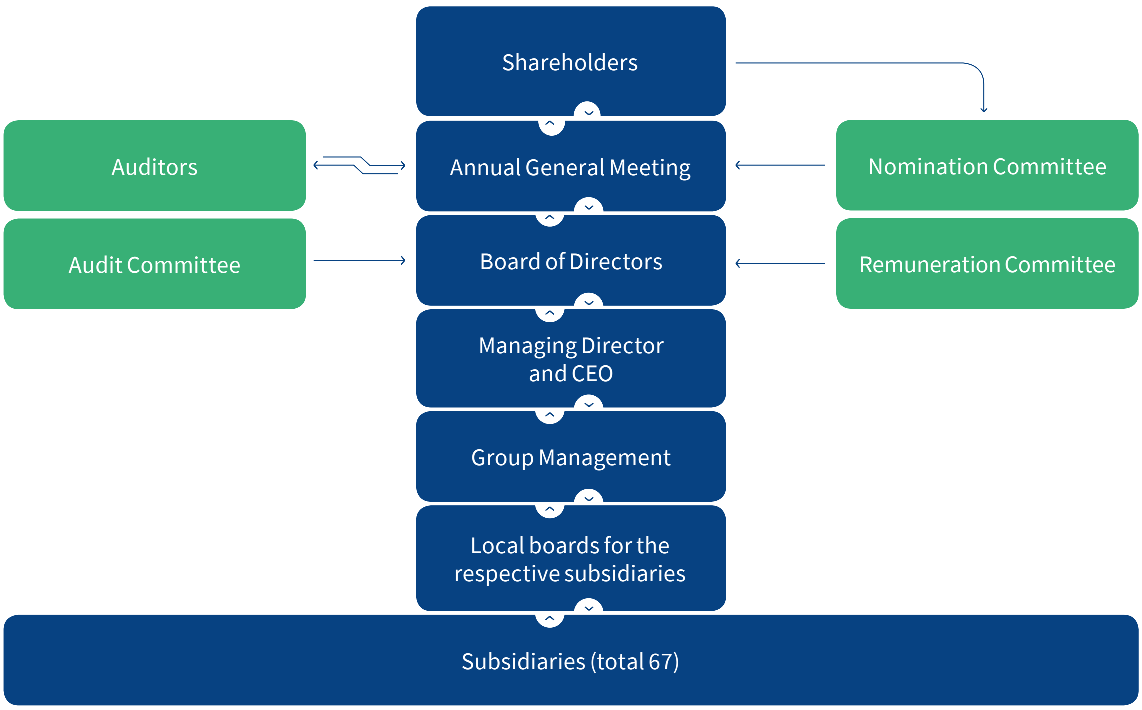
Board of Directors' statement regarding the proposed dividend

It is the opinion of the Board of Directors that the proposed dividend will not prevent the company or the group from fulfilling its short or long-term obligations, nor will it prevent the company or the group 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 and the group continue to be profitable, the equity/assets ratio is at a satisfactory level. It is the company's and the Group's assessment that liquidity can be maintained at a similarly satisfactory level.

Corporate Governance

Decentralised governance and responsible 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 the Fagerhult Group 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, Financial Policy Guidelines and Internal Control Document)

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 Meeting (EGM), 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 late- April to mid-May. 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 6,917 (5,774). The largest individual shareholder is Investment AB Latour, in which the Douglas family are the main shareholders and hold a total of 46.3 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 48–50 and to Note 34.

2019 Annual General Meeting

The 2019 AGM was held on 13 May in Habo. A total of 89 (104) shareholders were present at the meeting, representing 66.1 (69.7) 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 2.00 (2.00) per share.
- Eric Douglas, Cecilia Fasth, Morten Falkenberg and Jan Svensson were re-elected to the Board of Directors with Teresa Enander and Annica Bresky being elected as new members to 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 2019".
- 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.

2019 Extraordinary General Meeting

On 7 February 2019 an EGM was held in Habo. The EGM was called to propose and resolve upon matters relating to the acquisition of iGuzzini illuminazione S.p.A. A total of 34 shareholders were present at the meeting, representing 71.6 per cent of the votes.

Minutes from the EGM can be found on Fagerhult's website. All resolutions were passed with the required majority;

- The Meeting resolved to amend § 4 and § 5 of the articles of association regarding the limits for share capital and number of shares.
- The Meeting resolved to grant authorization to the Board of Directors, up until the next annual general meeting, on one or several occasions, to resolve on the issue of new shares to form part of the purchase price for the acquisition of iGuzzini Illuminazione S.p.A. (the "Issue In-Kind").
- The Meeting resolved to grant authorization to the Board of Directors, up until the next annual general meeting, on one or several occasions, to resolve on the issue of new shares against cash payment with pre-emptive rights for the shareholders.

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 2019. 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 2019

Name	No. of shares	Share capital and voting rights, %
Investment AB Latour	78,410,480	44.3
Lannebo Funds	13,511.460	7.6
FMR, Fidelity (US)	10,568,173	6.0
The Svensson family, foundation and company	9,618,442	5.4
Swedbank Robur Small Business Funds	8,510,529	4.8
Fimag S.p.A.	8,442,313	4.8
Nordea Funds	4,949,059	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, Johan Hjertonsson representing

THE NOMINATION COMMITTEE AHEAD OF 2020 AGM COMPRISES:

Member of the Nomination Committee	Representing	Participation/votes, %	Member of the Nomination Committee since
Jan Svensson (not entitled to vote)	Chairman of the Fagerhult Board	n/a	2008
Johan Hjertonsson	Investment AB Latour	46.3	2019
Johan Ståhl – Chairman	Lannebo Funds	7.6	2004
Evert Carlsson	Swedbank Robur Small Business Funds	3.2	2017
Adolfo Guzzini	Fimag S.p.A.	3.7	2019

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	750,000	37,800	No	Yes	9
Vice Chairman, Eric Douglas	1993	1968	350,000	82,622,480[1]	No	Yes	8
Board Member, Cecilia Fasth	2014	1973	350,000	9,205	Yes	Yes	8
Board Member, Teresa Enander	2019	1979	350,000	4,200	Yes	Yes	4
Board Member, Annica Bresky	2019	1975	350,000	3,780	Yes	Yes	4
Board Member, Morten Falkenberg	2017	1958	350,000	14,325	Yes	Yes	9
Total			**2,500,000**	**82,691,790 (46.9%)**	**4 (67 %)**	**6 (100 %)**	**9**

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

Investment AB Latour, Johan Ståhl (Chairman of the Nomination Committee) representing Lannebo Funds, Evert Carlsson representing Swedbank Robur Small Business Funds and Adolfo Guzzini representing Fimag S.p.A. The Nomination Committee for the 2020 AGM is also described above.

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 AB 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 2019 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 Sandvik and Svensk Export Kredit.

The auditor participated at the Board and Audit Committee meeting in February 2019 and then reported on the 2018 audit. The auditor also participated at the Audit Committee meeting in December 2019.

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, including the newly acquired iGuzzini, are audited by PricewaterhouseCoopers in the respective country with the exceptions of the LED Linear, WE-EF and Veko 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 six members elected by the general meeting, as well as two Board members and two deputy members elected by the trade unions. The six Board members combined represent ownership participations equivalent to 47 per cent (52) of the company's share capital and votes. The trade union representatives are the only Board members employed by the Company.

The CEO participates in all Board meetings and on occasion, other company employees participate in Board meetings in a reporting capacity. The company's Chief Financial Officer serves as the Board's secretary.

For further information concerning the Board members elected at the company's general meeting, refer to the section concerning the Board of Directors on pages 64–65 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. During 2019 the Board held 5 normal Board meetings, 1 statutory Board meeting and 3 additional Board meetings on topics specifically related to the acquisition of iGuzzini, The auditor of the company is present at Board meetings when needed, normally once a year. Notices and supporting documents are sent to the Board one week in advance of the Board meetings. When issues are to be decided upon, the Board usually receives supporting documents concerning these issues well in advance.

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

Board of Directors' independence

Fagerhult's Board meets the stipulation in the Code that a majority of the elected members are independent of the company and its management, and that at least two of the members are independent in relation to major shareholders (that is, ownership exceeding 10 per cent). See the table on page 59. The Chairman of the Board, Jan Svensson was not considered independent for the majority of the year, as he represented the company's main shareholder in the roles of CEO and major shareholder in Investment AB Latour, however from 1 September 2019 he became independent. Eric Douglas represents Investment AB Latour and the Douglas family and is not considered to be independent. With the exception of the union representatives 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 work of the Board in 2019

The Board met nine times during the year, with one of these meetings being the statutory Board meeting. Three of the nine meetings were fully attended by the Board. Four meetings plus the statutory meeting had one member absent and one board meeting had two members absent. The company's auditor was present at one of the Board meetings and two Audit Committee meetings. These were the Board and Audit Committee meetings in February that addressed the annual accounts for 2018, during which the auditor submitted his findings and the Audit Committee meeting in December.

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.

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 2019, the Audit Committee was established as Cecilia Fasth as Chair and Teresa Enander as member. The CFO attended all Audit Committee meetings and the auditors attended two of the meetings. During the year, the Audit Committee had three meetings of which two were fully attended. The Chair of the Audit Committee gave a brief report to the Board at the December Board meeting.

The Remuneration Committee

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

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

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

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

CEO and Group Management

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

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

The CEO owns 7,706 shares in the company and this is stated in the presentation of the management on pages 66–67. 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.

During the year, the Group Management comprised the CEO, the CFO, the head of HR plus five managers with responsibility for the regional business areas and operations.

Group Management has had regular monthly meetings during the year where it followed up operations, discussed matters affecting the Group and drafted proposals for strategic alignment plans and budgets, which the CEO presented to the Board for decision. During 2019, five of the meetings were longer meetings of 2 days, during which the future strategy was discussed in more detail.

Management of subsidiaries

Fagerhult's operations are organised into four business areas which include 68 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.

REMUNERATION TO THE MANAGEMENT AND BOARD

Guidelines for remuneration to senior management

Remuneration to the CEO and other senior management consists of a fixed basic annual salary plus an annual variable remuneration in the form of a bonus scheme tied to relevant and appropriate performance measures plus a company car benefit and a pension scheme with contributions made by the employer and employee. Annual variable remuneration is based on achieving goals and is maximised at 30–50 per cent of the fixed basic annual 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 and the AGMs in 2013 to 2019 inclusive also resolved to approve additional share-savings plans that each extended over three years.

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Secondly, the annual bonus scheme is frequently focussed on specific longer term aspects, for example sustained growth. Also, the annual schemes and long term schemes tie employees in together working in teams.

Fixed annual basic salaries for staff and senior management are reviewed simultaneously, thereby ensuring consistency of levels of increase. Often, there are many members of staff who are offered an annual bonus scheme, which again is tied to similar performance criteria to those of senior management.

The establishment and development of the executive remuneration policy is made by a combination of the board and the remuneration committee, sometimes with input from the market outside.

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 to 2019 inclusive also 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. From 2019 fees are also payable to members of the Audit Committees, separate than the standard Board fee. In 2019, remuneration was paid in accordance with the table on page 59.

Remuneration to the auditors

In 2019, remuneration was paid in accordance with Note 27 on page 103.

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 and was reinforced during late 2019 as 1,694 managers across the group underwent an online training and testing process. 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.

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.

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 pages 105–108.

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 reissued to the relevant personnel an update of the Group's Financial Internal Control Guidelines as well as the Group's Financial Policy document. The significant update to the internal controls document was the addition of an IT internal controls section.

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 2019

During the year, a key focus has been on completing the acquisition and integration of the iGuzzini business as well as executing the rights issue. A further key focus has been on developing the strategic alignment process. A process which is now in the communication stages with initial execution and implementation commencing in the first half of 2020. The process will establish a new strategy from 2021, i.e. when the current strategy period expires in 2020. Further work has been on mergers in the WE-EF group in Germany, mergers in the iGuzzini group in Italy and a business combination in the UK.

From a technology perspective the continued development of a connectivity strategy utilising the OR Technologies business in Australia as the foundation, has been a key project during the year, so too an investigation into the retail segment and how to address this is the future and lastly a dedicated project on insourcing components or luminaires which are currently outsourced.

Activities also covered the Group's internal controls and financial policies. Focus and priority has also been given to various senior level recruitments, particularly within the local managing and finance functions. Following the update 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, the Audit Committee 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.

The Board of Directors

JAN SVENSSON
Chairman
Born: 1956.
Mechanical Engineer and M.Sc. in Business Administration.
Chairman of Alimak AB, Tomra Systems ASA and Troax Nordic AB. Board Member of Loomis AB, Assa Abloy AB, Climeon, Herenco and Stena Metall.
Board Member of Fagerhult since 2007.
Shares in AB Fagerhult: 37,800

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: 82,622,480 (including Investment AB Latour, of which own shares 504,000)

MORTEN FALKENBERG
Born: 1958
M.Sc. in Business Administration.
Board Member of Velux Group.
Board Member of Fagerhult since 2017.
Shares in AB Fagerhult: 14,325

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

CECILIA FASTH
Born: 1973.
M.Sc. Engineering
CEO of Stena Fastigheter AB.
Board Member of Fagerhult since 2014.
Shares in AB Fagerhult: 9,205

ANNICA BRESKY
Born: 1975
M.Sc. Engineering
President and CEO Stora Enso.
Board Member of Fagerhult since 2019.
Shares in AB Fagerhult: 3,780

TERESA ENANDER
Born: 1979
M.Sc. Engineering
COO of Formica Capital AB.
Chairman of 8848 Altitude AB.
Board Member of Fagerhult since 2019.
Shares in AB Fagerhult: 4,200

LARS-ÅKE JOHANSSON
Born: 1961
Employee Representative
Shares in AB Fagerhult: 3,800

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

RASMUS NILSSON
Born: 1987
Deputy Employee Representative
Shares in AB Fagerhult: 0

Group Management

BODIL SONESSON
President and CEO
Born: 1968
M.Sc. in Business Administration, MBA.
Employed since: 2018
Shares in Fagerhult: 7,706

FRANK AUGUSTSSON
Regional Managing Director
Born: 1965
Technical College Graduate
Employed since: 1986–2001, 2004
Shares in Fagerhult: 30,211

MICHAEL WOOD
Chief Financial Officer
Born: 1964
Chartered Accountant ACMA
Employed since: 2005
Shares in Fagerhult: 18,232

GEERT VAN DER MEER
Regional Managing Director
Born: 1965
PhD in Physics
Employed since: 2017
Shares in Fagerhult: 2,003

ANDERS FRANSSON
Managing Director Fagerhults Belysning AB
Born: 1969
M.Sc. Engineering
Employed since: 2005
Shares in Fagerhult: 25,602

JENNY EVELIUS
Head of Human Resources
Born: 1969
M.Sc. in Business Administration
Employed since: 2013
Shares in Fagerhult: 20,410

MICHAEL BRÜER
Chief Strategy and Communication Officer
Member of Group Management from March 2020
Born: 1983
M.Sc. Engineering, M.Sc. Business Administration
Employed since: 2017
Shares in Fagerhult: 3,858

Consolidated income statement

MSEK	Note	2019	2018
Net sales	1	7,844.9	5,621.0
Cost of goods sold [1]		–4,794.6	–3,474.2
Gross profit [1]		**3,050.3**	**2,146.8**
Selling expenses [1]		–1,698.3	–1,035.9
Administrative expenses [1]		–630.7	–467.0
Other operating income	22	73.5	200.8
Other operating costs	11	–	–138.9
Operating profit [1]		**794.8**	**705.8**
Financial income	3	38.4	10.1
Financial expenses [1]	4	–137.5	–49.2
Total financial items – net [1]		–99.1	–39.1
Profit before tax [1]		**695.7**	**666.7**
Income tax [1]	9, 10	–180.9	–163.6
Net profit for the year [1]		**514.8**	**503.1**
Net profit for the year attributable to shareholders of the Parent Company		508.4	503.1
Net profit for the year attributable to Non-controlling interests		6.4	–
Earnings per share, based on earnings attributable to shareholders of the Parent Company during the year:			
Earnings per share before dilution, SEK [1]		3.32	4.39
Earnings per share after dilution, SEK [1]		3.32	4.39
Average number of shares outstanding before dilution, thousands		153,274	114,497
Average number of shares outstanding after dilution, thousands		153,274	114,497
Number of shares outstanding, thousands		176,136	114,500

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2019	2018
Net profit for the year [1]		**514.8**	**503.1**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of pension plans, net after tax	21	–7.2	–0.7
Items that may be reclassified to profit or loss:			
Translation differences, net after tax	36	52.3	–39.5
Other comprehensive income for the year, net after tax		**45.1**	**–40.2**
Total comprehensive income for the year [1]		**559.9**	**462.9**
Total comprehensive income for the year attributable to shareholders of the Parent Company		**553.5**	**462.9**
Total comprehensive income for the year attributable to Non-controlling interests		**6.4**	**–**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected.
For additional information see Accounting principles, page 79 and Note 26, page 102.

Consolidated balance sheet

MSEK	Note	2019	2018
ASSETS			
Non-current assets			
Intangible assets	11		
Goodwill		3,002.9	2,099.9
Brands		2,630.8	889.3
Other intangible assets		408.5	170.7
		6,042.2	**3,159.9**
Property, plant and equipment	12		
Land and buildings		1,142.6	265.2
Plant and machinery		487.9	258.3
Equipment, fixtures and fittings		213.3	145.1
Right-of-use assets [1]	26	931.2	–
Construction in progress		32.8	34.5
		2,807.8	**703.1**
Financial assets			
Other shares and participations	13	14.5	18.7
Deferred tax assets [1]	10	178.8	29.2
Other non-current receivables	13	11.6	4.2
		204.9	**52.1**
Total non-current assets		**9,054.9**	**3,915.1**
Current assets			
Inventories	16		
Raw materials and consumables		596.5	393.7
Work in progress		145.3	71.4
Finished products and goods for resale		474.8	374.4
Goods in transit		30.5	17.9
		1,247.1	**857.4**
Current receivables			
Trade receivables	6	1,426.8	925.0
Current tax assets		83.3	21.7
Other receivables		60.1	32.1
Prepaid expenses and accrued income [1]	15	86.4	61.5
		1,656.6	**1,040.3**
Cash and cash equivalents		1,133.5	808.4
Total current assets [1]		**4,037.2**	**2,706.1**
TOTAL ASSETS [1]		**13,092.1**	**6,621.2**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected.
For additional information see Accounting principles, page 79 and Note 26, page 102.

Consolidated balance sheet

MSEK	Note	2019	2018
EQUITY [1]			
Capital and reserves attributable to shareholders of the Parent Company			
Share capital	33	100.2	65.5
Other contributed capital		3,194.6	205.0
Reserves		–185.9	–238.2
Retained earnings incl. net profit for the year[1]		2,352.4	2,096.9
		5,461.3	**2,129.2**
Non-controlling interests		39.9	–
Total equity		**5,501.2**	**2,129.2**
LIABILITIES			
Non-current liabilities			
Borrowings	17	3,678.2	2,371.6
Lease liabilities [1]	26	779.7	–
Provisions for pensions and similar commitments	21	190.3	93.5
Other non-current liabilities	22	150.1	249.3
Deferred tax liability	10	1,017.0	334.7
		5,815.3	**3,049.1**
Current liabilities			
Borrowings	17	73.8	416.1
Lease liabilities [1]	26	148.3	–
Advance payments from customers		31.1	13.8
Trade payables		689.5	351.2
Current tax liabilities		72.5	61.2
Other liabilities	22	299.8	237.6
Accrued expenses and deferred income	18	460.6	363.0
		1,775.6	**1,442.9**
Total liabilities		**7,590.9**	**4,492.0**
TOTAL EQUITY AND LIABILITIES		**13,092.1**	**6,621.2**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected.
For additional information see Accounting principles, page 79 and Note 26, page 102.

Changes in equity

		Attributable to shareholders of the Parent Company					
MSEK	Note	Share capital	Other contributed capital	Reserves	Retained earnings incl. net profit for the year	Non-controlling interests	Total equity
Equity at 1 January 2018		65.5	205.0	–198.7	1,818.7		1,890.5
Net profit for the year					503.1		503.1
Net investment hedges	30			–4.3			–4.3
Deferred tax on net investment hedges				0.8			0.8
Remeasurements of pension plans					–0.8		–0.8
Deferred tax on remeasurements of pension plans					0.1		0.1
Translation differences				–36.0			–36.0
Total comprehensive income for the year				**–39.5**	**502.4**		**462.9**
Performance-based share-savings plan	2				4.8		4.8
Dividend, SEK 2.00 per share	35				–229.0		–229.0
Equity at 31 December 2018		**65.5**	**205.0**	**–238.2**	**2,096.9**		**2,129.2**
Net profit for the year [1]					508.4	6.4	514.8
Net investment hedges	30			–19.6			–19.6
Deferred tax on net investment hedges				5.1			5.1
Remeasurements of pension plans					–9.6		–9.6
Deferred tax on remeasurements of pension plans					2.4		2.4
Translation differences				66.8			66.8
Total comprehensive income for the year [1]				**52.3**	**501.2**	**6.4**	**559.9**
Non-controlling interests acquired	31					33.5	33.5
Non-cash issue (11,244,805 shares)	31, 33	6.4	820.2				826.6
Rights issue (50,298,038 shares), net amount after issue costs	33	28.3	2,169.4				2,197.7
Performance-based share-savings plan	2				5.8		5.8
Dividend, SEK 2.00 per share	35				–251.5		–251.5
Equity at 31 December 2019		**100.2**	**3,194.6**	**–185.9**	**2,352.4**	**39.9**	**5,501.2**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected.
For additional information see Accounting principles, page 79 and Note 26, page 102.

Consolidated cash-flow statement

MSEK	Note	2019	2018
Operating profit [1]		**794.8**	**705.8**
(of which, attributable to Leases)		–(1.8)	–(139.9)
Adjustments for non-cash items:			
Depreciation/amortisation	8	318.4	320.3
Depreciation of right-of-use assets [1]	8	160.4	–
Reversal of liabilities for earnout payments	22	–21.8	–148.5
Profit/loss on the sale of property, plant and equipment		1.8	–12.7
Items in equity		–3.8	4.1
Translation differences		–65.8	–97.6
		1,184.0	**771.4**
Interest received		5.1	10.1
Interest paid		–76.6	–49.2
Interest paid on lease liabilities [1]		–18.1	–
Income tax paid		–243.4	–194.9
Cash flow from operating activities before changes in working capital [1]		**851.0**	**537.4**
Changes in working capital			
Changes in inventories		139.8	–69.6
Changes in current receivables [1]		59.6	23.2
Changes in current liabilities		–42.5	–112.9
Cash flow from operating activities		**1,007.9**	**378.1**
Investing activities			
Investments in subsidiaries, net of acquired cash and cash equivalents	22.31	–2,672.4	–306.6
Investments in intangible assets	11	–52.4	–33.0
Investments in property, plant and equipment	12	–190.3	–126.0
Revenue from the sale of property, plant and equipment		–	35.7
Changes in construction in progress	12	1.7	15.9
Increase in non-current receivables	13	–	–0.6
Decrease in non-current receivables	13	8.5	–
Cash flow from investing activities		**–2,904.9**	**–414.6**
Financing activities			
Repayment of loans	17	–1,492.3	–
Borrowings	17	1,893.1	104.9
Repayment of lease liabilities [1]	26	–153.5	–
Preferential rights issue	33	2,197.7	–
Dividends paid		–251.5	–229.0
Cash flow from financing activities		**2,193.5**	**–124.1**
Change in cash and cash equivalents		**296.5**	**–160.6**
Cash and cash equivalents at beginning of the year		808.4	949.9
Translation differences in cash and cash equivalents		28.6	19.1
Cash, cash equivalents at end of the year		**1,133.5**	**808.4**

1) The Group has applied IFRS 16 Leases from January 1, 2019. Marked items are affected.
For additional information see Accounting principles, page 79 and Note 26, page 102.

Parent Company income statements

MSEK	Note	2019	2018
Net sales	1	13.8	15.1
Gross profit		**13.8**	**15.1**
Administrative expenses		–52.0	–50.5
Operating profit/loss		**–38.2**	**–35.4**
Financial income and expenses			
Income from shares in subsidiaries	7	143.8	58.8
Interest income and similar profit/loss items	3	132.3	40.0
Interest expenses and similar profit/loss items	4	–93.9	–67.2
Total financial items		**182.2**	**31.6**
Profit before appropriations and tax		**144.0**	**-3.8**
Change in tax allocation reserve		–	8.6
Group contributions received		268.0	260.0
Tax on profit for the year	9, 10	–57.8	–45.8
Net profit for the year		**354.2**	**219.0**

Parent Company balance sheet

MSEK	Note	2019	2018
ASSETS			
Non-current assets			
Financial assets			
Shares and participations in subsidiaries	13, 14, 31	2,963.6	616.6
Receivables from subsidiaries	13	4,926.2	3,179.8
		7,889.8	**3,796.4**
Total non-current assets		**7,889.8**	**3,796.4**
Current assets			
Current receivables			
Other receivables		3.4	0.3
Receivables from subsidiaries		179.0	35.1
Prepaid expenses and accrued income	15	13.6	11.5
		196.0	**46.9**
Cash and cash equivalents		325.7	328.7
Total current assets		**521.7**	**375.6**
TOTAL ASSETS		**8,411.5**	**4,172.0**

Parent Company balance sheet

MSEK	Note	2019	2018
EQUITY			
Restricted equity			
Share capital	33	100.2	65.5
Statutory reserve		159.4	159.4
		259.6	**224.9**
Non-restricted equity			
Retained earnings		3,210.3	250.1
Net profit for the year		354.2	219.0
		3,564.5	**469.1**
Total equity		**3,824.1**	**694.0**
LIABILITIES			
Non-current liabilities			
Borrowings	17	3,423.9	2,706.8
Liabilities to subsidiaries		0.2	1.7
		3,424.1	**2,708.5**
Current liabilities			
Borrowings	17	–	411.0
Trade payables		3.6	–
Current tax liabilities		26.1	15.7
Other liabilities		0.6	–
Liabilities to subsidiaries		1,121.2	329.6
Accrued expenses and deferred income	18	11.8	13.2
		1,163.3	**769.5**
Total liabilities		**4,587.4**	**3,478.0**
TOTAL EQUITY AND LIABILITIES		**8,411.5**	**4,172.0**

Changes in equity, Parent Company

MSEK	Note	Share capital	Statutory reserve	Retained earnings incl. net profit for the year	Total equity
Equity at 1 January 2018		65.5	159.4	475.4	700.3
Net profit for the year				219.0	219.0
Performance-based share-savings plan	2			3.7	3.7
Dividend, SEK 2.00 per share	35			–229.0	–229.0
Equity at 31 December 2018		**65.5**	**159.4**	**469.1**	**694.0**
Net profit for the year				354.2	354.2
Non-cash issue (11,244,805 shares)	31, 33	6.4		820.2	826.6
Rights issue (50,298,038 shares), net amount after issue costs	33	28.3		2,169.4	2,197.7
Performance-based share-savings plan	2			3.1	3.1
Dividend, SEK 2.00 per share	35			–251.5	–251.5
Equity at 31 December 2019		**100.2**	**159.4**	**3,564.5**	**3,824.1**

Parent Company cash-flow statement

MSEK	Note	2019	2018
Operating profit/loss		**–38.2**	**–35.4**
Adjustments for non–cash items:			
Items in equity		3.1	3.7
Translation differences		3.5	–24.2
		–31.6	**–55.9**
Interest received		126.3	40.0
Interest paid		–62.8	–43.0
Income tax paid		–47.4	–54.2
Cash flow from operating activities before changes in working capital		**–15.5**	**–113.1**
Changes in working capital			
Changes in current receivables		–149.1	–2.0
Changes in current liabilities		794.4	–310.5
Cash flow from operating activities		**629.8**	**–425.6**
Investing activities			
Investments in subsidiaries	14, 31	–1,520.4	–
Increase in non-current receivables	13	–1,746.4	–341.0
Group contributions and dividends received		411.8	318.8
Cash flow from investing activities		**–2,855.0**	**–22.2**
Financing activities			
Repayment of loans	17	–1,104.8	–
Borrowings	17	1,380.8	457.6
Preferential rights issue	33	2,197.7	–
Dividends paid		–251.5	–229.0
Cash flow from financing activities		**2,222.2**	**228.6**
Change in cash and cash equivalents		**–3.0**	**–219.2**
Cash and cash equivalents at beginning of the year		328.7	547.9
Cash, cash equivalents at end of the year		**325.7**	**328.7**

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, except for what is stated on page 83 under the section Application of new standards.

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 included subsidiaries over which the Group has control, that is when the Group is exposed to or has the right to variable returns from its holdings in the company and can affect returns through its control.

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

The Group applies the acquisition method to recognise the Group's business combinations. The acquisition price paid for a subsidiary is the fair values of the assets transferred, the liabilities incurred and the shares issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from an earnout arrangement. Acquisition-related costs are expensed as incurred and are included under the item Administrative expenses. 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.

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 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 in other comprehensive income or directly in equity are also recognised directly against the same.

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 receivables are classified as current assets and are recognised at cost less provision for impairment. See section Financial assets page 81 for a description of the Group's impairment policies for trade receivables.

REVENUE RECOGNITION

Goods

The Group manufactures and sells lighting solutions to the professional lighting market. Sales of goods are recognised when control of the goods is transferred – that is, upon delivery to the customer, when they have full right of decisions over the goods and there are no longer any unfulfilled obligations that might affect customers' approval. Delivery is recognised when the goods have been delivered in accordance with the agreed-upon delivery terms and the risk for obsolete or missing goods has transferred to the customer and the customer has accepted the goods in accordance with the agreement, the timeframe for changes to the agreement has expired or the group has objective evidence that all the criteria for acceptance have been fulfilled.

Volume rebates are often applied to sold goods based on accumulated sales over a twelve-month period. Income from sales of goods is recognised based on the price in the agreement, less calculated volume rebates. Historic data is used to estimate the rebate's eventual value and income is recognised only to the extent that it is unlikely that a significant reversal will arise. A liability (which is included in accrued expenses) is recognised for estimated volume rebates applied to sales until the closing date. No financing component is assessed to be required at the time of sale with a credit period of 30 days, which is in alignment with market practice. The Group's obligation to repair or replace defective products according to normal warranty rules is recognised in accrued costs.

A receivable is recognised when the goods have been delivered, as that is when payment becomes unconditional (that is, payment requires only the passage of time). 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

The Group changed its accounting policies for leases effective 1 January 2019. The new policy is described below and the effects of the transitions are presented in Note 26.

Until 31 December 2018, all of the Group's leases were classified and recognised as operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor have been classified as operating leases. Payments made under the lease term (net of any incentives received from the lessor) were expensed in profit or loss on a straight-line basis.

The Group's leases pertain primarily to factories, offices and vehicles. The terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Leases are typically made for fixed periods of three to ten years but may have extension or termination options as described below.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:
- fixed fees; and
- variable lease fees that are based on an index.

The lease payments are discounted using the incremental borrowing rate.

Right-of-use assets are measured at cost and comprise the following:
- the initial valuation of the lease liability; and
- payments made on or prior to the date the leased asset was made available to the lessee.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. For additional information see Note 26.

Lease extension and termination options

Extension and termination options are included in most of the Group's property leases. These terms are used to maximise flexibility in terms of managing contracts. Options to extend or terminate leases are included in assets and liabilities, when it is reasonably certain that they will be exercised.

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 2019 and 2018, 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	25–33 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

Capitalised development expenditure

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 operating segments.

Brands

This item mainly includes assets in the form of brands, which have arisen in conjunction with the acquisition of subsidiaries and which are recognised at fair value on the acquisition date. Brands acquired as a part of a business combination are assessed as having indefinite useful lives since the Group has made the judgement that these will drive sales for an indeterminate future and are annually tested for impairment as described above for goodwill. Brands that have been acquired separately have a finite useful life and are initially recognised at cost, less accumulated amortisation and impairment in subsequent periods. Amortisation is applied on a straight-line basis over the estimated useful life.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets which have an indefinite useful life (goodwill and brand) or intangible assets that are not yet ready for use (capitalised development expenditure) are not subject to amortisation and, instead, are tested for annually or when necessary for any need 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 any need for impairment, assets are grouped at the lowest levels for which there are separate, identifiable cash flows (CGUs).

FINANCIAL INSTRUMENTS

Financial instruments reported in the balance sheet include other shares and participations, other non-current receivables, operating receivables, cash and cash equivalents, borrowings, other non-current liabilities (pertaining to conditional earnout payments) and operating liabilities. Derivative instruments included in the items operating receivables and operating liabilities.

Financial assets

The Group classifies its financial assets in the following categories: Financial assets recognised at fair value through profit or loss (encompasses the items other shares and participations, and derivative instruments with positive fair value recognised in the item other current receivables) and Financial assets recognised at amortised cost (encompasses the items other non-current receivables, trade receivables, and parts of current receivables and cash and cash equivalents).

The classification of investments in liability instruments is based on the Group's business model for managing financial assets and the contractual conditions for the assets' cash flows. All of the Group's financial assets that comprise debt instruments are classified in the category Financial assets at amortised cost. These include assets held in order to collect contractual cash flows and where these cash flows consist solely of principal and interest which is recognised at amortised cost. Interest income from these financial assets is recognised as financial income on the basis of the effective interest method. Profits and losses that arise upon derecognition from the balance sheet are recognised directly in profit or loss along with exchange rate profit and loss.

Purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits itself to purchase or sell the asset. Financial assets 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.

Financial assets initially valued at fair value, plus transaction costs directly pertaining to the purchase when the asset is not recognised at fair value in profit or loss. Transaction costs pertaining to financial assets recognised at FVTPL are expensed directly in profit or loss. The group measures all equity instruments at fair value in profit or loss. Changes in the fair value of financial assets recognised at FVTPL are recognised in profit or loss.

In accordance with IFRS 9, the Group applies a modified approach for impairment testing of trade receivables. The modification results in the loss allowance for ECLs being calculated based on the risk of loss for the entire term of the receivable and is recognised when the receivable is first recognised. To measure the ECLs, trade receivables have been collectively based on past-due days. The Group uses prospective variables to calculate ECLs. ECLs are recognised in the Group's income statement under the item selling expenses.

Financial liabilities

The Group classifies its financial liabilities in the categories Financial liabilities measured at fair value through profit or loss (consists of conditional earnout payments recognised under the item Other financial liabilities and derivative instruments with negative fair values recognised under the item Other current liabilities) and Other financial liabilities (encompassing the items current and non-current borrowings, trade payables and parts of the item Other current liabilities).

Financial liabilities measured at FVTPL are initially measured at fair value, while applicable transaction costs are recognised in profit or loss. Other financial liabilities are initially measured at fair value, net after transaction costs, and thereafter, at amortised cost using the effective interest method. Derivative instruments are recognised on the trade date and are not used for hedge accounting. Changes in fair value are, therefore, recognised immediately in profit or loss under Operating profit. The change in fair value for conditional earnout payments are recognised under the item Other operating income in profit or loss.

Financial liabilities are removed from the balance sheet when obligations have been regulated or annulled, or have otherwise expired. The difference between the carrying amount for a financial liability (or part of a financial liability) that has been extinguished or transferred to another party and the payment made, including transferred assets that are not cash or assumed liabilities, is recognised in profit or loss.

Net investment hedges

The Group applies net investment hedges in foreign operations, which are recognised according to the following: Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and is accumulated in equity. The gain or loss relating to the ineffective portion is recognised directly in profit or loss. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is partially disposed of or sold. As a hedging instrument for net investments, the Group designates borrowings in the same currency as the net investment.

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.

BORROWINGS

Borrowings (encompassing the items Non-current and current borrowings in the balance sheet) are initially recognised at fair value. Borrowings are recognised thereafter at amortised cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognised in profit or loss over the duration of the term, using the effective interest method.

Borrowings are classified as current liabilities if the Group does not have an unconditional right to defer payment of the liability for at least twelve months after the end of the reporting period.

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 21.

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 the 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. Fagerhult only applies IFRS 16 at Group level, and not at operating segment level. Accordingly, the segment reporting for 2019 is unchanged compared with 2018.

DIVIDENDS

Dividends to AB Fagerhult's shareholders are recognised as liabilities in the consolidated balance sheet 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 Accounting for Legal Entities. 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. Furthermore, the Parent Company does not measure in accordance with IFRS 9, and instead applies the points stated in RFR 2 (IFRS 9 Financial Instruments, pp. 3–10). Nor does the Parent Company apply IFRS 16 Leases and has, from 1 January 2019, instead chosen to apply points 2–12 pertaining to IFRS 16 contained in RFR 2.

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 testing of 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 and brands 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 11.

APPLICATION OF NEW OR AMENDED STANDARDS

New and amended standards applied by the Group.

The Group has changed its accounting policies when implementing IFRS 16 Leases. The Group has chosen to apply the modified retrospective approach and has not recalculated the comparative figures. Information pertaining to the transition effects and any relief applied are disclosed in Note 26.

The Group has applied the standard from 1 January 2019. The Group has applied the modified retrospective approach and has not recalculated the comparative figures. All right-of-use assets have been measured at an amount that equals lease liabilities adjusted for prepaid or accrued lease payments pertaining to the lease as per 31 December 2018. After the transition, the following exemptions have been applied: Right-of-use assets have been classified and thereafter discount rates have been determined according to country and class. The right-of-use period has been determined based on experience concerning, for example, extension options and termination clauses.

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

A number of new standards and interpretations come into effect for financial years starting after 1 January 2020, 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.

Notes

Note 1 | Segment reporting

	Northern Europe		UK and Ireland		Western and Southern Europe		Africa, Asia and the Pacific		Other		IFRS 16		Eliminations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net sales and income																
Net sales	2 220.4	2 113.0	1 098.8	1 130.6	4 403.7	2,123.4	588.9	703.9					–466.9	–449.9	7 844.9	5 621.0
(of which internal sales)	(259.7)	(269.0)	(66.1)	(43.7)	(92.9)	(70.7)	(48.2)	(66.5)					–(466.9)	–(449.9)	(0.0)	(0.0)
Operating profit by line of business	327.8	312.5	90.1	125.0	403.5	246.9	20.3	65.0	–53.2	–43.6	6.3	–			794.8	705.8
Operating profit															**794.8**	**705.8**
Financial income															38.4	10.1
Financial expenses															–137.5	–49.2
Income tax															–180.9	–163.6
Net profit for the year															**514.8**	**503.1**
Other disclosures																
Non-current assets	393.9	406.4	443.2	418.4	6,886.8	2,696.6	391.1	388.5	2.5	–	934.9	–	2.5	5.3	9,054.9	3,915.1
Other assets	1 518.5	1,133.9	508.8	553.8	2,557.4	1,165.9	267.4	364.4	183.6	37.8	–18.7	–	–1,061.9	–573.6	3,955.1	2,682.3
Unclassified assets															82.1	23.7
Total assets															**13,092.1**	**6,621.2**
Liabilities	694.1	812.1	202.5	203.1	2,120.3	671.4	131.9	137.7	21.9	14.3	928.0	–	–258.5	214.5	3,840.2	2,053.1
Unclassified liabilities															3,750.7	2,438.9
Total liabilities															**7,590.9.**	**4,492.0**
Investments	58.8	60.4	26.6	23.7	135.9	65.0	21.4	9.9							242.7	159.0
Depreciation/ amortisation	64.0	63.5	33.1	30.0	204.6	73.2	16.7	14.7			160.4	–			478.8	181.4
Impairment					–	138.9									–	138.9
Reversal of liabilities for earnout payments					21.8	148.5									21.8	148.5
External sales per market																
UK	0.8	1.6	973.6	1,020.1	241.8	55.1									1,216.2	1,076.8
Sweden	1,115.1	1,088.3			48.2	10.0									1,163.3	1,098.3
Germany	9.2	6.5	17.0	9.0	620.8	475.7	0.1	0.1							647.1	491.3
France	5.4	8.5			542.8	359.3									548.2	367.8
USA					423.5	175.8									423.5	175.8
The Netherlands	0.9	2.5			422.5	303.1									423.4	305.6
Australia	0.2	8.3			128.5	117.9	270.5	279.8							399.2	406.0
Italy	0.2	–			387.6	–									387.8	0.0
Spain	0.1	1.6			298.3	204.1									298.4	205.7
Norway	254.2	225.9			37.4	1.5									291.6	227.4
Denmark	147.6	129.3			52.3	1.3									199.9	130.6
Finland	155.0	151.9			31.2	2.3									186.2	154.2
Switzerland			2.5	–	159.3	–									161.8	0.0
United Arab Emirates	–	0.2			73.7	22.9	79.9	104.1							153.6	127.2
Canada					110.6	–									110.6	0.0
South Africa					0.5	1.6	105.4	136.3							105.9	138.0
Poland	92.6	61.6			8.3	0.8									100.9	62.4
Belgium	0.3	1.3	–	0.2	100.2	74.9	0.2	0.1							100.7	76.5
China	10.9	13.4			79.8	0.3									90.7	13.7
Russia	45.9	29.0			42.8	12.9									88.7	41.9
Turkey	–	0.9			6.4	1.7	57.9	84.8							64.3	87.4
Ireland			37.3	56.5	5.9	2.1									43.2	58.6
Other	122.3	113.3	2.3	1.2	488.4	229.0	26.7	32.2							639.7	375.7
Total	**1,960.7**	**1,844.0**	**1,032.7**	**1,086.9**	**4,310.8**	**2,052.7**	**540.7**	**637.4**							**7,844.9**	**5,621.0**

	Northern Europe		UK and Ireland		Western and Southern Europe		Africa, Asia and the Pacific		Other		IFRS 16		Eliminations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Non-current assets per market																
Italy					3,594.2	–					35.1	–			3,629.3	–
Germany					1,424.0	1,415.4					188.5	–			1,612.5	1,415.4
The Netherlands					633.2	616.4					81.2	–			714.4	616.4
UK			443.2	407.2	28.7	24.4					219.2	–			691.1	431.6
France					317.1	285.9					59.3	–			376.4	285.9
Sweden	273.1	290.2			0.2	–					64.2	–			337.5	290.2
Spain					255.3	15.5					9.7	–			265.0	15.5
Australia					101.0	99.9	125.5	118.2			54.2	–			280.7	218.1
Canada					194.1	–					27.1	–			221.2	–
Turkey							156.3	168.5			35.0	–			191.3	168.5
Thailand					150.5	142.2					0.2	–			150.7	142.2
South Africa							108.6	101.0			36.6	–			145.2	101.0
Finland	83.8	83.0			0.8	–					28.6	–			113.2	83.0
USA					82.2	68.3					20.5	–			102.7	68.3
China	8.6	10.2			69.1	–					16.7	–			94.4	10.2
Other	28.4	23.0	–	11.2	38.9	28.6	0.7	0.8	2.5	–	58.8	–	–	5.3	129.3	68.8
Total	**393.9**	**406.4**	**443.2**	**418.4**	**6,889.3**	**2,696.6**	**391.1**	**388.5**	**2.5**	**–**	**934.9**	**–**	**–**	**5.3**	**9,054.9**	**3,915.1**

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, Poland 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 includes operations in Germany, the Netherlands, Belgium, France, Spain, Thailand, Switzerland and the US. The companies in iGuzzini acquired during the year are also consolidated into this segment. The dominant operations are the iGuzzini Group, the German companies LTS Licht & Leuchten, LED Linear and WE-EF, as well as Veko in the Netherlands, which develop, manufacture and sell 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.

SALES PER PRODUCT AREA	Northern Europe		UK and Ireland		Western and Southern Europe		Africa, Asia and the Pacific		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Indoor Lighting	1,478.7	1,308.8	882.4	902.7	1,531.3	554.2	487.3	578.4	4,379.7	3,344.1
Retail Lighting	172.4	216.7	107.3	142.9	1,199.1	695.0	19.7	27.0	1,498.5	1,081.6
Outdoor Lighting	309.6	318.5	43.0	41.3	1,580.4	803.5	33.7	32.0	1,966.7	1,195.3
Total	**1,960.7**	**1,844.0**	**1,032.7**	**1,086.9**	**4,310.8**	**2,052.7**	**540.7**	**637.4**	**7,844.9**	**5,621.0**

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 majority of the Group's income is recognised within a limited timeframe and the Group has no single customer where sales comprise more than 10 (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)	
	2019	2018	2019	2018	2019	2018
Parent Company	18.7	19.0	14.6	14.2	(7.4)	(6.4)
Subsidiaries	1,887.9	1,355.7	477.5	329.9	(109.8)	(70.0)
Group	**1,906.6**	**1,374.7**	**492.1**	**344.1**	**(117.2)**	**(76.4)**

	2019			2018		
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**
Parent Company, 10 (10) employees	16.3	(0.3)	3.1	15.4	(2.4)	1.9
Subsidiaries, 39 (36) employees	73.6	(10.1)	6.6	66.6	(9.0)	5.5
Group	**89.9**	**(10.4)**	**9.7**	**82.0**	**(11.4)**	**7.4**

REMUNERATION TO SENIOR MANAGEMENT DURING THE YEAR:	Basic salary/ Board fees		Variable remuneration		Other benefits		Pension expenses		Share-based payments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Parent Company												
Chairman of the Board, Jan Svensson	0.7	0.6									0.7	0.6
Board Member, Eric Douglas	0.4	0.5									0.4	0.5
Board Member, Cecilia Fasth	0.4	0.3									0.4	0.3
Board Member, Morten Falkenberg	0.4	0.3									0.4	0.3
Board Member, Annica Bresky	0.4	–									0.4	–
Board Member, Teresa Enander	0.4	–									0.4	–
Board Member, Catherina Fored	–	0.3									–	0.3
Board Member, Fredrik Palmstierna	–	0.3									–	0.3
CEO, Johan Hjertonsson until 31/8/2018	–	3.8	–	1.0	–	0.1	–	1.1			–	6.0
CEO, Bodil Sonesson, from 8/10/2018	5.2	1.1	0.2	0.2			2.2	–			7.6	1.3
Other senior management 3 (3) individuals	7.0	5.8	0.1	1.2	0.2	0.2	0.9	0.8	1.1	–	9.3	8.0
	14.9	**13.0**	**0.3**	**2.4**	**0.2**	**0.3**	**3.1**	**1.9**	**1.1**	**–**	**19.6**	**17.6**
Subsidiaries												
Other senior management 4 (3) individuals	12.6	7.1	4.6	0.9	0.5	0.3	2.3	2.1	0.7	–	20.7	10.4
Group	**27.5**	**20.1**	**4.9**	**3.3**	**0.7**	**0.6**	**5.4**	**4.0**	**1.8**	**–**	**40.3**	**28.0**

Remuneration to the Board of Directors was determined at the 2019 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 mainly 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 expenses for the CEO also includes expenses for 2018. 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 12 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 2012 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 2013, 2014, 2015, 2016, 2017, 2018 and 2019. In the first plan, a total of 27 people were offered the opportunity to participate, of which 25 accepted. In the second plan, 29 people were offered the opportunity to participate, of which 20 accepted. In the third plan, 34 people were offered the opportunity to participate, of which 31 accepted. In the fourth plan, 33 people were offered the opportunity to participate, of which 9 accepted. In the fifth plan, 29 people were offered the opportunity to participate, of which 22 accepted. In the sixth plan, 37 people were offered the opportunity to participate, of which 20 accepted. In the seventh plan, 48 people were offered the opportunity to participate, of which 31 accepted. In the eighth plan, 50 people were offered the opportunity to participate, of which 22 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 plans approved by the 2015, 2016, 2017, 2018 and 2019 AGMs, all share awards are so-called performance share awards, meaning that they are conditional on a financial performance target. The 2016 plan was concluded in 2019. The conditions for the performance share awards pertaining to average earnings per share for 2016–2017 were fulfilled and 93,164 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 77,500 shares in Fagerhult. A total of approximately 264,000 share awards have been allocated to plan participants, of which 32,160 to the CEO and 232,322 to other senior management.

For the 2017 plan, the financial performance target pertains to average earnings per share for the 2017–2018 financial years, while the financial performance target for the 2018 plan pertains to average earnings per share for the 2018–2019 financial years and the financial performance target for the 2019 plan pertains to average earnings per share for the 2019–2020 financial years. For the 2017 plan, achievement of the financial performance target was 22.3 per cent, which implied an allocation of 12,225 shares. Based on the profit for the year, this results in an impact of approximately SEK 0.00. Accordingly, a maximum of about 228,000 Fagerhult shares (including the 2017 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 2019 for all share-savings plans was MSEK 6.3 (5.4) or SEK 0.04 (0.05) per share. Earnings per share at maximum allocation is estimated to be SEK 0.00 based on the profit for the year.

Note 3 | Financial income

	GROUP		PARENT COMPANY	
	2019	**2018**	**2019**	**2018**
Interest income	4.5	3.9	126.3	40.0
Dividends	0.6	0.6	–	–
Exchange-rate gains	33.3	5.6	6.0	–
Total	**38.4**	**10.1**	**132.3**	**40.0**
Of which Group companies	–	–	(124.5)	(39.0)

Note 4 | Financial expenses

	GROUP		PARENT COMPANY	
	2019	**2018**	**2019**	**2018**
Interest expenses	64.6	41.6	54.7	39.5
Interest expenses on lease liabilities	18.1	–	–	–
Exchange-rate losses	46.8	4.1	31.2	24.2
Other financial expenses	8.0	3.5	8.0	3.5
Total	**137.5**	**49.2**	**93.9**	**67.2**
Of which Group companies	–	–	(1.4)	(0.8)

Note 5 | Financial assets and financial liabilities

GROUP	2019 IFRS 9 Category	2019 Carrying amount	2019 Fair value	2018 IFRS 9 Category	2018 Carrying amount	2018 Fair value
Financial assets						
Other shares and participations	2	14.5	14.5	2	18.7	18.7
Other non-current receivables	1	11.6	11.6	1	4.2	4.2
Trade receivables	1	1,426.8	1,426.8	1	925.0	925.0
Derivative instruments – held for trading	2	1.5	0.2	2	4.8	4.8
Cash and cash equivalents	1	1,133.5	1,133.5	1	808.4	808.4
Financial liabilities						
Long-term borrowings – hedge accounting	4	339.6	339.6	4	326.7	326.7
Non-current borrowings – no hedge accounting applied	4	3,338.6	3,338.6	4	2,044.9	2,044.9
Non-current lease liabilities	–	779.7	–	3	–	–
Other non-current liabilities	3	150.1	150.1	3	249.3	249.3
Short-term borrowings – no hedge accounting applied	4	73.8	73.8	4	416.1	416.1
Current lease liabilities	–	148.3	–	3	–	–
Trade payables	4	689.5	689.5	4	351.2	351.2
Other liabilities	3	99.1	99.1	3	118.7	118.7
Derivative instruments – held for trading	3	20.8	20.8	3	0.3	0.3

IFRS 9 Category
1 = Financial assets at amortised cost.
2 = Financial assets recognised at FVTPL.
3 = Financial liabilities recognised at FVTPL.
4 = Financial liabilities at amortised cost.

Derivative instruments outstanding per 31 December 2019 concerning currency forward contracts of a nominal value of MSEK 122 (91). Fair value based on observable data. Refer also to Note 30, Hedging.

Note 6 | Trade receivables and credit risks/provision for credit losses

	GROUP 2019	GROUP 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Trade receivables outstanding	1,525.2	953.4	–	–
ECL allowances	–98.4	–28.4	–	–
Carrying amount	**1,426.8**	**925.0**	–	–
Of which covered by credit insurance	(526.8)	(592.7)	–	–
Change in provision for credit losses				
Opening provision	–28.4	–32.0	–	–
Acquisitions of subsidiaries	–69.7	–	–	–
Confirmed losses	2.5	2.4	–	–
Reversed, unutilised provisions	10.2	3.2	–	–
Provision for the year	–14.8	–5.4	–	–
Translation differences	1.8	3.4	–	–
Closing provision	**–98.4**	**–28.4**	–	–

Note 7 | Income from shares in subsidiaries

	PARENT COMPANY 2019	PARENT COMPANY 2018
Dividends received	143.8	58.8
Total	**143.8**	**58.8**

Note 8 | Depreciation/amortisation and impairment

Amortisation of intangible assets in the Group was MSEK 87.2 (52.3), depreciation of property, plant and equipment totalled MSEK 231.2 (129.1) and depreciation of right-of-use assets amounted to MSEK 160.4. Impairment amounted to MSEK 0.0 (138.9). Depreciation/amortisation and impairment are specified per function in the income statements as follows:

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Goodwill				
Other operating costs	–	138.9	–	–
Total	**0.0**	**138.9**	**–**	**–**
Brands				
Cost of goods sold	3.3	3.0	–	–
Total	**3.3**	**3.0**	**–**	**–**
Other intangible assets				
Cost of goods sold	78.7	47.2	–	–
Selling expenses	3.4	1.3	–	–
Administrative expenses	1.8	0.8	–	–
Total	**83.9**	**49.3**	**–**	**–**
Land and buildings				
Cost of goods sold	21.8	12.5	–	–
Selling expenses	14.0	0.6	–	–
Administrative expenses	10.4	2.5	–	–
Total	**46.2**	**15.6**	**–**	**–**
Plant and machinery				
Cost of goods sold	114.5	73.9	–	–
Total	**114.5**	**73.9**	**–**	**–**
Equipment, fixtures and fittings				
Cost of goods sold	18.8	7.9	–	–
Selling expenses	24.3	16.5	–	–
Administrative expenses	27.4	15.2	–	–
Total	**70.5**	**39.6**	**–**	**–**
Right-of-use assets				
Cost of goods sold	50.4	–	–	–
Selling expenses	76.3	–	–	–
Administrative expenses	33.7	–	–	–
Total	**160.4**	**–**	**–**	**–**

Note 9 | Income tax/tax on profit for the year

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Current tax	193.3	162.9	57.8	45.8
Change due to altered tax rate in Sweden	–0.1	–0.1	–	–
Deferred tax	–12.3	0.8	–	–
Total	**180.9**	**163.6**	**57.8**	**45.8**
Difference between the Group's tax expense and the tax expense based on current rates				
Reported profit before tax	695.7	666.7	412.0	264.8
Tax according to current tax rates, 21.4% (22.0)	148.9	146.7	88.2	58.3
Change due to altered tax rate in Sweden	1.7	0.5	–	–
Tax effect of non-deductible expenses	18.8	5.9	0.5	0.3
Tax effect of non-taxable income	–10.6	–7.6	–30.9	–12.7
Effect of foreign tax rates	22.1	18.1	–	–
Income tax/tax on profit for the year recognised in profit or loss	**180.9**	**163.6**	**57.8**	**45.8**

Note 10 | Deferred tax

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Deferred tax expense/income for the year				
Deferred tax income referring to temporary differences	–22.1	–16.6	–	–
Deferred tax expense referring to temporary differences	9.9	17.5	–	–
Change due to altered tax rate in Sweden	–0.1	–0.1	–	–
Total	**–12.3**	**0.8**	**–**	**–**

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	
	2019	2018	2019	2018
Deferred tax liabilities				
Intangible assets	919.8	318.8	–	–
Buildings	80.1	4.0	–	–
Machinery and equipment	3.6	–	–	–
Current receivables	0.1	–	–	–
Untaxed reserves	8.4	9.0	–	–
Non-current liabilities	4.4	2.9	–	–
Current liabilities	0.6		–	–
Total deferred tax liabilities	**1,017.0**	**334.7**	**–**	**–**
Deferred tax assets				
Buildings	69.2	1.5	–	–
Machinery and equipment	1.0	0.6	–	–
Right-of-use assets	3.7	–	–	–
Other financial assets	2.5	0.9	–	–
Inventories	33.7	4.6	–	–
Current receivables	13.7	1.3	–	–
Pension provisions	21.1	7.2	–	–
Non-current liabilities	2.6	3.5	–	–
Current liabilities	31.3	9.6	–	–
Total deferred tax assets	**178.8**	**29.2**	**–**	**–**
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised, as a sale would not result in taxation.	1,677.1	1,435.2	–	–

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Change in deferred tax assets				
Opening balance	29.2	31.9	–	–
Acquisitions of subsidiaries	150.2	–	–	–
Right-of-use assets	2.9	–	–	–
Change in temporary differences recognised in profit or loss	–10.7	–3.1	–	–
Change in temporary differences recognised in equity	7.5	0.9	–	–
Translation differences	–0.3	–0.5	–	–
Closing balance	**178.8**	**29.2**	**–**	**–**
Change in deferred tax liabilities				
Opening balance	334.7	282.9	–	–
Acquisitions of subsidiaries	703.1	43.9	–	–
Change in temporary differences recognised in profit or loss	–23.0	–2.3	–	–
Translation differences	2.2	10.2	–	–
Closing balance	**1,017.0**	**334.7**	**–**	**–**

Note 11 | Intangible assets

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Goodwill				
Opening cost	2,238.8	1,831.0	–	–
Acquisitions of subsidiaries	868.7	398.5	–	–
Translation differences	34.3	9.3	–	–
Closing accumulated cost	3,141.8	2,238.8	–	–
Opening impairment	–138.9	0.0	–	–
Impairment for the year	–	–138.9	–	–
Closing accumulated impairment	–138.9	–138.9	–	–
Carrying amount	**3,002.9**	**2,099.9**	**–**	**–**
Brands				
Opening cost	933.7	739.7	–	–
Acquisitions of subsidiaries	1,750.1	177.6	–	–
Translation differences	4.8	16.4	–	–
Closing accumulated cost	2,688.6	933.7	–	–
Opening amortisation	–44.4	–40.5	–	–
Acquisitions of subsidiaries	–7.1	–	–	–
Amortisation for the year	–3.3	–3.0	–	–
Translation differences	–3.0	–0.9	–	–
Closing accumulated amortisation	–57.8	–44.4	–	–
Carrying amount	**2,630.8**	**889.3**	**–**	**–**
Other intangible assets				
Opening cost	425.2	387.5	–	–
Acquisitions of subsidiaries	400.4	3.1	–	–
Purchases	52.4	33.0	–	–
Sales and disposals	–	–6.0	–	–
Translation differences	4.1	7.6	–	–
Closing accumulated cost	882.1	425.2	–	–
Opening amortisation	–254.5	–208.3	–	–
Acquisitions of subsidiaries	–135.5	–0.9	–	–
Amortisation for the year	–83.9	–49.3	–	–
Sales and disposals	–	6.0	–	–
Translation differences	0.3	–2.0	–	–
Closing accumulated amortisation	–473.6	–254.5	–	–
Carrying amount	**408.5**	**170.7**	**–**	**–**

The item Brands includes brands with carrying amounts of MSEK 2,611.5 (869.2) 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 26.4 (21.7) and an IT system with a carrying amount of MSEK 104.8 (75.0) and Technology valued at MSEK 273.3 (65.1) upon acquisition.

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.

	BRANDS		GOODWILL	
	2019	2018	2019	2018
Northern Europe	10.4	10.2	132.1	131.3
UK and Ireland	19.0	18.3	262.0	244.0
Western and Southern Europe	2,543.4	802.0	2,341.5	1,448.5
Africa, Asia and the Pacific	38.7	38.7	267.3	276.1
Total	**2,611.5**	**869.2**	**3,002.9**	**2,099.9**

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 0.75–3.0 per cent (1.0–2.0) 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 before tax which has been applied is 10 per cent (10) for all CGUs except Africa, Asia and the Pacific where a rate of 12 per cent (12) is applied. 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.

In 2018, an impairment of MSEK 138.9 was conducted for the Western and Southern Europe segment as a result of changed growth assumptions. There is no need for impairment on assets other than goodwill in this segment.

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	0.75% (1.0)
UK and Ireland	1.0% (1.0)
Western and Southern Europe	3.0% (2.0)
Africa, Asia and the Pacific	2.5% (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 10.59 (10.25)
GBP 12.01 (11.60)

Sensitivity analysis

If the discount rate before tax used to calculate value in use for the CGU Western and Southern Europe had been 1 per cent higher than the management's assessment (11 per cent instead of 10 per cent), the Group would have reported an impairment of the carrying amount of MSEK 385. If the estimated growth rate used to extrapolate cash flows beyond the budget period was 2 per cent instead of the management's assessment of 3 per cent, the Group would have recognised a further impairment of the carrying amount of MSEK 93.

The recoverable amount for other CGUs exceeds the carrying amounts for goodwill and brands with indefinite useful lives by a significant margin. This also applies to each individual assumption provided that:

– the discount rate before taxes was 1 per cent (1) higher.
– the estimated growth rate used to extrapolate cash flows beyond the budget period was 0 per cent (0) for Northern Europe and the UK and Ireland except for Africa, Asia and Australia where the growth rate is lowered to 1 percent (0).

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

Note 12 | Property, plant and equipment

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Land and buildings				
Opening cost	491.1	474.5	–	–
Acquisitions of subsidiaries	1,283.1	28.9	–	–
Purchases	24.4	8.3	–	–
Sales and disposals	–4.3	–38.7	–	–
Translation differences	9.0	18.1	–	–
Closing accumulated cost	1,803.3	491.1	–	–
Opening depreciation	–225.9	–213.3	–	–
Acquisitions of subsidiaries	–390.9	–13.2	–	–
Depreciation for the year	–46.2	–15.6	–	–
Sales and disposals	4.2	22.2	–	–
Translation differences	–1.9	–6.0	–	–
Closing accumulated depreciation	–660.7	–225.9	–	–
Carrying amount	**1,142.6**	**265.2**	**–**	**–**
Plant and machinery				
Opening cost	1,170.3	1,054.3	–	–
Acquisitions of subsidiaries	1,240.9	36.2	–	–
Purchases	97.5	83.6	–	–
Sales and disposals	–40.5	–14.2	–	–
Translation differences	53.0	10.4	–	–
Closing accumulated cost	2,521.2	1,170.3	–	–
Opening depreciation	–912.0	–817.8	–	–
Acquisitions of subsidiaries	–1,034.7	–24.9	–	–
Depreciation for the year	–114.5	–73.9	–	–
Sales and disposals	41.1	14.2	–	–
Translation differences	–13.2	–9.6	–	–
Closing accumulated depreciation	–2,033.3	–912.0	–	–
Carrying amount	**487.9**	**258.3**	**–**	**–**
Equipment, fixtures and fittings				
Opening cost	582.1	565.9	–	–
Acquisitions of subsidiaries	312.1	34.1	–	–
Purchases	68.4	34.1	–	–
Sales and disposals	–25.2	–67.0	–	–
Translation differences	11.7	15.0	–	–
Closing accumulated cost	949.1	582.1	–	–
Opening depreciation	–437.0	–428.4	–	–
Acquisitions of subsidiaries	–245.9	–17.1	–	–
Depreciation for the year	–70.5	–39.6	–	–
Sales and disposals	23.1	60.8	–	–
Translation differences	–5.5	–12.7	–	–
Closing accumulated depreciation	–735.8	–437.0	–	–
Carrying amount	**213.3**	**145.1**	**–**	**–**
Construction in progress				
Opening cost	34.5	50.4	–	–
Acquisitions of subsidiaries	14.2	0.5	–	–
Land improvements during the year	21.8	–	–	–
Reclassifications	–37.9	–17.6	–	–
Translation differences	0.2	1.2	–	–
Carrying amount	**32.8**	**34.5**	**–**	**–**

Note 13 | Financial assets

	PARENT COMPANY	
	2019	2018
Shares and participations in subsidiaries		
Opening cost	616.6	616.6
Acquisitions during the year, see Note 31	2,347.0	–
Carrying amount	**2,963.6**	**616.6**
Receivables from subsidiaries		
Opening receivables	3,179.8	2,838.8
New receivables	1,797.2	341.0
Amortized receivables	–50.8	–
Closing receivables	**4,926.2**	**3,179.8**

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Other shares and participations				
Opening cost	18.7	18.3	–	–
Acquisitions of subsidiaries	4.7	–	–	–
Divestments during the year	–8.9	–	–	–
Acquisitions during the year	–	0.4	–	–
Closing receivables	**14.5**	**18.7**	**–**	**–**
Other non-current receivables				
Opening receivables	4.2	3.9	–	–
Acquisitions of subsidiaries	7.2	–	–	–
New receivables	0.2	0.3	–	–
Closing receivables	**11.6**	**4.2**	**–**	**–**

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

Note 14 | Shares and participations in subsidiaries

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

				Carrying amount	
Subsidiaries:	**Corporate Identity Number**	**Registered office**	**No. of shares**	**2019**	**2018**
Fagerhults Belysning AB	556321-8659	Habo	2,500	337.2	266.1
Fagerhult Retail AB	556337-4924	Bollebygd	5,000	0.6	71.7
Whitecroft Lighting Holdings Ltd, UK	03848868	Ashton-under-Lyne	11,915	275.6	275.6
Elenco Lighting AB	556035-5090	Borås	1,800	2.9	2.9
WE-EF Leuchten GmbH, Germany	HRB 208064	Bispingen	1	0.2	0.2
iGuzzini illuminazione S.p.A, Italy	IT 00082630435	Macerata	21,050,000	2,347.1	–
Carrying amount				**2,963.6**	**616.6**

				Share of equity, %	
Sub-subsidiaries:	**Corporate Identity Number**	**Registered office**	**No. of shares**	**2019**	**2018**
Fagerhults Belysning Sverige AB	556122-2000	Habo	1,000	100	100
Ateljé Lyktan AB	556063-9634	Åhus	2,000	100	100
Fagerhult Belysning AS, Norway	937418906	Oslo	100	100	100
Fagerhult AS, Denmark	63.128	Ishöj	65	100	100
Fagerhult OY, Finland	0980280-0	Helsinki	6,000	100	100
I-Valo OY, Finland	1571418-8	Iittala	2,020	100	100
Fagerhult Oü, Estonia	10703636	Tallinn	5,400	100	100
Fagerhult BV, Netherlands	96121	IJsselstein	2,250	100	100
Fagerhult NV, Belgium	BE 0492.822.044	Baaigem	9,400	100	100
Fagerhult GmbH, Germany	13135 B	Hamburg	1	100	100

Sub-subsidiaries:	Corporate Identity Number	Registered office	No. of shares	Share of equity, % 2019	2018
LTS Licht & Leuchten GmbH, Germany	HRB 630906	Tettnang	1	100	100
LED Linear GmbH, Germany	HRB8188	Neukirchen-Vluyn	1	100	100
LED Linear USA Inc, USA	SRV 131038296	Niagara Falls	3,000	100	100
LED Linear UK Ltd, UK	8280741	London	150	100	100
Arlight Aydinlatma A.S., Turkey	790 361 767	Kazan/Ankara	50,000	100	100
Lighting Innovations Africa (pty) Ltd, South Africa	2015/099974/07	Port Elizabeth	1	100	100
Whitecroft Lighting Ltd, UK	03848973	Ashton-under-Lyne	2	100	100
Designplan Lighting Ltd, UK	00784246	Sutton	360,300	100	100
Fagerhult Lighting Ltd, UK	3488638	London	40,000	100	100
Fagerhult Lighting Ltd, Ireland	98.834	Dublin	100	100	100
Fagerhult Sp.z.o.o, Poland	260213	Warsaw	1,000	100	100
Fagerhult France, France	391138385	Lyon	4,200	100	100
Fagerhult S.L., Spain	B84215722	Madrid	3,010	100	100
Commtech Commissioning Services S.A., Spain	A83770263	Madrid	60,120	100	100
Fagerhult Lighting System (Suzhou) Co. Ltd, China	3200044439	Suzhou	1	100	100
Fagerhult Trading (Hongkong) Co., Ltd	39362546-000-05-08-5	Hong Kong	1	100	100
Eagle Lighting (Australia) Pty Ltd, Australia	124400933	Melbourne	500,001	100	100
Organic Response Pty Ltd, Australia	ACN 618 122 277	Melbourne	100	100	100
Fagerhult (NZ) Ltd, New Zealand	3233074	Christchurch	1	100	100
Fagerhult SPb, Russia	1097847074544	Saint Petersburg	1	100	100
WE-EF Trading & Design GmbH, Germany	HRB 101286	Bispingen	1	100	100
WE-EF Lighting Co. Ltd, Thailand	105524015230	Bangplee	16,800	100	100
WE-EF Helvetica SA, Switzerland	CHE-115970534/CH-6	Geneva	1,000	100	100
WE-EF Lighting Ltd, UK	5925012148	Nottingham	30,000	100	100
WE-EF Lighting Pty. Ltd, Australia	64570065	Braeside	50,000	100	100
WE-EF Lighting USA LLC, USA	2922528	Warrendale	1	100	100
WE-EF Lumiere S.A.S., France	398371088	Satolas-et-Bonce	5,000	100	100
Flux Eclairage S.A.S, France	504356346	Satolas-et-Bonce	4,000	100	100
Veko Lightsystems International B.V., the Netherlands	37041869	Schagen	40,000	100	100
Veko Lightsystems GmbH, Germany	HRB 25170	Duisburg	1	100	100
Orlandi S.R.L., Italy	IT 08091600158	Macerata	1	100	–
iGuzzini illuminazione France SA, France	FR 61300816287	Paris	31,000	100	–
iGuzzini illuminazione Iberica SA, Spain	A58675208	Barcelona	100,000	100	–
iGuzzini illuminazione Deutschland GmbH, Germany	DE 129381264	Munich	1	100	–
iGuzzini Illuminazione Österreich GmbH, Austria	ATU72916623	Vienna	1	100	–
iGuzzini illuminazione UK Ltd, UK	2391370	London	121,578	100	–
iGuzzini illuminazione Norge AS, Norway	NO 979 575 785	Oslo	500	100	–
iGuzzini illuminazione Schweiz AG, Switzerland	105493484	Zürich	3,000	100	–
iGuzzini illuminazione Ooo, Russia	7719275374	Moscow	1	99	–
iGuzzini Finland & Baltic Ltd., Finland	FI06691842	Helsinki	105	89	–
iGuzzini Lighting (China) Co., Ltd., China	310000400453617	Shanghai	1	100	–
Shanghai iGuzzini Trading Co., Ltd., China	9131010669878976XQ	Shanghai	1	100	–
iGuzzini Hong Kong Ltd, Hong Kong	788598	Hong Kong	2,000,000	100	–
iGuzzini S.E.A. Pte LTD, Singapore	200604874N	Singapore	400,000	100	–
iGuzzini Middle East FZE, UAE	1034	Dubai	1	100	–
iGuzzini Lighting WLL, Qatar	64564	Doha	200	95	–
iGuzzini Lighting North America Inc., Canada	1214227611 IC0001	Québec	2,000,100	70	–
iGuzzini Lighting USA, Ltd, USA	27-1923628	Delaware	100	70	–
iGuzzini Canada (9372-1801 Quèbec Inc), Canada	1173367138	Québec	32,001,000	100	–
9850-333 Canada Inc., Canada	1224250025 IC0001	Québec	10,516,742	70	–
Sistemalux Inc., Canada	1012637761 IC0001	Québec	12,248,100	70	–

Note 15 | Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Prepaid rent	0.4	17.0	–	–
Insurance	9.3	7.7	–	–
Licences	10.2	4.1	–	–
Consultancy fees	8.2	13.1	–	7.6
Supplier bonus	2.6	2.5	–	–
Advertising and marketing	15.7	2.0	–	–
Taxes and social security contributions	5.4	2.8	–	–
Non-invoiced income	4.8	1.7	–	–
Financial fees	13.0	4.4	12.7	3.8
Other items	16.8	6.2	0.9	0.1
Total	**86.4**	**61.5**	**13.6**	**11.5**

Note 16 | Inventories

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Raw materials and consumables	596.5	393.7	–	–
Work in progress	145.3	71.4	–	–
Finished products and goods for resale	474.8	374.4	–	–
Goods in transit	30.5	17.9	–	–
Total	**1,247.1**	**857.4**	**–**	**–**

Expenses arising for inventories that have been expensed are included in the item Cost of goods sold and amounted to MSEK 2,698.8 (2,036.7). Provision for obsolescence is included in the value of the inventories. Impairment amounted to MSEK 30.9 (8.8) and the amount recovered from previous years amounted to MSEK 46.9 (26.6). The previous year's provisions are reversed when goods are divested or scrapped.

Note 17 | Bank overdraft facilities and other borrowings

Agreed bank overdraft facilities at year end amounted to MSEK 279.3 (250.0) for the Group and MSEK 250.0 (250.0) for the Parent Company.

	GROUP		PARENT COMPANY	
THE GROUP'S INTEREST-BEARING BORROWINGS	2019	2018	2019	2018
Maturities for long-term loans:				
Within one year	73.8	416.1	–	411.0
Between one and five years	3,608.7	2,371.3	3,423.9	2,706.8
After five years	69.5	0.3	–	–
Total	**3,752.0**	**2,787.7**	**3,423.9**	**3,117.8**

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

	2019		2018	
	Interest, %	Liability, SEK	Interest, %	Liability, SEK
Average contracted interest rate on borrowings:				
Long-term borrowings, EUR	1.2	3,446.3	1.2	2,157.1
Long-term borrowings, GBP	1.1	139.4	1.8	129.1
Long-term borrowings, ZAR	9.1	90.7	9.5	84.5
Long-term borrowings, THB	–	–	5.0	0.9
Long-term borrowings, CAD	3.7	1.8	–	–
Total		**3,678.2**		**2,371.6**
Short-term borrowings, EUR	1.7	72.0	1.1	415.5
Short-term borrowings, THB	5.3	0.5	2.0	0.5
Short-term borrowings, GBP	–	–	1.8	0.1
Short-term borrowings, CAD	3.7	0.9	–	–
Short-term borrowings, USD	2.0	0.4	–	–
Total		**73.8**		**416.1**

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

Note 18 | Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Accrued salaries and remuneration	203.7	161.9	5.2	7.4
Customer bonuses	76.7	56.0	–	–
Accrued social security contributions	46.1	37.9	1.2	2.0
Claims	42.0	14.6	–	–
Financial items	14.7	13.2	3.4	2.9
Consultancy fees	14.6	7.5	1.0	0.9
Rent	11.7	12.2	0.1	–
Royalties	4.8	7.0	–	–
Audit fees	5.1	5.3	–	–
Shipping	3.8	2.2	–	–
Repair and maintenance	2.9	0.5	–	–
Temporary employees	2.1	0.3	–	–
Other items	32.4	44.4	0.9	–
Total	**460.6**	**363.0**	**11.8**	**13.2**

Note 19 | Pledged assets

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
For own liabilities				
Real estate mortgages	18.3	46.4	–	–
Total pledged assets	**18.3**	**46.4**	**–**	**–**

Note 20 | Contingent liabilities

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Guarantee FPG	0.9	0.9	–	–
Guarantees, customs authorities	1.0	0.5	–	–
Guarantee, direct pensions	2.2	–	2.2	–
Guarantees for subsidiaries	–	–	45.1	45.1
Total contingent liabilities	**4.1**	**1.4**	**47.3**	**45.1**

Note 21 | Provisions for pensions and similar commitments

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Provisions for pensions PRI (interest-bearing)	71.2	66.3	–	–
Provisions for other pensions	119.1	27.2	–	–
Total	**190.3**	**93.5**	**–**	**–**

Defined-benefit plans

Within the Group there are defined-benefit plans in Sweden, Turkey, Germany, France, Italy and Switzerland, in which employees retain the right to remuneration, after termination of employment, based on the 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 2019 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 34.3 (2018: MSEK 27.2). 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 2019, Alecta's surplus in the form of the collective consolidation level was 144 per cent (2018: 142 per cent).

	GROUP	
	2019	2018
DEFINED-BENEFIT PLANS		
The amounts recognised in the consolidated income statement are:		
Current service cost	21.1	2.8
Interest expenses	1.5	1.8
Total	**22.6**	**4.6**
Specification of changes in net debt recognised in the consolidated balance sheet:		
Net debt at beginning of year recognised in the approved balance sheet	93.5	90.2
Acquisitions of subsidiaries	86.5	–
Net cost recognised in profit or loss	22.6	4.6
Benefit payments	–9.2	–3.6
Settlement of pension plan	–9.0	–1.5
Actuarial gains (–)/losses (+)	7.4	0.7
Translation differences	–1.5	3.1
Net debt at year end	**190.3**	**93.5**
The amounts recognised in the balance sheet are determined as follows:		
Present value of commitments	190.3	93.5
Net debt at year end	**190.3**	**93.5**
TOTAL PENSION COSTS		
Total pension costs recognised in the consolidated income statement:		
Total costs for defined-benefit plans	22.6	4.6
Total costs for defined-contribution plans	94.6	71.8
Total pension costs	**117.2**	**76.4**
Pension costs are allocated in the consolidated income statement among the following items:		
Cost of goods sold	43.5	24.1
Selling expenses	44.0	32.7
Administrative expenses	28.2	17.8
Financial expenses	1.5	1.8
Total	**117.2**	**76.4**
ACTUARIAL ASSUMPTIONS		
Significant actuarial assumptions as of the closing date pertaining to pension liabilities in Sweden (expressed as weighted averages)		
Net liability in Sweden	71.2	66.3
Discount rate, %	1.05	2.05
Future annual pension growth rate, %	1.70	2.00

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

Sensitivity analysis

If the discount rate decreases 0.5 per cent, the present value of obligations will rise 6.9 per cent (6.9). If the interest rate increases 0.5 per cent, the present value of obligations will decline 6.2 per cent (6.0). If inflation decreases 0.5 per cent, the present value of obligations will decline 6.1 per cent (6.0). If inflation increases 0.5 per cent, the present value of obligations will increase 6.7 per cent (6.8). A change of one year in useful life affects the present value of obligations by 4.6 per cent (4.2).

Note 22 | Other non-current liabilities

Other non-current liabilities pertain exclusively to liabilities for estimated earnout payments attributable to acquisitions.

	GROUP		PARENT COMPANY	
	2019	**2018**	**2019**	**2018**
LED Linear GmbH, Germany	–	–	–	–
LED Linear USA Inc, USA	–	–	–	–
LED Linear UK Ltd, UK	–	20.1	–	–
Veko Lightsystems International B.V.	249.2	347.9	–	–
	249.2	**368.0**	**–**	**–**
Of which recognised as current liability	–99.1	–118.7	–	–
Closing liabilities	**150.1**	**249.3**	**–**	**–**
Change in liabilities for estimated earnout payments.				
Opening liabilities	368.0	162.0	–	–
Liabilities paid:				
Veko Lightsystems International B.V.	–98.7	–	–	–
New liabilities:				
Veko Lightsystems International B.V.	–	347.9	–	–
Reversal of liabilities in profit or loss:				
LED Linear GmbH, Germany	–	–132.2	–	–
LED Linear USA Inc, USA	–	–10.5	–	–
LED Linear UK Ltd, UK	–21.8	–	–	–
Translation differences	1.7	0.8	–	–
Closing liabilities	**249.2**	**368.0**	**–**	**–**
Of which recognised as current liability	**99.1**	**118.7**	**–**	**–**

The conditional earnout payment recognised regarding the acquisition of LED Linear UK Ltd, UK, was based on certain predetermined profit levels being met during 2017 to 2019. If contractual goals had been met, an earnout payment would be disbursed in cash during the 2020 financial year. On 31 December 2019, the entire conditional earnout payment was reversed because the actual profit for the company did not meet the given levels in the period in question. A profit of MSEK 21.8 was recognised in the item Other revenue in profit or loss for the 2019 financial year.

The conditional earnout payment recognised regarding the acquisition of LED Linear GmbH and LED Linear USA Inc. was based on certain predetermined profit levels being met during 2016 to 2018. If contractual goals had been met, an earnout payment would have been disbursed during the 2019 financial year. On 31 December 2018, the entire conditional earnout payment was reversed because the actual profit for the companies did not meet the given levels in the period in question. A profit of MSEK 148.5 was recognised in the item Other revenue in profit or loss for the 2018 financial year.

Note 23 | Reconciliation of net debt

Net debt and changes in net debt are analysed below	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Cash and cash equivalents	1,133.5	808.4	325.7	328.7
Borrowings – due in <12 months (incl. overdraft facility)	–73.8	–416.1	0.0	–411.0
Borrowings – due in >12 months	–3,678.2	–2,371.6	–3,423.9	–2,706.8
Lease liabilities – due within one year	–148.3	–	–	–
Lease liabilities – due in >12 months	–779.7	–	–	–
Net debt	**–3,546.5**	**–1,979.3**	**–3,098.2**	**–2,789.1**
Cash and cash equivalents	1,133.5	808.4	325.7	328.7
Borrowings – floating interest	–3,752.0	–2,787.7	–3,423.9	–3,117.8
Lease liabilities	–928.0	–	–	–
Net debt	**–3,546.5**	**–1,979.3**	**–3,098.2**	**–2,789.1**

GROUP	Cash and cash equivalents/ overdraft facility	Borrowings due <12 months	Borrowings due >12 months	Lease liabilities	Total
Net debt at 1 January 2018	949.9	–4.8	–2,684.6	–	–1,739.5
Cash flow from borrowings	–	–411.3	306.4	–	–104.9
Cash flow from other activities	–160.6	–	–	–	–160.6
Exchange-rate differences	19.1	0.0	6.6	–	25.7
Net debt at 31 December 2018	**808.4**	**–416.1**	**–2,371.6**	**–**	**–1,979.3**
Effect of transition to IFRS 16	–	–	–	–784.0	–784.0
Acquisitions of subsidiaries	–	–125.0	–419.5	–145.8	–690.3
Lease liabilities recognised	–	–	–	–128.1	–128.1
Cash flow from borrowings	–	467.2	–868.0	–	–400.8
Cash flow from lease liabilities	–	–	–	153.5	153.5
Cash flow from other activities	296.5	–	–	–	296.5
Exchange-rate differences	28.6	0.1	–19.1	–23.6	–14.0
Net debt at 31 December 2019	**1,133.5**	**–73.8**	**–3,678.2**	**–928.0**	**–3,546.5**

PARENT COMPANY	Cash and cash equivalents/ overdraft facility	Borrowings due <12 months	Borrowings due >12 months	Total
Net debt at 1 January 2018	547.9	–	–2,660.2	–2,112.3
Cash flow from borrowings	–	–411.0	–46.6	–457.6
Cash flow from other activities	–219.2	–	–	–219.2
Exchange-rate differences	–	–	–	–
Net debt at 31 December 2018	**328.7**	**–411.0**	**–2,706.8**	**–2,789.1**
Cash flow from borrowings	–	411.0	–687.0	–276.0
Cash flow from other activities	–3.0	–	–	–3.0
Exchange-rate differences	–	–	–30.1	–30.1
Net debt at 31 December 2019	**325.7**	**–**	**–3,423.9**	**–3,098.2**

Note 24 | Purchases and sales between Group companies and other related parties

The Parent Company's total income from operations of MSEK 13.8 (15.1) refers to remuneration from subsidiaries for services performed. There have been no other purchases between the Parent Company and the subsidiaries or other related parties. Remuneration to members of the Board, the CEO and other senior management is reported in Note 2.

Note 25 | Average number of employees

	2019		2018	
	Number of employees	Men %	Number of employees	Men %
Parent Company	**7**	**57**	**7**	**71**
Subsidiaries				
Sweden	753	69	728	66
Italy	660	67	–	–
UK	639	72	657	73
Germany	615	71	625	71
China	264	38	129	30
Australia	194	66	192	64
The Netherlands	178	71	117	73
Canada	169	65	–	–
Thailand	152	62	167	61
Turkey	145	80	165	81
South Africa	144	72	183	70
France	141	68	108	74
Spain	75	69	52	69
Finland	69	65	59	64
Norway	53	65	46	72
USA	43	74	34	74
Denmark	32	70	25	76
United Arab Emirates	29	63	23	70
Switzerland	25	86	2	0
Poland	23	78	23	78
Russia	19	48	17	41
Belgium	11	60	4	75
Estonia	7	57	8	50
Ireland	7	71	7	71
New Zealand	5	80	5	80
Singapore	5	50	–	–
Qatar	2	50	–	–
Austria	1	100	–	–
Total in subsidiaries	**4,458**	**67**	**3,377**	**68**
Group total	**4,465**	**67**	**3,384**	**68**

	2019		2018	
BOARD MEMBERS AND SENIOR MANAGEMENT	Number	Men %	Number	Men %
Group				
Board members	6	50	6	67
CEO and other senior management	43	91	39	92
Parent Company				
Board members	6	50	6	67
CEO and other senior management	4	50	4	50

Note 26 | Leases

	GROUP		PARENT COMPANY	
OPERATIONAL LEASES	2019	2018	2019	2018
Leasing fees for the year	–	139.9	0.1	0.1
The nominal value of future minimum leasing fees for non-cancellable leases				
Within one year	–	126.7	0.1	0.1
Between one and five years	–	317.6	–	0.1
After five years	–	337.2	–	–
Total	**–**	**781.5**	**0.1**	**0.2**

Until 31 December 2018, all of the Group's leases were classified and recognised as operating leases. In the consolidated accounts, these leases pertained essentially to leased properties/premises. The Parent Company has chosen not to apply IFRS 16 Leases and therefore recognises leases pursuant to previously applied accounting policies.

The effects on the consolidated financial statements of applying IFRS 16 as of 1 January 2019 are stated below. In accordance with the transition provisions in IFRS 16, the Group has adopted the modified retrospective approach and has thus not recalculated the comparative figures. The reclassifications and adjustments that have arisen from the new rules for leases are therefore recognised in the opening balance for 1 January 2019. Fagerhult only applies IFRS 16 at Group level, and not at operating segment level. Accordingly, the segment reporting for 2019 is unchanged compared with 2018.

On the transition to IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining minimum lease payments and discounted using the lessee's incremental borrowing rate as of 1 January 2019.

All right-of-use assets were measured on the transition on 1 January 2019 to an amount that equals the lease liability adjusted for prepaid lease payments pertaining to the contract per 31 December 2018. After the transition, the following exemptions have been applied:

- Right-of-use assets have been classified and thereafter discount rates have been determined according to country and class.
- Operating leases with a shorter term than 12 months from 1 January 2019 have been recognised as short-term leases. The Group has also applied the exception for low-value leases.
- Exclusion of initial direct costs when calculating right-of-use assets on the date of initial recognition, and
- the use of hindsight in determining the lease term where there are options to extend or terminate the lease.

Extension and termination options for leases are included in a number of the Group's leases for factories/production facilities and offices. When the term of the lease was determined on the transition date, the management took into consideration all available information and where the most material factors comprised:

- Historic lease terms and the costs and disruptions to operations entailed by the need to replace an existing factory/production facility or office premises.
- If the leases contained any material fees for terminating the leases (or not extending them).
- If the Group had any expenses for leasehold improvements and expected these to have a substantial residual value.

The majority of the lease extension options for factories/production facilities have been included in the lease liability as of 1 January 2019, since the Group cannot replace assets without material costs for disruption to operations.

The company's analysis of leases outstanding for office premises found a large number of leases with shorter terms as well as termination periods of 1–3 years. The Group's assessment is that these shorter lease terms do not reflect the actual terms, and therefore a minimum term of three years has been applied. An individual assessment is conducted in conjunction with the lease expiring or as soon as a decision to change the operations is known and where the change would affect the term of the lease.

REMEASUREMENT OF LEASE LIABILITIES	2019
Operating lease commitments disclosed as at 31 December 2018	781.5
Exchange-rate difference	–11.9
Discounting using the lessee's incremental borrowing rate at the transition date	–95.2
Less:	
Low-value leases and short-term leases not recognised as liabilities	–7.9
Add/Less:	
Adjustments as a result of a different treatment of extension and termination options, and adjustments relating to changes in the index or rate affecting variable payments	117.5
Lease liabilities recognised as at 1 January 2019	784.0
Of which:	
Current lease liabilities	115.3
Non-current lease liabilities	668.7
Total lease liabilities	**784.0**

ADJUSTMENTS RECOGNISED IN THE BALANCE SHEET AT 1 JANUARY 2019	Closing balance 31 Dec 2018	Effect of transition to IFRS 16	Opening balance 1 January 2019
Property, plant and equipment	703.1	797.0	1,500.1
Other non-interest-bearing receivables	115.3	–13.0	102.3
Non-current interest-bearing liabilities	2,465.1	668.7	3,133.8
Current interest-bearing liabilities	416.1	115.3	531.4

From 1 January 2019, leased assets are recognised under a separate item in the balance sheet as Right-of-use assets. Disclosures pertaining to these leases as well as short-term leases and low-value leases are presented below.

AMOUNTS RECOGNISED IN THE BALANCE SHEET	2019	1 January 2019
The balance sheet shows the following amounts relating to leases:		
Right-of-use assets		
– Factories	535.7	531.6
– Offices	319.9	218.1
– Vehicles	75.6	47.3
Deferred tax assets	3.7	–
Prepaid expenses	–18.7	–13.0
Total assets	**916.2**	**797.0**
Lease liabilities:		
Non-current	**779.7**	**3,133.8**
Current	**148.3**	**531.4**
Total liabilities	**928.0**	**3,665.2**

Right-of-use assets added in the 2019 financial year amounted to MSEK 262, of which MSEK 159 pertained to acquired subsidiaries.

AMOUNTS RECOGNISED IN PROFIT OR LOSS	2019
The statement of profit or loss shows the following amounts relating to leases:	
Depreciation of right-of-use assets:	
– Factories	–47.0
– Offices	–71.2
– Vehicles	–42.2
Expense relating to short-term leases or leases of low-value assets and expenses attributable to variable lease payments not included in lease liabilities	–8.1
Exchange-rate difference	–3.9
Interest expenses on lease liabilities	–18.1
Deferred tax	3.7
Net effect on profit or loss	**–186.8**

No material variable lease payments were identified that were not included in lease liabilities.

The total cash outflow for leases in 2019 was MSEK 179.7. The maturity analysis of lease liabilities is presented in Note 36 Risks under Liquidity Risk.

Note 27 | Remuneration to auditors

PRICEWATERHOUSECOOPERS	GROUP 2019	GROUP 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Audit	9.6	6.2	0.3	0.3
Audit activities other than audit assignment	0.1	0.3	–	–
Tax consulting	4.3	3.5	0.5	0.5
Other services	1.1	2.7	–	–
Total	**15.1**	**12.7**	**0.8**	**0.8**
OTHER ACCOUNTING FIRMS				
Audit	4.1	2.1	–	–
Audit activities other than audit assignment	–	0.3	–	–
Tax consulting	2.9	0.7	–	–
Other services	2.4		–	
Total	**9.4**	**3.1**	**–**	**–**

Out of the remuneration to the auditors for 2019 the following relates to the audit firm Öhrlings PricewaterhouseCoopers AB: Audit MSEK 2.6 (2.2), audit activities other than audit assignment MSEK 1.1 (0.6), tax consulting MSEK 3.5 (2.6) and other services MSEK 0.9 (2.9). Other services pertain primarily to advice with regard to due diligence processes.

Note 28 | Expenses by nature

	GROUP 2019	GROUP 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Raw materials and consumables	2,873.1	2,109.1	–	–
Changes in inventories of finished products and goods for resale, and work in progress	–174.3	–72.4	–	–
Expenses for employee benefits (Notes 2 and 21)	2,398.7	1,718.8	33.3	33.2
Transportation expenses	175.8	113.5	–	–
Expenditure for own properties and rented premises	203.6	136.2	1.3	1.2
Advertising and selling expenses	342.3	154.8	1.6	1.5
External services	133.4	83.1	7.4	8.1
Temporary employees	67.2	71.4		–
Travel expenses	82.2	54.5	1.8	1.6
Consumables	46.9	46.7	1.1	0.6
Own vehicle expenses	70.9	53.4	0.6	0.3
Contract manufacturing	164.9	35.0	–	–
Depreciation/amortisation and impairment (Notes 8, 11 and 12)	478.8	320.3	–	–
Other costs	260.1	291.6	4.9	4.0
Total	**7,123.6**	**5,116.0**	**52.0**	**50.5**

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

Note 29 | Expenses for product development

	GROUP 2019	GROUP 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Expensed overheads for product development	332.2	199.2	–	–

Note 30 | 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 65 per cent, EUR 26 per cent, GBP 62 per cent, AUD 63 per cent, CNY 44 per cent and PLN 64 per cent. The nominal value of these hedging contracts was MNOK 70.0 (46.1), MEUR 2.0 (2.2), MGBP 3.6 (3.5), MAUD 0.8 (2.5), MCNY 31.0 (35.6) and MPLN 7.9 (3.6). 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 positive MSEK 0.2 (positive: 4.8). The Group applies hedge accounting where the purchase consideration for acquired companies has to some extent been financed through borrowing in the acquired company's local currency. Net assets abroad that are subject to hedge accounting amount to MSEK 715 (711) and accumulated borrowings of MSEK 340 (327), which reflects a hedging quotient of 47 (46) per cent. Annual translation differences recognised in other comprehensive income concerning borrowings as hedged net assets amounted to an expense of MSEK 12.9 (expense: 4.3) before deferred tax of MSEK 2.7 (0.8). Accumulated translation differences recognised in other comprehensive income concerning borrowings as hedged net assets amounted to an expense of MSEK 28.8 before deferred tax of MSEK 5.9.

Refer also to Note 36.

Note 31 | Changes in the Group's composition – Acquisitions

Acquired companies

iGuzzini

On 15 October 2018, Fagerhult signed a letter of intent with the shareholders of iGuzzini illuminazione S.p.A ("iGuzzini") to acquire 100 per cent of the shares in iGuzzini. On 21 December 2018, Fagerhult signed a sales and purchase agreement ("SPA") with the shareholders of iGuzzini to acquire 100 per cent of the shares in iGuzzini. On 7 January 2019, Fagerhult's Board called shareholders to an extraordinary general meeting (EGM) that was held on 7 February 2019. At the EGM on 7 February, all of the proposals for resolution were adopted by the shareholders attending the meeting. On 7 March 2019, the transaction was completed in Recanati in Italy and Fagerhult acquired 100 per cent of the shares in iGuzzini. At 7 March 2019, Fagerhult's Board also decided on a non-cash issue. The non-cash issue forms part of the consideration paid under the acquisition.

The purchase price for iGuzzini amounted to MEUR 365.2, of which MEUR 284.5 comprised cash and MEUR 80.7 comprised new shares in Fagerhult.

On 26 April 2019, Fagerhult's Board decided the terms of the rights issue. The proceeds of the rights issue were used to repay the bridge loan facility raised on completion on 7 March. The registration date for the rights issue was 6 May and the subscription period expired on 22 May.

The inclusion of iGuzzini in the Fagerhult Group has created Europe's largest and leading lighting group, and the merged companies will occupy a stronger position in Europe as well as a strong platform for expanding sales globally.

iGuzzini is a leading lighting firm with a strong brand and has built up successful international operations with a global customer base. iGuzzini also complements the Fagerhult Group well from both geographic and product perspectives. iGuzzini is based in Recanati in Italy and is a well-known and respected brand with high recognition at the specifier level and among lighting designers. The company was founded in 1959 and designs, manufactures and markets professional indoor and outdoor lighting solutions.

For the 2018 financial year, iGuzzini had net sales of around MEUR 240, an EBITDA margin of about 14–15 per cent and some 1,470 employees. Fagerhult has identified significant synergies in procurement and sales in both medium- and long-term perspectives, and has a goal of realising annual EBITDA synergies of MEUR 8 by 2022.

More information is included in the press releases from 15 October 2018, 21 December 2018, 7 January 2019, 7 February 2019, 7 and 29 March 2019, 26 April 2019 and 2, 13 and 28 May 2019 as well as 28 June 2019.

Based on our analysis, goodwill (including labour) amounts to approximately MEUR 66.0. Identified intangible assets aside from goodwill consist of a brand amounting to MEUR 165.5 and technology of MEUR 23.2. The value of the brand has been calculated based on an indefinite useful life. Goodwill comprises labour and the opportunities created through future product offerings, new markets and customers. Goodwill is supported by iGuzzini group's growth potential and strong market position.

Synergies include the following:

- Sales synergies, where the Fagerhult Group can achieve increased sales through marketing iGuzzini's range of lighting solutions to the Group's existing customers as well as access to new markets where iGuzzini is established.
- Cost synergies, where the Fagerhult Group can obtain lower prices on components from suppliers, shared with iGuzzini, mainly related to higher purchase volumes.

The consideration consists of the following components:	
Cash paid	2993.6
Fagerhult shares, non-cash issue (11,244,805 shares)	826.5[1]
Total consideration	**3,820.1**
Net assets acquired	3,125.7
Goodwill	694.4

1) based on share price at 7 March 2019.

The company had an impact (after the acquisition date) of MSEK 2,163.3 on Group sales and of MSEK 79.5 on profit after tax. If the company had been part of the Group from the beginning of the year, this would have meant an increase of around MSEK 352 in sales and of approximately MSEK 13 in profit after tax.

The assets and liabilities arising from the acquisition	**Fair value**
Cash and cash equivalents	419.9
Property, plant and equipment	1,338.8
Financial assets	98.9
Intangible assets	2,182.6
Inventories	516.9
Receivables	621.1
Liabilities	–1,378.9
Deferred tax liabilities	–640.1
Net assets	**3,159.2**
Non-controlling interests	–33.5
Net assets acquired	3,125.7
Cash purchase consideration	2,993.6
Cash and cash equivalents in the acquired company	–419.9
Change in consolidated cash and cash equivalents on acquisition	**2,573.7**

The nominal value of the acquired receivables was MSEK 603.2 and the fair value amounted to MSEK 603.2. Transaction costs amounted to MSEK 27.5, of which MSEK 11.6 were recognised under the item Administrative expenses in the 2018 income statement.

Note 32 | Contractual assets and liabilities

The Group's contractual assets and liabilities pertain primarily to non-invoiced income, see Note 15 and liabilities to customers in the form of customer bonuses, see Note 18 and received orders, undelivered (order book). Per 31 December 2019, received orders, undelivered amounted to MSEK 1,217.5 (1,101.6), of which the majority pertains to deliveries for 2020.

Note 33 | Share capital

The share capital in AB Fagerhult totals SEK 100,162,022 (65,535,000) distributed amongst 177,192,843 (115,650,000) shares, with a quotient value of SEK 0.57 (0.57) per share. The number of treasury shares was 1,056,544, with a quotient value of SEK 602,230. 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.

	2019	**2018**
Change in the number of shares outstanding		
Number of shares outstanding at beginning of year	114,500,292	114,492,222
Non-cash issue, refer to page 50 in the Administration report.	11,244,805	–
Preferential rights issue, refer to page 50 in the Administration report.	50,298,038	–
Allocation of treasury shares; refer to Note 2.	93,164	8,070
Number of shares outstanding at year end	**176,136,299**	**114,500,292**

Note 34 | 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 7,658 shareholders. The ten largest shareholders together hold 81.5 (85.5) per cent of the shares outstanding.

OWNERSHIP STRUCTURE (AT 31 DEC 2019)

Shareholder	No. of shares	%
Investment AB Latour	82,118,480	46.6
Lannebo Fonder	13,511,460	7.7
The Svensson family, foundation and company	9,618,442	5.5
BNP Paribas SEC Services	8,777,941	5.0
Swedbank Funds	5,674,183	3.2
FMR, Fidelity (US)	5,364,441	3.0
Nordea Funds	5,074,360	2.9
AP Funds	4,988,749	2.8
Handelsbanken Funds	4,449,494	2.5
The Palmstierna family	3,948,095	2.2
Clearstream Banking S.A. (LU)	3,449,135	2.0
Didner and Gerge Småbolag	2,254,268	1.3
Other	26,907,251	15.3
Number of shares outstanding at the end of the period	**176,136,299**	**100.0**

Note 35 | Proposed appropriation of profits

The Group's retained earnings according to the consolidated balance sheet amount to MSEK 2,352.4 (2,096.9).

The total number of dividend-bearing shares on 18 March amounted to 176,136,299. The Board of Directors proposes that the profit be appropriated as follows:

The following profits (MSEK) are at the disposal of the AGM:

Profit brought forward	3,210.3
Net profit for the year	354.2
Total	**3,564.5**

To be distributed as dividends to shareholders, SEK 1.50 per share	264.2
To be carried forward	3,300.3
Total	**3,564.5**

Note 36 | Risks

FINANCIAL RISKS

Currency risk

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 as each company's functional 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 287 (345). 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 nine-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 3 (4). The financial instruments are managed by the Parent Company's senior management. The Group does not apply hedge accounting for these contracts.

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 5,560 (2,277) 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 715 (711) and accumulated borrowings of MSEK 340 (327), which reflects a hedging quotient of 47 (46) per cent. Annual translation differences recognised in other comprehensive income concerning borrowings as hedged net assets amounted to an expense of MSEK 12.9 (expense: 4.3) before deferred tax of MSEK 2.7 (0.8). Accumulated translation differences recognised in other comprehensive income concerning borrowings as hedged net assets amounted to an expense of MSEK 28.8 before deferred tax of MSEK 5.9.

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 55 (23) 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 65 (44) whilst the impact on results in the foreign subsidiaries would be MSEK 3 (3).

The sensitivity analysis for currency risk regarding translation exposure pertained to receivables and liabilities at the end of the reporting period given in a currency other than the respective Group company's functional currency. The table below shows exposure per significant currency and the effect of a 1 per cent change in the exchange rate on companies in the Group.

Currency	Receivables	Liabilities	Net exposure	Effect, 1%
AUD	11.5	1.4	10.1	0.1
CAD	88.8	91.6	–2.8	0.0
CNY	21.9	44.2	–22.3	–0.2
DKK	8.0	11.0	–3.0	0.0
EUR	760.1	637.6	122.5	1.2
GBP	128.0	55.4	72.6	0.7
NOK	22.1	6.0	16.1	0.2
SEK	9.4	9.5	–0.1	0.0
USD	90.9	88.0	3.0	0.0
Other currencies	56.0	1.0	55.1	0.6
Total	**1,196.7**	**945.6**	**251.1**	**2.5**

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 190.3 (93.5), interest-bearing liabilities totalled MSEK 3,752.0 (2,787.7) and cash and cash equivalents were MSEK 1,133.5 (808.4). 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. Group policy is to use a fixed-interest period of three months. During 2019 and 2018, 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 26 (20), 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 2019 had been 10 (10) points higher/lower, but all other variables had been constant, then gains after tax for the financial year would have been MSEK 3.7 (2.7) 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 2019 or 2018. Of the trade receivables carrying amount, MSEK 527 (593) is covered by credit insurance. A total provision of MSEK 98 (28) was made for expected credit losses. The average confirmed credit losses amounted to 0.05 per cent (0.05) of net sales calculated for the next five years.

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. For derivatives, the fair value is presented because the contractual dates of maturity are not significant for an understanding of 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 2019						
Repayment of bank loans	73.8	737.0	1,331.5	29.8	1,510.4	69.5
Payment of lease liabilities	165.9	150.3	105.6	86.4	75.7	443.2
Interest payments	45.9	45.4	24.5	17.0	13.3	0.3
Trade payables and other liabilities [1]	1,701.8	150.1	–	–	–	–
	1,987.4	**1,082.8**	**1,461.6**	**133.2**	**1,599.4**	**513.0**
As of 31 December 2018						
Repayment of bank loans	416.1	832.2	822.8	400.5	0.7	315.4
Interest payments	37.0	35.0	26.1	11.2	3.8	1.3
Trade payables and other liabilities [1]	1,026.8	98.6	150.7	–	–	–
	1,479.9	**965.8**	**999.6**	**411.7**	**4.5**	**316.7**

1) Of this amount, MSEK 689.5 (351.2) 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 2019 was 2.9 per cent (2.0) after including the effects of IFRS 16.

OPERATIONAL RISKS

Structural changes and changes in economic conditions

Market demand for the Fagerhult Group's products, and thereby the Group's sales, are impacted by factors outside of the Group's control. An economic downturn in the markets where the Fagerhult Group operates could result in lower demand for the Group's products. The most material sensitivity to the economic cycle is assessed at present to be the parts of the Fagerhult Group's operations that deliver to customers in the construction and property sectors, and customers in the retail sector. In the same manner, structural changes in the markets where the Group operates could give rise to lower demand for the Group's products. For example, changed consumption patterns and an accelerated transition from physical stores to online stores could negatively impact the segment of the Group's operations that delivers to stores and warehouses. In both case, the changes will negatively affect the Fagerhult Group's operations, earnings and financial position.

Moreover, there is a risk that the Fagerhult Group's customers in sectors that are currently less sensitive to the economy would be negatively affected by extended periods of weak economic growth, high unemployment or other negative economic trends, primarily in Europe, or general concerns in the euro-zone, with a resulting decline in the capacity to pay. Accordingly, an economic downturn could negatively impact the Fagerhult Group's operations, earnings and financial position.

Competition
The Fagerhult Group meets direct competition in all product segments and in all geographic markets. The Fagerhult Group's long-term growth and earnings are therefore dependent on adapting to customers' needs, changes in industry requirements and on introducing attractive new products and services, in parallel with maintaining competitive pricing. To maintain its competitiveness, the Fagerhult Group must predict customers' needs and ensure it develops the products and services in demand with and accepted by these customers. Should the Fagerhult Group fail to maintain a competitive position in terms of quality, product prices, security of supply, brand recognition and a broad product offering, and/or fail to adapt to changes in market conditions or otherwise successfully compete with its competitors, this could have a negative effect on the operations, earnings and financial position of the Fagerhult Group.

All segments and all markets entail the risk of new competitors capturing market shares with the support of a product offering with which the Fagerhult Group cannot compete. Such competing products and services could reduce demand for the products provided by the Fagerhult Group. This could negatively impact the Fagerhult Group's operations, earnings and financial position.

Geopolitical and macroeconomic risks
The Fagerhult Group has operations in about 30 countries. The operations are exposed to risks related to geopolitical concerns and instability as a result of, for example, political or diplomatic crises, war, terrorism, regional or cross-border conflicts, natural catastrophes, strikes and other geopolitical circumstances in the jurisdictions where the Fagerhult Group conducts its international operations. Over the last two years, the operations have faced geopolitical challenges in, inter alia, Turkey, Russia and South Africa. The Fagerhult Group also imports products to the UK and is thereby exposed to risk related to Brexit. Factors and events similar to the above in the operating environment could negatively impact the Fagerhult Group's operations, earnings and financial position.

Inventory risk
Products held in inventories entail a risk of becoming obsolete as a result of outdated technology or over production, if the Group is unable to adapt production to technological developments or to customer preferences. In both case, the changes could negatively affect the Fagerhult Group's operations, earnings and financial position.

Operational risk
The Fagerhult Group's operations depend on reliable and efficient production units to ensure that the products are delivered on time and meet quality expectations. The Group's operations could be affected by operational disruptions due to, inter alia, late or incorrect deliveries, technical faults, labour law measures, accidents or erroneous administrative routines. There is also a risk that those measures taken by the company to avoid disruptions prove inadequate should a larger disruption occur. This could negatively impact the Fagerhult Group's operations, earnings and financial position.

Supplier risk
To be able to manufacture, sell and deliver products, the Fagerhult Group depends on external suppliers' availability, production, quality assurance and deliveries. Moreover, the Fagerhult Group is dependent on a few main suppliers for LED components, which would take a long time to replace. Faulty, late or missed deliveries from suppliers of different kinds could entail that the Fagerhult Group's deliveries are in turn delayed or cancelled, or are faulty or incorrect, which could have negative consequences for the Group's customer relations and lead to lower sales. This could negatively impact the Fagerhult Group's operations, earnings and financial position.

Risks pertaining to operating costs
The Group's costs for manufacturing products is impacted by costs for, inter alia, purchasing manufacturing input materials. Those individual components that most impact costs comprise electronic components and sheet metal. Large price changes for input material purchased by the Group could entail a negative impact on the Fagerhult Group's operations, earnings and financial position.In terms of the cost of adding value in the form of manufactured products, wage trends for employees track the general wage trends in the labour markets of the respective countries, which in turn is largely dependent on the economy as a whole. Unexpected large wage increases and/or increased average sick leave among the Fagerhult Group's staff could entail a negative impact on the Fagerhult Group's operations, financial position and earnings. The cost of adding value to manufactured products also includes energy costs, which are dependent on developments in the environmental and energy sectors. Rising energy costs could entail a negative impact on Fagerhult's operations, earnings and financial position.

Product liability
The Fagerhult Group's products expose the Group to potential claims if the products do not function as expected or prove to be defect, or if use of the products causes, results in, or is claimed to have caused or resulted in personal injuries, damage to property or other negative effects. The Fagerhult Group's products make various safety risks relevant, including electrical risks, mechanical risks, thermal risks and exposure to electromagnetic fields. Requirements covering product liability, irrespective of whether they pertain to project delays or other injuries, could prove costly and time-consuming to defend and could potentially damage the Fagerhult Group's reputation and result in material negative effects for the Fagerhult Group's operations, earnings and financial position.

Insurance
The Fagerhult Group purchases and manages Group-wide insurance policies for property and liability risks, thereby creating co-ordination gains and cost advantages. The Fagerhult Group's insurance programme encompasses, inter alia, a global liability insurance, which covers general liability and product liability. Limits apply to the scope and amounts of the insurance cover. For example, the cover does not encompass liability for delays and faults that do not lead to product liability. There is a risk that the Fagerhult Group does not receive full compensation for any damage that arises or claims that can be directed at the company, which could have negative consequences for the Fagerhult Group's operations, earnings and financial position.

Dependence on key individuals
The Fagerhult Group is dependent on being able to retain and recruit employees and senior management with key competence. There is a risk that one or more members of senior management or key individuals leave the Group at short notice. Where the Fagerhult Group fails to retain such key personnel, and/or fails in the future to recruit key personnel, this could have negative consequences for the Fagerhult Group's operations, earnings and financial position.

Permits
Several of the manufacturing companies in the Group have operations that in some form require permits. The Fagerhult Group currently possesses all necessary permits, mainly environment-related, for conducting operations. However, there is a risk that these permits may not be renewed or may be withdrawn or limited. Moreover, there is a risk that the Fagerhult Group's interpretation of applicable laws and provisions concerning the Fagerhult Group's operations, or the relevant authorities' interpretation of these or their own established practices, are not entirely correct, or that such rules, interpretations or practices are changed. Such changes could entail more permits being required for operations, which could be both time-consuming and costly as well as negatively impact on the Fagerhult Group's operations, earnings and financial position.

The environment
The operations of the Fagerhult Group have an environmental impact. As a result of the nature of the operations, a risk exists that pollution or environmental damage is caused or has been caused in the operations run by the Group. There is also a risk that the operations previously conducted by other businesses at a plant or property, and which are now owned by the Group, may have given rise to pollution or environmental damage. Under current Swedish environmental legislation, the entity conducting operations that have contributed to environmental damage bears responsibility for rectifying the damage. If the business is unable to or lacks sufficient funds to rectify the damage, the acquirer of the property, who at the time of the acquisition was aware of or should have discovered the pollution, is responsible. This means that, under certain conditions, claims could be directed at the Fagerhult Group for investigation, treatment or other remedial measures in the event of the presence or suspicion of pollution contaminating soil, bodies of water or groundwater. Such claims could negatively impact on the Fagerhult Group's operations, earnings and financial position. A risk exists that future changes in

environmental regulations could entail increased expenses and costs to enable continued production. Developments in Sweden and internationally are heading towards stricter environmental rules, whereby new permits are normally subject to lower limits for maximum environmental impact. Regulatory changes could require significant new investments to enable continued production. If the Fagerhult Group is unable to meet these changes in a cost-efficient manner or to successfully maintain the necessary permits, this could negatively impact on the Fagerhult Group's operations, earnings and financial position.

Corruption
Following the acquisition of iGuzzini, Fagerhult has operations in some 30 countries on four continents. The Group has a decentralised business model that, inter alia, entails that each subsidiary is responsible for compliance with the Group's Code of Conduct. The large geographic spread and decentralised control leaves the Group exposed to the risk of corruption. If any member of management at any subsidiary should set aside the Code of Conduct's rules concerning zero tolerance for corruption, this could damage the Fagerhult Group's reputation, lead to lost business and leave the company liable to pay fines. This could also result in a significant negative impact on the Fagerhult Group's operations, earnings and financial position.

IT risk
The Fagerhult Group needs to use IT systems to manage, inter alia, deliveries of products and input materials as well as to receive and manage customer orders. A major part of the Fagerhult Group's operations are aimed at customers who set stringent requirements for reliable and exact deliveries, which in turn sets high requirements for functioning and secure IT systems that are well-integrated with the company's various business segments. Maintaining, developing and investing in such systems requires significant capital investment and other resources. There is a risk that future investments required in IT systems will be greater than the company's expectations. Moreover, there is a risk that the company's IT systems are disrupted by software and hardware issues, computer viruses, hacker attacks and physical damage. Such problems and disruptions could, depending on the extent, negatively impact on the Fagerhult Group's operations, earnings and financial position. 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. User access to the system is regulated via Group authorisations and entitlements based on actual assignments and roles within the company.

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 have been identified. We have focused on the specific areas stated in the Swedish Annual Accounts Act where we are of the opinion that operations significantly impact people and the environment: the environment; personnel; societal conditions; respect for human rights; and anti-corruption.

Activity	Risk	Description/management
Product development	Product quality	• Quality defects in the product can result in injuries to customers or impact the company's reputation. Fagerhult has a quality policy and guidelines in place for product development and training, which aim to maintain high quality and to reduce risks of the above.
The environment	Energy efficiency and emissions	• Increased cost of energy due to legislation can lead to increased production costs. Fagerhult works continuously in all areas of operations to review energy needs and to work as efficiently as possible.
Personnel and societal conditions	Workplace accidents	• Fagerhult has noted a risk that a workplace accident could occur that could lead to injury or loss of personnel. Fagerhult works daily with work environment issues and routines, and works proactively in activities that are assessed as having significant risk for injury.
	Human rights	• The risk of Fagerhult not respecting human rights is managed by ensuring that all of the Group's employees are familiar with the company's Code of Conduct, which is always signed upon employment, and through continuous training in the code.
Anti-corruption	Anti-corruption	• Corruption, or any employees breaking the law, can lead to fines and lost business as well as affect Fagerhult's reputation. Fagerhult works continuously with the issue and has a Code of Conduct that forms the basis for everything we do and how we act. We conduct company inspections upon acquisition, and all of the Group's companies are to comply with the applicable laws and regulations.
Sustainable supply chain	Ethics and human rights	• Fagerhult requires contractors to fulfil the ethical standards we set for contractors and subcontractors and demands human rights be respected. During the year, a Code of Conduct for contractors has been implemented at Fagerhults Belysning, and Fagerhult applies the prudence concept for all relationships.

Note 37 | Events after the balance-sheet date

Work on a new Group structure encompassing a new operating structure was started during the year to create increased opportunities for organic growth and to strengthen positions both locally and globally. Focus was on the Group's 13 brands and how the Group can increase collaboration in terms of customers, geographic markets and applications. The new operating structure is being implemented in the first quarter of 2020 and its impact on the financial reporting will be announced during the first quarter and in the interim report for Q1 2020.

On 13th March Fagerhult provided a general market update regarding events in the first quarter. Firstly, regarding the Covid-19 virus, Fagerhult has taken a significant amount of actions and up to today, see no significant effect. We continue to monitor the situation and follow decisions and recommendations from local authorities and governments. Secondly, the organic order intake is positive compared to last year for the first ten week period of the year and this is across many markets and companies. However, so far deliveries are slightly lower than last year and two events have affected our earnings in the period. Messe Frankfurt has decided to postpone the Light & Building exhibition and the rescheduled timing does not suit Fagerhult and so our participation is cancelled for this year. This results in a one-off additional cost of approximately 20 MSEK in the first quarter. Lastly, as previously communicated, there has been challenges regarding implementation of a new ERP-system in iGuzzini. The challenges have been dealt with and closed out, and this is regarded as an isolated and now corrected event. The situation did, to some extent, affect our earnings in the period.

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 May 5, 2020.

Habo, March 18, 2020

Jan Svensson
Chairman

Eric Douglas
Vice Chairman

Cecilia Fasth
Board member

Morten Falkenberg
Board member

Annica Bresky
Board member

Teresa Enander
Board member

Bondil Sonesson
President and CEO

Magnus Nell
Employee Representative

Lars-Åke Johansson
Employee Representative

Our audit report was submitted on March 19, 2020.

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

Unofficial translation

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of AB Fagerhult for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 48–109 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 and the group as of 31 December 2019 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 2019 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 adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (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 the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies 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 some 30 countries around the world. Each of the local operations has their own finance function reporting to the head office 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 iGuzzini in Italy, 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 Italy 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 37 units where full audits have been executed. A total of 23 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 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial 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 of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of 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
Acquisition analysis regarding iGuzzini Group Fagerhult completed the acquisition of the iGuzzini Group on 7 March 2019. The transaction is described in detail in Note 31, which also includes the total purchase price of MSEK 3,820. Reported equity in the company amounted, at point of acquisition, to MSEK 1,629 which implies that the company management and Board of Directors would, at that point in time, have allocated an excess value of MSEK 2,191. This allocation is based on the fair value of the assets and liabilities in the iGuzzini Group 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 and liabilities 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 31. Based on our examination of the acquisition analysis, we made no observations which were significant to the audit in its entirety.
Valuation of intangible assets with indefinite useful lifetimes, brands and goodwill On page 83 in the section, Significant Estimates and Assumptions, amongst the Accounting Principles and in Note 11, 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 5,614 or 43 per cent 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 2019. 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 11 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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Changes in market demand and impact on revenue recognition Fagerhult describes how it recognises revenue on page 79 and under the heading "Revenue recognition." The internet of things (IoT) and sustainability are two areas that impact demand from Fagerhult's end customers and thereby create new revenue opportunities for the Group. Offering connected products enables end customers to lower energy consumption, implement new lighting solutions and increase security among other improvements. It also makes it possible for other interested parties to integrate their products and services into Fagerhult's products, which may be of great interest to end customers. As a natural result of these opportunities, Fagerhult can, over time, be influenced by what these parties wish to and can offer end customers. While currently, the Group's main revenue stream is through the sale of products, the future could also see systems, connectivity, maintenance, etc. being offered. Marketing could be conducted on a stand-alone or integrated basis. Such a development could affect both when and how revenue is recognised.	We instructed each of the local audit teams to be alert to changes in customers' demand and whether these changes affected Fagerhults' customer offering. The review included obtaining insight into how new products and services have developed in recent years. We instructed the auditors to discuss with the local sales departments to gain an understanding of market trends. The auditor should also make inquiries to the R&D departments, since they create the new products. As part of our standard audit procedures regarding revenue, such as the review of customer agreements, invoices and payments, we have also tried to identify changes that indicate an impact on the revenue streams. The Group audit team conducted discussions with Fagerhult's company management to gain an understanding of how the market is changing and whether these changes affect revenue recognition. Based on our audit, we have no observations that were material for the audit as a whole.

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 1–47 and 114–117. 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 Director's 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 that they give 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 is 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 using 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 has no realistic alternative but to do so.

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

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's 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 Director's and the Managing Director of AB Fagerhult for the year 2019 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 Director's 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 Director's 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' 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 take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets 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
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations 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 appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's 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 13 May 2019. We have served as auditors in the company for more than 20 years.

Jönköping 19 March 2020

Öhrlings PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Auditor in Charge

Martin Odqvist
Authorized Public Accountant

Shareholder information

2020 Annual General Meeting

The Annual General Meeting of shareholders in AB Fagerhult will be held on 5 May 2020, 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, 28 April 2020 and register their intention to take part in the meeting to Fagerhult no later than 28 April 2020.

Registrations can be made via e-mail to fagerhultgroup.com, or by telephone on +46 08-402 90 19 or by post to AB Fagerhult, AGM, c/o Euroclear Sweden AB, Box 191, 101 23 Stockholm, Sweden. Shareholders who have registered their shares with a nominee shareholder must, in good time prior to 28 April 2020, 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 1.50 per share. The proposed record day is 7 May 2020. In the event that AGM adopts this proposal, the dividend will be distributed through the offices of Euroclear Sweden AB starting on 12 May 2020.

Nomination Committee

The Nomination Committee for the 2020 AGM comprises the following members:

- Jan Svensson, Chairman of AB Fagerhult
- Johan Hjertonsson representing Investment AB Latour
- Johan Ståhl representing Lannebo Fonder.
- Evert Carlsson representing Swedbank Fonder
- Adolfo Guzzini representing Fimag S.p.A.

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 2020

- 5 May 2020, 2020 AGM
- 5 May 2020, Interim report for Q1, 2020
- 12 Aug 2020, Interim report for Q2, 2020
- 23 Oct 2020, Interim report for Q3, 2020

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 fagerhultgroup.com

IR contact
Michael Wood,
Chief Financial Officer
073-087 46 47
ir@fagerhult.se

News, reports and share price performance

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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.

For more information about the Key ratios and the definitions applied, please refer to AB Fagerhult's website under "Investor/Financial data/Financial glossary." The website also includes the definition of any Alternative Performance Measures used whereas this report details the financial aspect to these.

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 a 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: (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 as candela per m^2 (cd/m^2).

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

Rated Life: (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.

Production: Fagerhult in partnership with Springtime-Intellecta. **Printing:** Danagård LiTHO, 2020. **Photography:** Getty Images/Gabriella Tulian (cover), Fagerhult (inside cover, p. 1, 15, 45), LED Linear (p. 2), Whitecroft Lighting (p. 2), WE-EF (p. 2), iGuzzini (p. 2), Helén Karlsson (p. 5,64–67), iGuzzini Archive (p. 8, 9), Nigel Downes (p. 11), ASA 100 – Santiago Arau (p. 11), Tomas Majewski (p. 11), Patrik Svedberg (p. 12, 33, 37, 39, 41), Ari He (p. 12), Aaron Burden (p. 12), Didier Boy de La Tour (p. 16), AHR Photography (p. 18), Derek Hudson (p. 18), Johan Jansson (p. 18), Courtesy of Manchester Airport (p. 20), Arlight (p. 20), Veko (p. 21,44), Eagle Lighting (p. 21), I-Valo (p. 21), Jonas Lindström (p. 22), Andreas Huber Fotografie (p. 23), Lighting Innovations (p. 23), Roman Thomas (p. 23), Ivan Smelov (p. 24), Designplan (p. 25), Ina Parakhina (p. 25), Ulf Celander (p. 25), Johner Images (p. 26), Shutterstock (p. 30, 39).

Addresses

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

Fagerhults Belysning AB
Åvägen 1, SE-566 80 Habo
Tel: +46 (0)36 10 85 00
Fyrvaktaregatan 7
SE-296 81 Åhus
Tel: +46 (0)44 28 98 00

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

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

Fagerhult AS
Herstedvang 14
DK-2620 Albertslund
Denmark
Tel: +45 43 55 37 00
www.fagerhult.dk
post@fagerhult.dk

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

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

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

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

Fagerhult Lighting Ltd
Unit F1, Calmount Park
Ballymount
Dublin D12 PN81
Ireland
Tel: +35 3 1426 0200
www.fagerhult.ie
info@fagerhult.ie

Whitecroft Lighting Limited
Burlington Street
Ashton-under-Lyne
Lancashire OL7 OAX
UK
Tel: +44 161 330 6811
www.whitecroftlighting.com
email@whitecroftlight.com

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

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

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

WE-EF LEUCHTEN GmbH
Töpinger Straße 16
29646 Bispingen
Germany
Tel: +49 5194 909-0
www.we-ef.com
info.germany@we-ef.com

Fagerhult NV Belgium
Deerlijksestraat 57
8500 Kortrijk
Belgium
Tel: +32 9362 4494
www.fagerhult.be

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

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

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

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

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

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

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

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

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

OR Technologies Pty Ltd
Level 1, 2 Greenwood St
Abbotsford, VIC 3067
Australia

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

Fagerhult Lighting – Dubai Branch
Office No. 914
The Onyx Tower 1, The Greens
Sheikh Zayed Rd
126287 Dubai – U.A.E.
United Arab Emirates
Tel: +971 4329 7120
www.fagerhult.ae
info@fagerhult.ae

Fagerhult (NZ) Ltd
Level 1/12 Allens Road
East Tamaki
Auckland 2013
New Zealand
Tel: +64 21 509 248

Lighting Innovations Africa (pty) Ltd
672 Old Cape Road
Greenbushes, Port Elizabeth
Eastern Cape 6390
South Africa
Tel: +27 (0)41 819 7598
www.lightinginnovations.co.za
info@lightinginnovations.co.za

VEKO Lightsystems International B.V
Witte Paal 38, Postbus 168
1742 NL Schagen
The Netherlands
Tel: +31 224 273 273
www.veko.com
info@veko.com

iGuzzini illuminazione S.p.A
via Mariano Guzzini 37
62019, Recanati (MC)
Italy
Tel: +39-07175881
www.iguzzini.com
info.hq@iguzzini.com

Sistemalux
9320 Saint-Laurent Suite 100
Montreal, QC H2N 1N7
Canada
Tel: +1-514-523-1339
www.sistemalux.com
newinfo@sistemalux.com

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