Solar A/S ■ Executive Board
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Tel. +45 79 30 00 00 ■ CVR no. 15 90 84 16 ■ Web: www.solar.eu

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Som dirigent:

Bo Holse

LEI: 21380031XTLI9X5MTY9

Announcement no. 3 2017

10 February 2017

Annual Report 2016

Revenue and EBITA for 2016 were on par with our expectations. The Board of Directors will propose 2016 dividends distribution of DKK 12 per share at the annual general meeting, equal to a payout ratio of 70%. Audio webcast and teleconference today at 14:00 CET.

CEO Anders Wilhjelm says:

"We are pleased with our organic growth in Q4 and the continued positive development in net working capital. 2016 EBITA was, as expected, impacted by costs from growth initiatives and non-recurring costs, as we want to invest in future growth and operational excellence. In Solar, we remain focused on productivity improvement and digitalisation – both in relation to our customers and to Solar. With more than half of our business being online, digitalisation is the norm in Solar. We embrace it and focus our activities and solutions on improving customer experience, simplifying and facilitating customer routines, and reducing waste and inefficiency."

Financial highlights (DKK million)*	**Q4 2016**	**Q4 2015**	**2016**	**2015**
Revenue	3,010	2,819	11,072	10,587
EBITA	102	99	278	296
Earnings before tax	79	66	188	201
Cash flow from operating activities	437	524	219	331
Financial ratios (%)				
Organic growth adj. for number of working days	4.3	1.5	1.8	5.2
EBITA margin	3.4	3.5	2.5	2.8
Net working capital, period-end/revenue (LTM)	9.0	9.3	9.0	9.3
Net working capital, average/revenue (LTM)**	10.7	11.8	10.7	11.8
Gearing (NIBD/EBITDA), no. of times	0.1	-0.5	0.1	-0.5
Return on invested capital (ROIC)	7.5	8.5	7.5	8.5

* Due to our divestment of the assets of Solar Deutschland GmbH, 2015 and 2016 figures in this announcement relate to our continuing operations.
** Calculated as an average of the past four quarters' inventories, trade receivables and trade payables.

2016 Revenue

- Organic growth fell to 1.8% from 5.2% in 2015 adjusted for the number of working days. However, organic growth in Q4 rose to 4.3% from 1.5% in Q4 2015 adjusted for the number of working days.

2016 EBITA

- Operational EBITA ended at DKK 302m.
- Growth initiatives in innovation and development of approximately DKK 20m, and non-recurring costs of approximately DKK 15m, as well as positive one-off amounting to DKK 11m.
- EBITA net these effects ended at DKK 278m, which was on par with expectations.
- Compared to 2015, the increase in both external operating costs and staff costs was mainly related to the acquisitions of MAG45 and EBS, innovation and development as well as non-recurring costs of which DKK 6m in restructuring costs was included in Q4.
- In addition, MAG45's strategy of identifying growth opportunities was brought forward, which means that costs relating to recruitment and restructuring were also brought forward.
- However, we also saw a positive net impact of DKK 5m from the change in pension obligations in Q4 compared to a positive net impact of DKK 9m in 2015.

Dividends distribution

- At the annual general meeting, the Board of Directors will propose dividends distribution of DKK 12.00 per share, up from DKK 10.00 distributed in 2016.

2017 outlook

- We expect a revenue of approximately DKK 11.4bn, equal to an organic growth of approximately 3%.
- We expect an operational EBITA of approximately DKK 345m, but also expect to spend approximately DKK 25m on innovation and business developments and approximately DKK 20m on structural changes.
- Consequently, we expect EBITA of approximately DKK 300m.

DKK million	**Guidance 2017**	**Actual 2016**
Operational EBITA	345	302
Innovation and business development	-25	-20
Non-recurring costs	-20	-15
Positive one-offs	0	11
EBITA	**300**	**278**

- The return from investments made in BIMobject, Viva Labs, Minuba and GenieBelt will be reported separately.

Audio webcast and teleconference today

The presentation of Annual Report 2016 will be made in English on 10 February 2017 at 14:00 CET. The presentation will be transmitted as an audio webcast and accessible via www.solar.eu. Participation will be possible via a teleconference.

Teleconference call-in numbers:

DK: tel. +45 354 455 83
UK: tel. +44 203 194 0544
US: tel. +1 855 269 2604

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Yours faithfully
Solar A/S

Anders Wilhjelm

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Enclosures: Annual Report 2016, pages 1-130 + Q4 2016 Quarterly information, pages 1-10. Please see Annual Report 2016 for comments on Q4 2016.

Facts about Solar
Solar Group is a leading European sourcing and services company. Our core business centres on product sourcing, value-adding services and optimisation of our customers' businesses.

Being a sourcing and services company, we focus on each individual customer. We always strive to understand our customers' unique and genuine needs in order to provide relevant, personal and value-adding services, turning our customers into winners.

Solar Group is headquartered in Denmark, generated revenue of approximately DKK 11.1bn in 2016 and has some 3,000 employees. Solar has been listed on Nasdaq Copenhagen since 1953, and operates under the short designation SOLAR B. For more information, please visit www.solar.eu.

Disclaimer
This announcement was published in English and Danish today via Nasdaq Copenhagen. In the event of any inconsistency between the two versions, the English version shall prevail.

Solar A/S

CVR NO.: 15 90 84 16

Annual Report
2016

stronger together

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Preface

Our journey continues

Our strategic ambition is clear: in order to be a fully-fledged digital sourcing and services company we need to keep moving from a product-focused to a solution-focused business.

The change of the business is ongoing and innovation is a prerequisite for our progress. Thus, our digital business development will continue and accelerate.

The cornerstone of our strategy is to work proactively with our customers to help them optimise their businesses. A sound and profitable business is, of course, mutually beneficial.

Solar firmly believes that the future does not lie in a business model with significant investments in a physical distribution infrastructure, i.e. brick-and-mortar branches. On the contrary, we believe in optimising efficiency in the value chain.

We regard goods collection by customers as a waste of their valuable time. Professionals spending time in traffic just to pick up goods is old-fashioned and inefficient. Instead, as a means of increasing efficiency and reducing stress, the availability and use of intelligent digital tools to order products and services allows them to plan and manage their working day and to digitalise or outsource their administrative tasks.

We are confident that the customers of today and tomorrow who are used to the convenience of ordering online and receiving their goods directly, and who are willing to outsource, will reap significant benefit.

We are committed to generating profitable growth, even in market conditions that remain challenging. However, investing in future growth is a priority, even if this affects short-term performance as has been the case in 2016.

With a business environment that keeps changing at an ever increasing pace, we fully recognise the need to develop and strengthen Solar's commercial and innovative approach. To be successful, we need to attract the right people and leverage their strengths to retain the best in the business. We regard this as essential.

Anders Wilhjelm
CEO

Solar Group – in brief

A European sourcing and services company

Solar Group is a leading European sourcing and services company, with more than 3,000 employees.

We serve professionals operating within the area of technical installation and a variety of industrial customers.

Our core business focus is product sourcing, value-adding services and optimising our customers' businesses.

Being a sourcing and services company, we focus on the individual customer. We strive to understand their specific requirements in order to provide relevant, personal and value-adding services.

Solar Group is based in Denmark.

2016 in figures

Revenue in DKK million

11,072

EBITA in DKK million after growth and non-recurring costs of DKK 35 million

278

Net working capital at year-end

9.0%

E-business share

> 50%

Dividend per share in DKK

12

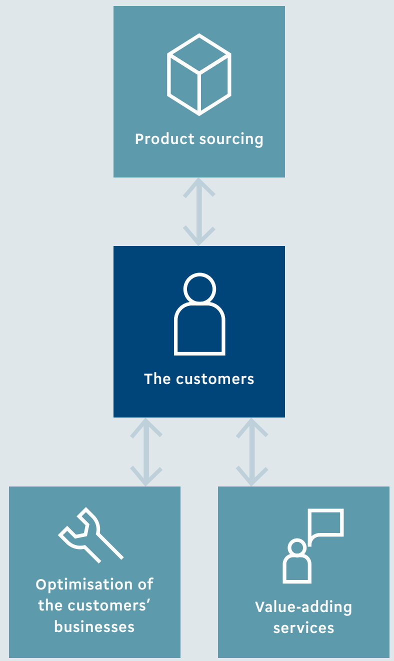
Purchase of treasury shares and dividend distributed in DKK million

274

Our business model

We work with our customers:

- to bundle their spend and improve their sourcing
- to create the best offer and to proactively develop alternatives
- to optimise their productivity, optimise transportation costs and minimise required inventory
- to improve their employees' skills and efficiency



Financial highlights

Consolidated (DKK million)	2016	2015	2014	2013	2012
Revenue	11,072	10,587	10,252	10,463	12,201
Earnings before interest, tax, depreciation and amortisation (EBITDA)	330	362	227	307	348
Earnings before interest, tax and amortisation (EBITA)	278	296	117	225	263
Earnings before interest and tax (EBIT)	222	249	-73	160	198
Earnings before tax (EBT)	188	201	-122	106	156
Net profit for the year	125	167	-234	21	117
Balance sheet total	4,506	4,671	4,574	4,961	5,724
Equity	1,683	1,831	1,732	2,138	2,203
Interest-bearing liabilities, net	43	-184	302	316	559
Cash flow from operating activities, continuing operations	219	331	187	310	427
Net investments in property, plant and equipment	56	-25	-41	-81	-52

Financial ratios (% unless otherwise stated)	2016	2015	2014	2013	2012
Organic growth adjusted for number of working days	1.8	5.2	0.1	-5.0	0.9
Gross profit margin	20.8	20.8	21.2	21.8	21.2
EBITDA margin	3.0	3.4	2.2	2.9	2.8
EBITA margin	2.5	2.8	1.1	2.2	2.2
Effective tax rate	33.5	33.2	-47.2	17.3	33.0
Net working capital (year-end NWC)/revenue (LTM)	9.0	9.3	10.8	10.7	12.3
Gearing (net interest-bearing liabilities/EBITDA), no. of times	0.1	-0.5	1.3	1.0	1.6
Return on equity (ROE)	7.1	9.4	-12.1	1.0	5.6
Return on invested capital (ROIC)	7.5	8.5	-4.3	4.5	4.5
Equity ratio	37.4	39.2	37.9	43.1	39.2

Share ratios (DKK unless otherwise stated)	2016	2015	2014	2013	2012
Earnings per share outstanding (EPS)	16.50	21.26	-29.79	2.67	14.88
Dividend per share	12.00	10.00	7.00	12.00	6.65
Dividend in % of net profit for the year (payout ratio)	70.2	46.8	-	421.5	44.8

Employees	2016	2015	2014	2013	2012
Average number of employees (FTEs), continuing operations	3,032	2,871	2,898	2,943	3,505

Financial ratios are in general calculated in accordance with the Danish Finance Society's "Recommendations & Financial Ratios 2015".

In general, restatements have been made of income statements, cash flow and key ratios for the discontinued operations in Solar Deutschland GmbH for 2013 and 2014 and for the divestment of Aurora Group Danmark A/S for 2012 and 2013, whereas these are not adjusted for previous years. In accordance with IFRS, the balance sheet has not been restated. The key ratio interest-bearing liabilities, net, has been adjusted for interest-bearing receivables relating to the divestment of Aurora Group Danmark A/S, up until the settlement in Q1 2015.

Results and outlook

Segments

Trends in 2016 and Q4 – installation and industry

In Q4 2016, organic growth* amounted to 4.3% albeit with a minor slowdown in the latter part of the quarter. For 2016 as a whole, organic growth amounted to 1.8%.

The installation sector

Low construction activity continued to characterise a number of our markets in 2016, which had an overall dampening effect on the results for the Installation sector, however, slightly better in Q4. Solar's overall organic growth for Installation amounted to around 4% for Q4 and around 1% for 2016. In Q4 we saw growth in Denmark, Norway, Benelux and in Sweden whereas Solar Polska remained negative but with a positive trend.

Solar Nederland continued to focus on improving profitability. Consequently, sales of certain products were reduced and some customers were deselected. This led to lower revenue including in Q4. Despite this, we managed to compensate by growing in other areas. Overall, therefore, we succeeded in delivering growth in Q4.

* Organic growth adjusted for the number of working days.

The industry sector

We saw moderate industrial activity in our markets, resulting in modest organic growth in 2016 but increasing growth in Q4 especially in Norway and Sweden. However, the North Sea offshore industry and related industries continue to experience the effects of the price decreases in the energy market.

Solar's overall organic growth in the Industry sector amounted to around 2% for 2016 and 5% for Q4.

The positive Q4 growth compared to last year is affected by the fact that the impact of the slowdown within the offshore industry was already significant in Q4 2015.

The aquisition of MAG45 added a revenue of DKK 301m (11 months) to the segment Industry, equal to 10% of the segment revenue.

Others

The acquisition of Euro Business School AS added a revenue of DKK 23m (4½ months) to the segment Others, equal to 3% of the segment revenue.

	Revenue		Segment profit	
DKK million	2016	2015	2016	2015
Installation	7,316	7,255	578	608
Industry	2,988	2,651	425	387
Others	768	681	103	51
Total	**11,072**	**10,587**	**1,106**	**1,046**

	Revenue		Adjusted organic growth in %	
DKK million	2016	2015	2016	2015
Denmark	3,008	2,771	7.3	3.9
Sweden	2,499	2,460	1.3	9.4
Norway	1,866	1,835	4.5	0.4
Benelux	2,680	2,765	-3.6	4.1
Other markets	1,084	814	-2.0	13.3
Eliminations	-65	-58		
Total	**11,072**	**10,587**	**1.8**	**5.2**

For more information see note 4, Segment information.

Outlook 2017

In general we expect modest growth in 2017

Outlook for Solar's business areas

Installation

Overall, we expect Installation growth in 2017 to match or slightly exceed 2016 levels.

In the Danish market, new construction and renovation activities are expected to improve slightly.

We still expect growth in the Swedish market but at a lower level than in 2016.

In Norway, we may risk a natural spillover effect from the low activity level in offshore, but we still expect the installation segment to generate slight growth.

The Dutch market has seen some positive trends and the expectation is that we will see a continuous, but modest improvement.

Overall, our outlook for 2017 is moderate positive market growth.

Industry

Our outlook for Industry, excluding the offshore segment, is positive growth.

We maintain our outlook for a slightly positive trend in the Danish and Norwegian markets, excluding offshore, and the Swedish and Dutch markets are expected to see growth as well.

Uncertainty particularly relates to the expected low investment levels within offshore and related industries. We do not expect any improvement compared to 2016.

Others

We expect a continued growth in EBS (renamed to Scandinavian Technology Institute, in 2017) and other activities within the segment Others.

Financial expectations

For 2017, we expect a revenue of approximately DKK 11.4bn equal to an organic growth of approximately 3%.

In 2016, we had a spend on innovation and business developments of approximately DKK 20m and non-recurring costs of approximately DKK15m for structural changes. In total, this amounted to approximately DKK 35m, leading to an operational EBITA of approximately DKK 302m when adjusting for positive one-offs which include adjustment of pension and net profit from sale of assets.

The strong focus on innovation and business developments will continue in 2017, as we will also initiate the necessary structural changes made possible by our digital investments. The growth plan for MAG45 is brought forward albeit the revenue growth is currently slightly behind preliminary expectations.

For 2017, we expect to spend approximately DKK 25m on innovation and business developments and approximately DKK 20m on structural changes. In total, approximately DKK 45m, leading to an operational EBITA of approximately DKK 345m.

DKK million	Guidance 2017	Actual 2016
Operational EBITA	345	302
Innovation and business development	-25	-20
Non-recurring costs	-20	-15
Positive one-offs	0	11
EBITA	**300**	**278**

For 2017, we expect EBITA of approximately DKK 300m.

Focus on reducing the investment in net working capital will continue in 2017. We will continue to focus on investing in digital solutions whereas investments in property, plant and equipment will remain low throughout 2017.

The return from investments made in BIMobject, Viva Labs, Minuba and GenieBelt will be reported separately.

Financial review

2016 results are in line with expectations

Solar posted organic growth of 1.8% in 2016 adjusted for the number of working days. EBITA totalled DKK 278m in 2016, down from DKK 296m in 2015. Costs from innovation and business development have impacted 2016 results by approximately DKK 20m, and we saw some non-recurring costs of approximately DKK 15m. We continue to see a positive trend in net working capital, which amounted to 9.0% of revenue at year-end. Revenue and EBITA were on par with our expectations.

As stated in company announcement no. 6 2015, Solar finalised the sale of the assets of Solar Deutschland in Q1 2015, and the resulting DKK 50m profit is recognised under profit from discontinued operations.

Following the divestment, Solar Deutschland is presented as discontinued operations, similar to its treatment in the 2015 Annual Report. Unless stated otherwise, only Solar's continuing operations are recognised.

Revenue

Revenue totalled DKK 11.1bn, up from DKK 10.6bn in 2015. Actual organic growth fell to 1.8% from 5.2% in 2015 adjusted for the number of working days. However, organic growth in Q4 rose to 4.3% from 1.5% in Q4 2015.

Gross profit margin

At 20.8%, the gross profit margin in 2016 matched the 2015 level but the gross profit margin in Q4 rose to 21.1% from 20.5%.

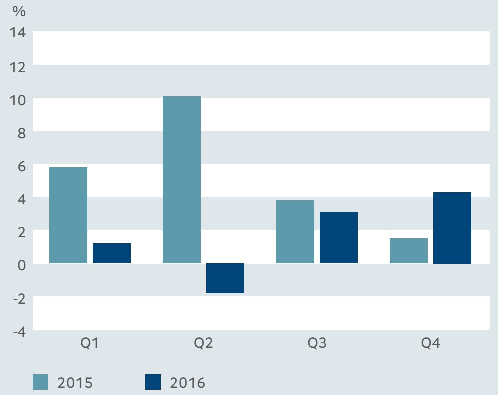
EBITA

EBITA was down to 2.5% of revenue or DKK 278m in 2016 compared to 2.8% of revenue or DKK 296m in 2015.

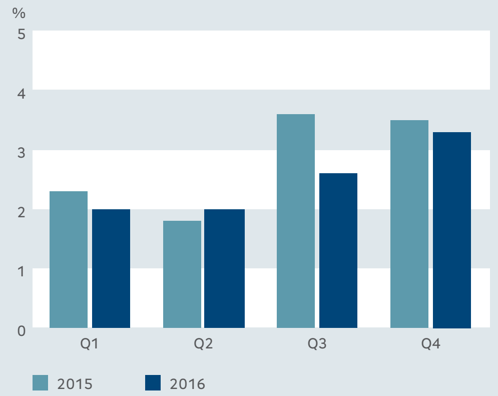
Compared to 2015, the increase in both external operating costs and staff costs was mainly related to the acquisitions of MAG45 and EBS, innovation and development as well as non-recurring costs of which DKK 6m in restructuring costs was included in Q4. In addition, MAG45's strategy of identifying growth opportunities was brought forward, which means that costs relating to recruitment and restructuring were also brought forward. However, we also saw a positive net impact of DKK 5m from the change in pension obligations in Q4 compared to a positive net impact of DKK 9m in 2015.

Loss on trade receivables made up 0.2% of revenue, unchanged from 2015.

Organic growth in %
(adjusted for number of working days)



EBITA margin in %



Write-down and depreciation on property, plant and equipment fell to DKK 52m in 2016, from DKK 66m in 2015. As mentioned in the 2015 Annual Report, Solar sold a property in Denmark with completion on 1 February 2016. Within the first nine months of 2016, we also sold three small properties in the Netherlands and a property in Belgium, while a property in Sweden was written down to fair value. In Q4 Solar sold the remaining properties for sale in the Netherlands and in Germany. The net impact of the total sales proceeds and write-down to fair value was a profit of DKK 5m. The write-down of the Swedish property relates to a recently launched project that aims to merge our Swedish warehouse activities, thereby making our warehouse in Alvesta surplus to requirements. The ultimate aim of this project is to deliver operational excellence in Solar Sverige's supply chain.

EBITA was on par with our expectations, but impacted by costs from innovation and development and non-recurring costs.

Financials

Net financials totalled DKK 34m against DKK 48m in 2015.

A now concluded tax matter had a positive impact of DKK 4m on financial income. Furthermore, in connection with the repayment of a loan, the value adjustment of a hedging instrument of DKK -2m was reclassified from other comprehensive income to financial expenses in Q2 2016.

In connection with the sale of a property in Denmark in 2016, the value adjustment of hedging instruments of DKK -10m was reclassified from other comprehensive income to financial expenses in 2015.

Income tax

Income tax totalled DKK 63m, down from DKK 67m in 2015, which corresponds to an effective tax rate of 33.5% against 33.2% in 2015. Adjusted for a change to the tax base of non-capitalised losses in subsidiaries, the effective tax rate was 25.3% against 27.4% in 2015.

Net profit for the year

The results of continuing operations ended at DKK 125m, down from DKK 134m in 2015. The results of discontinued operations amounted to DKK 33m in 2015, with the DKK 50m profit from the divestment of the total assets of Solar Deutschland included in this figure.

Net profit for the year totalled DKK 125m, down from DKK 167m in 2015.

Balance sheet

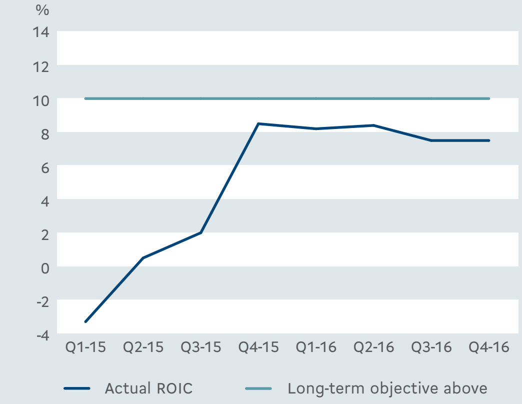
The balance sheet total was down DKK 165m at DKK 4,506m.

Distribution of dividends for 2015 reduced equity by DKK 77m. The resulting net effect before tax on financial instruments, used to hedge future transactions, resulted in gains of DKK 8m, down from the gains of DKK 35m in 2015. Solar's share buy-back programmes resulted in buy-back of treasury shares of DKK 197m in 2016, up from DKK 19m in 2015. 2015 profit included reclassified value adjustments of hedging instruments for financial expenses of DKK 10m, deriving from the sale of a property in Denmark in 2016. In all, equity decreased by DKK 148m and amounted to DKK 1,683m at year-end 2016.

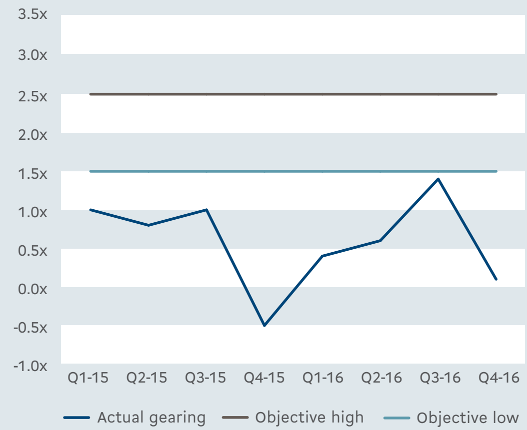
Equity ratio amounted to 37.4%, which is within Solar's desired equity ratio range of 35-40%.

Invested capital totalled DKK 1,744m at year-end, up from DKK 1,662m at year-end 2015.

Return on invested capital (ROIC) in %



Gearing, no. of times
(interest-bearing liabilities, net / EBITA)



Cash flows

We retain our focus on improving net working capital, which fell to 10.7% of revenue from 11.8% in 2015 calculated as an average of the last four quarters. Net working capital at year-end was 9.0% of revenue, down from 9.3% at year-end 2015.

Cash flow from operating activities amounted to DKK 219m against DKK 331m in 2015. Changes to non-interest-bearing liabilities had a DKK 39m impact on cash flow from operating activities in 2016 while changes to non-interest-bearing liabilities had a DKK 215m impact in 2015, where trade payables contributed DKK 173m.

Cash flow from investing activities saw a DKK 115m negative impact from the acquisitions of MAG45 and EBS, and the investments in GenieBelt, Minuba and Viva Labs, but positive impacts of DKK 102m from the sale of properties. Purchase of property, plant and equipment amounted to DKK 46m and primarily related to the reconstruction of the central warehouse in Sweden, while purchase of intangible assets was up by DKK 52m to DKK 88m due to our focus on enhancing the customer experience through digital improvements. In 2015, Solar received the final portion of the fixed transfer price from the divestment of Aurora Group in 2013, which had a DKK 37m positive impact on cash flow from investing activities. Overall, cash flow from investing activities totalled DKK -147m, against DKK -24m in 2015.

Cash flow from financing activities saw a DKK -197m impact from Solar's share buy-back programmes, which were completed on 30 June and 30 August 2016 respectively. The repayment of a loan in connection with the sale of property in Denmark and repayment of a loan in Norway impacted by DKK -25m and DKK -40m respectively. Furthermore, distribution of dividend amounted to DKK 77m, up from DKK 55m in 2015. The total dividend distribution in 2016 was adjusted for the dividends from treasury shares bought under the share buy-back programme in H1 2016, causing it to differ from the proposed dividends included in the Annual Report 2015. Thus, total cash flow from financing activities, including DKK 49m in ordinary loan repayments, came to DKK -388m against DKK -125m in 2015.

As Solar divested its assets in Solar Deutschland in Q1 2015, the company also settled its trade payables. Thus, cash flow from operating activities for discontinued operations came to DKK -53m in 2015. The total divestment consideration is recognised under cash flow from investing activities from discontinued operations, which totalled DKK 345m in 2015.

Consequently, total cash flow in 2016 amounted to DKK -316m against DKK 474m in 2015.

Compared to 2015, net interest-bearing liabilities increased by DKK 227m to DKK 43m, mainly due to the share buy-back programmes of DKK 197m completed in 2016 and the acquisitions of subsidiaries amounting to DKK 97m. Gearing was up at 0.1 times EBITDA from -0.5 in 2015.

The composition of long and short-term interest-bearing liabilities changed in 2016 as two loans fall due on 31 March 2017, one of which was settled in Q2 2016.

As at 31 December 2016, Solar had undrawn credit facilities of DKK 761m. Solar's agreement with its main banker is not subject to any covenants.

We aim to deliver long-term return on invested capital (ROIC) of more than 10%. In 2016, ROIC amounted to 7.5% against 8.5% in 2015.

Remuneration of Executive Board and Management team

In March 2016, Solar's Executive Board and management team were granted 28,398 additional share options to be exercised 10 banking days after the publication of the annual reports in 2019 or 2020. In addition, 27,026 and 14,239 share options were exercised from 2012 and 2013, respectively. For more information, please see company announcements nos. 14 and 15 of 9 March 2016 and this report's note on share options.

The share option plan is in line with Solar's general guidelines for incentive programmes. These guidelines are available from Solar's website under www.solar.eu/investor/policies/

Events after the end of the period under review

Solar A/S has acquired 19.99% shares of Swedish BIMobject AB, based on a targeted emission by BIMobject, cf. company announcement no. 2 2017.

The digitalisation of the construction industry is driven by Building Information Modeling (BIM), and BIMobject is the world's largest and fastest growing digital content management system for BIM objects.

BIM is fundamentally changing the construction industry and BIM will have a significant impact on product selection, material flow, cost, quality and logistics.

The acquisition price of 19.99% of the shares of BIMobject AB is approximately SEK 217m. The acquisition is financed from Solar's cash resources.

Strategy and business

Strategy

Solar embraces joint action

We believe in productivity improvement, digitalisation and skills development through professional training. We innovate by shaping and co-creating the future market with our business partners and define this as networked development.

High speed business development is what is required and by joining forces, we are able to transform working patterns and improve customer productivity through intelligent digital solutions. The pace of change in today's market also means our customers need so much more than merely products to stay competitive.

We aim to drive network synergies and we see mutual, strategic benefits in terms of lead generation, customer insight, sourcing power, logistics, market knowledge, experience, expertise, technical know-how, access to capital and growth opportunities.

Customers are consumers – at work

We remain firmly focused on our customers and we believe that partnerships based on shared value creation are the way to a successful future for our customers, business partners and for Solar.

We understand that a professional customer is a consumer at work and expects an outstanding customer experience. This is why we are committed to customer experience improvement and marketing automation. Through data analysis, we strive to optimise all customer touch points, improve user experience and design our marketing platform around our customers to personalise communication. With this approach, we aspire to making business with Solar the easiest and most obvious choice.

One example is our new set-up of the customer service function which we have organised around a thorough analysis and understanding of the customer experience of engaging with Solar. A key design criteria is to resolve the service need in our first interaction with the customer.

We have reduced complexity and increased responsiveness, and the result is that we can now serve our customers faster and even more professionally, while using fewer resources. This initiative is a strong change driver with high impact on the customer experience.

Solar Norway served as our pilot country for this group wide initiative - exemplifying also our approach to aligned and agile deployment of major change initiatives - ensuring speed, ownership and commonality across countries.

Next up is Sweden and then successively the remaining large countries.

Training expands our service business

We have identified an increased need for training among our customers in order for them to keep up with new technologies, to adapt to a fast and changing business environment and to improve efficiency. Training is not only a vital part of our service offering but is a growth opportunity since smaller companies, in particular, have a need for a more structured approach to training.

The acquisition of EBS (Scandinavian Technology Institute, STI) has given us more expert competencies, professional training tools and greater critical mass. It has also added a greater range of commercial and IT-related training as well as more advanced learning methods and systems to our combined training business.

Our combined training activities now operate under the name of Scandinavian Technology Institute. We continue to develop and invest in our training portfolio, and we will proactively identify opportunities for expanding our activity.

Total Cost of Ownership

Total Cost of Ownership is becoming increasingly important for our customers.

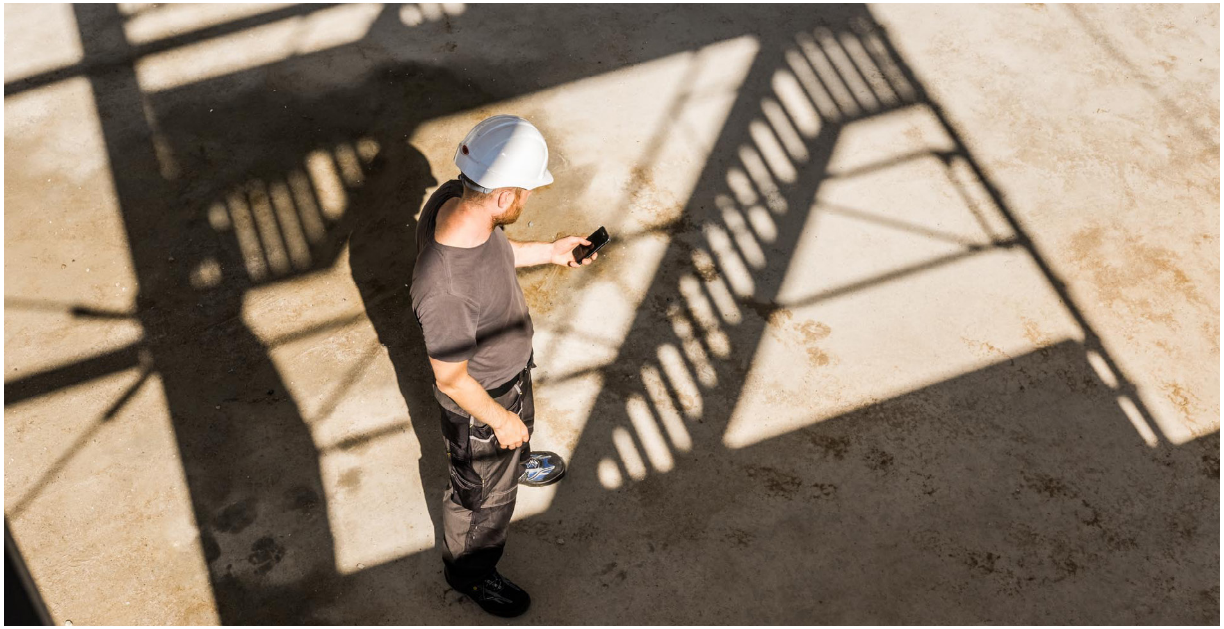
Together we can identify individual solutions for optimising our customers' businesses.

We look at the whole value chain and help our customers better understand the overall solution, which optimises sourcing, warehouse, transport, waste and administrative costs. Cost is much more than the price of a product and our customers are increasingly focused on cost optimisation and reducing their working capital.

With the acquisition of MAG45, we have strengthened our expertise in this field, particularly within industry. At the same time, MAG45 has benefited from Solar's brand recognition and industrial customer contacts in Northern Europe.

Business focus

Solar focuses on digital business development



We are investing in digital business development and have made it a strategic priority to focus on digital activities and solutions that improve customer experience, simplifies and facilitates their routines, and reduces waste and inefficiency – both for them and for Solar.

More than 90% of all our products are delivered directly from our warehouses to the customers' chosen delivery address. Moreover, more than 50% of Solar's business is already digital and we expect this share to keep growing.

Solar is already a true digital business, but our pioneering ambition remains intact. We will continue to invest in digital business development, which, for us, is much more than just e-business. As exemplified below, we want to digitalise all aspects of our business and our customer interaction where relevant.

Internal digital investment in 2016

We have launched a new cloud-based mobile CRM system. This solution underpins the work of the sales organisations in Denmark, Norway, Sweden and the Netherlands and significantly improves our ability to service our customers because we have mobile access to real-time data whenever we visit them. It also gives our customer service team complete insight into all our interactions with any customer, which again enhances our ability to provide excellent service and a rewarding experience whenever and wherever a customer contacts us.

Special websites and web shops were added in the Danish market. We introduced a new Solar Light website. Solar Light is Solar's exclusive light offering and a leading technical lighting brand for both interior and exterior lighting. The website is a digital service simplifying the work of electrical contractors, consulting engineers and architects. Firstly, contractors can easily compile customised product lists and catalogues for their quotations, which improves their efficiency and hit rate. Secondly, engineers and architects have easy access to product choices and light calculations.

We opened a web shop in Denmark that addresses non-installation businesses and institutional customers. Thus, we are responding to the development whereby increasing numbers of companies and public institutions are buying materials directly rather than sourcing them through a professional installation company. In Norway we opened a heating and plumbing e-business, specifically focused on building projects.

Together with our Danish heating and plumbing customer community, VVS Mester, we launched the consumer web shop www.vvsmester.dk. The web shop is a novel offer in the market, where homeowners can buy bathroom and other materials online and if they wish, arrange for delivery and installation by a highly qualified VVS Mester plumber. This collaboration between the heating and plumbing community and Solar addresses the Do-It-For-Me market.

We have launched new company websites based on customer journey mapping to enhance customer experience. The objective is to attract greater attention from potential and existing customers, suppliers, investors and employees.

In Austria, Microsoft Axapta was implemented to improve our ability to serve our customers and a new web shop was launched to increase our e-business share.

Logistics is a core competence

In Denmark, Norway, Sweden and the Netherlands, we have taken advantage of our common SAP platform and data management and launched 'Solar Blue Articles'.

Several thousand products are available to our customers in all four countries through our web shop. The products can be delivered at short notice, even though they may be stocked at only one of Solar's warehouses. We can offer this service whilst maintaining our efficiency and the high quality logistics that our customers are used to.

As we understand how to handle customer logistics as a service business, we were selected to undertake a major logistics task concerned with the replacement of more than one million intelligent electricity meters in the Greater Copenhagen area. We are seeing increasing customer interest in our ability to handle complex logistics challenges.

We continue to expand our Fastbox concept

Our customers' productivity and profitability are closely linked and their focus, like ours, has to be on adding as much value to their business as possible.

Our success with Fastbox deliveries resulted in the further roll out of the concept in Poland and Austria. We have also expanded our Fastbox delivery service making it available in more cities and regions in the other countries.

Solar customers in six countries can now benefit from efficiency improvements since Solar can deliver products to their work site in one hour in a Fastbox instead of customers having to spend valuable time collecting products from a branch. Fastbox frees up valuable customer time and simplifies the customer's working day

We believe in networked development

Examples of networked development are our investments in two digital start-ups, GenieBelt and Minuba.

The two software companies offer digital tools to improve the productivity of craftsmen and contractors.

At Solar, we remain committed to customer productivity as a means of mutual success. GenieBelt and Minuba's specific areas of expertise mean they are able to serve craftsmen and contractors better than Solar. Consequently, Solar's current customers are better served by referral rather than by Solar developing similar digital solutions in-house.

At the same time, Solar is able to offer significant customer leads to the two companies as well as financial involvement that supports the two companies' expansion plans. This is, therefore, a winning solution all round.

Solar is an active shareholder, but with a deliberate minority position in the two companies, GenieBelt and Minuba. This means that Geniebelt and Minuba can continue to operate as independent businesses. Both companies are free to work with all customers and partners, which is important to us because this will help to make their customer solutions even better.

Solar takes an active role as integrator

With the investment in Viva Labs, Solar has made another important move into digital business development.

We believe the Internet of Things (IoT) will be a strong driver for technical installations and we see a clear link between technology and energy efficiency in our business. We believe in open standards within IoT, and based on this see Solar and our business network play an active role as a regional integrator.

Viva Labs is a simple and intuitive smart home platform. The cloud-based app solution is about control, convenience and comfort. The Viva smart home platform collects sensor and GPS data, then uses artificial intelligence to analyse the patterns and routines of the household. Based on this, the solution automatically programmes itself, controlling heating, security, and lights without requiring user input.

Viva Labs' solution is applicable to both new and existing installations and is brand independent. We therefore see Viva Labs as an attractive choice, and Solar intends to actively promote this facility to customers who will be able to generate both product and service sales from working with Viva Labs' solutions.

Business focus

Business expansion through networked development

Our market is undergoing significant change, and the pace of change is constantly increasing.

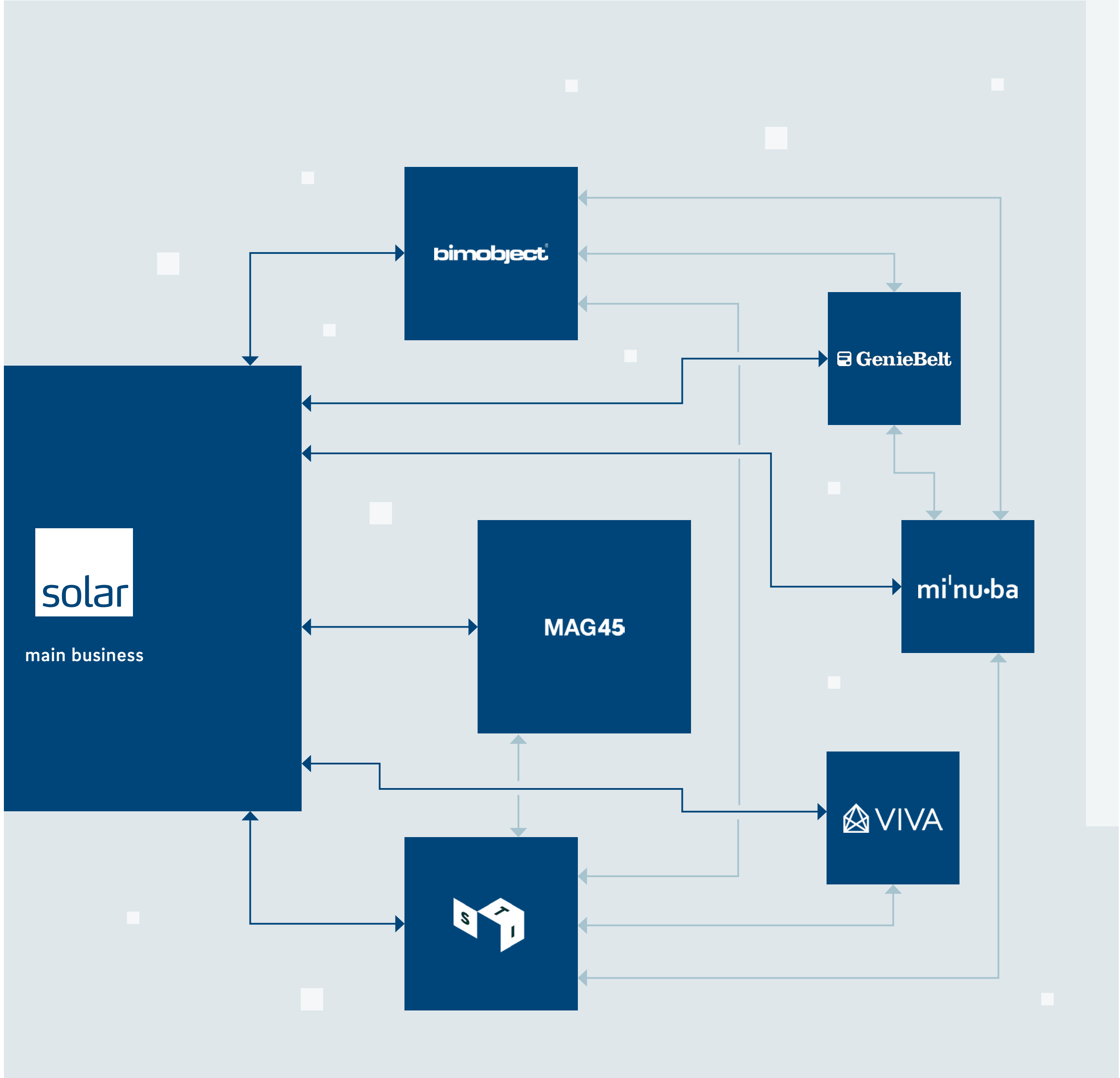
This requires a flexible and agile approach to business innovation and development. The traditional approach of basing innovation and development on internal resources alone is not one that we adhere to.

We believe in expansion and growth through networked development. This means that our own innovation and development, combined with other companies' ideas and their ability to address market opportunities, can create more for less – and faster.

We have defined criteria for acquisitions, investments or other types of cooperation with business partners. It is important for Solar that:

- We can support the development of the associated companies through our acquisition or investment.
- We can create further value in the associated businesses by sharing skills from our main business.
- We can ensure sharing of skills between the associated businesses to create mutual value and opportunity.
- We can ensure sharing of skills between the associated businesses and our main business to strengthen and enhance our main business.

In our view, the network model increases opportunities and reduces business risks.



We work closely with our customers...

SCADA International

At Solar, Total Cost of Ownership is a priority in terms of making our customers successful.

Among our customers is SCADA International, a company that offers consulting, engineering and project solutions, as well as the execution of SCADA systems within the renewable energy sector.

COO Jens Bagger, SCADA International, regards Solar as an important strategic partner that understands customer requirements:

"We appreciate one stop shopping, and Solar does a great job sourcing on our behalf. They always provide us with easy access, optimal delivery and skilled know-how. Solar takes a holistic perspective to things and understands the value chain from end to end. Thus, we don't stop at talking about purchase costs, but also focus on Total Cost of Ownership. In this way Solar plays an important role in reducing our company's total costs".

Thermo Fisher

MAG45 established a hub in the US in August 2016. The hub became operational on 1 November 2016.

The main reason for opening up a hub in the US was the opportunity presented by one of MAG45's key customers, Thermo Fisher (formerly FEI company) to support their US facility in the same way as MAG45 supports their manufacturing sites in the Netherlands and Czech Republic.

Thermo Fisher and MAG45 have enjoyed a strong partnership for many years. MAG45 provides support with supply chain improvement strategies such as supplier consolidation for their BOM tail, VMI on the production floor, kitting and engineering support.

Cees Sluys, VP Supply Chain, Thermo Fisher, explains the partnership:

"MAG45 helped us to establish optimised supply base management on a global basis for our tail suppliers. In our partnership with MAG45, the willingness to follow our footprint in the US and invest in our cooperation was important to us. MAG45's consolidation of the large number of suppliers on a global basis gives us the opportunity to focus on our core suppliers. The support MAG45 provides with their resident engineers is a real enabler for further growth and is a positive differentiator. For 2017 we will work on more joint opportunities as we have further expanded our footprint in the US and Europe".

…to develop their businesses

Høyrup & Clemmensen

As a sourcing and services company, Solar's stated ambition is to improve our customers' productivity and digitalisation is key in this respect.

Digital construction technology, known as Con-Tech, is a fast-developing field. We believe Con-Tech will significantly impact the construction value chain by creating massive productivity gains and reducing cost.

GenieBelt, which is partly owned by Solar, offers digital tools for the planning of construction projects. GenieBelt focuses on dynamic project management with a clear aim to improve productivity in the construction industry and the tools have been well-received by our customers.

Høyrup & Clemmensen, an electrical installation company and long time customer of Solar, are one of the front-runners, when it comes to adopt digital tools and integrate intelligent digital solutions.

CEO Tom Lindquist explains the reason why:

"We are confident that new technology will be a driver to improve efficiency on construction sites and as a company we want to position ourselves in this field. We make use of GenieBelt, which is an easy and intuitive tool for our electricians. In my opinion, digital tools, such as GenieBelt, are essential to manage large contracts and projects in order to create a cohesive and efficient workflow. We expect that the outcome of the GenieBelt implementation will be measurable efficiency."

Axel Sørensen A/S

Minuba, which is partly owned by Solar, specialises in online job and resource management with a keen focus on operational development and optimisation for installers, builders and construction contractors. At the same time, their software allows for integration with a number of invoicing, accounting and finance systems which help to make the workday run smoothly.

Minuba's digital tools are exactly what Brian Tarp, owner of installation company Axel Sørensen A/S, has been looking for. The installation company, a long-standing Solar customer, which works within electrical, heating, plumbing and ventilation installations, has grown significantly during the past five years, and implemented Minuba in the fall of 2016. Brian Tarp finds the tool innovative, intuitive and user friendly. It saves both time and trouble.

"When we get in a job from a customer, I can assign the task to a fitter right away by sending the task directly to his smartphone. Then the job is registered and the fitter enters all additional information as soon as he is done with the job. In case of minor jobs such as service checks, the fitter is even able to bill the customer immediately right off of his smartphone to generate faster cash flows. We have become more efficient and have increased our profitability. Minuba is a really good management tool because when you, like us, have expanded quickly, it can be difficult to keep attracting skilled manpower. Then it becomes important that I constantly have access to data and have an up to date overview of revenue and profit, in order for us to prioritise our forces in regards to which customers and assignments that generate the greatest profitability."

People

People development and recruitment are key factors

New management profiles

We have made a targeted effort to appoint new profiles to our management teams at both national and group level to support faster development of Solar's business.

Our aim is to enhance expertise, introduce new thinking into Solar and define roles and responsibilities in such a way that many managers are jointly responsible for developing Solar both locally and across the group. This creates energy, motivation and group engagement.

People development and recruitment

We focus on employee development and on creating job and career opportunities within Solar. To do so, we look at the potential of every employee.

In 2015, we implemented a uniform recruitment process with identical assessment tools. This enabled our switch to a cross-border digital tool for recruitment in 2016. Through this, we have improved our recruitment processes and our ability to recruit the right people for the right jobs.

To complement our global introduction programme based on e-learning, which is aimed at familiarising new employees with the company before their first working day, we have introduced exit surveys. In 2016, we conducted a satisfaction survey for employees leaving the company to better understand the holistic perspective of employees and their work lifecycle decisions.

In our annual employee performance appraisals, we focus on performance, skills development, development potential, mobility and career plans.

We run internal management training programmes that promote management competencies and tools, allowing our managers to grow.

Our effort to develop strong collaboration across the group continued to pay off in 2016. This furthered our ambition to enable people operating outside our core function to drive initiatives across the whole group.

Diversity

The Solar Group's approach is for all employees to be treated equally, regardless of gender, age, race and religion. All employees have equal opportunities when it comes to employment, terms of employment, training and promotion.

We aim for a higher degree of diversity, as we believe that this will make us a better and stronger business. However, we do not compromise on qualifications. We will continue to employ the most qualified candidate regardless of his/her gender, political, religious or personal orientation.

To avoid a conflict between diversity and aptitude, we have a number of career development initiatives in place for both managers and specialists. These initiatives offer equal opportunities to under-represented groups for growth and promotion to management level.

We believe it is important that the Board of Directors represents a wide diversity of skills, age and gender, and that we maintain a dynamic balance between continuity and renewal through a periodic turnover of board members.

Our diversity policy sets out our objective regarding the composition of the board. Solar wishes its board to be as diverse as possible, including equal participation of women and men, while still ensuring that the board represents the overall skills set required.

In 2016, the Board of Directors revised the deadline for meeting the objective for the under-represented gender of board members. We had expected this objective to be met following Solar's Annual General Meeting in 2017. However, the objective for the under-represented gender of board members has been put back until after Solar's Annual General Meeting in 2019. By then, women should make up 40% of the board members elected by the Annual General Meeting, which is deemed a fair distribution by law. Currently, women make up 20% of the board members elected by the Annual General Meeting, which is the same as last year.

At Solar, we operate with two upper management levels: Solar Group Management (SGM) and senior level management. The latter includes vice-presidents or directors who report to an SGM member.

As at 31 December 2016, the overall gender distribution in the two upper management levels was 16% women and 84% men. Solar's aim is for an overall distribution of women and men of 25% and 75% respectively by 2018.

In support of this objective, we require that both genders are represented among the final candidates for senior management positions.

Communication

Acknowledging that effective communication is a key component of leadership, we are increasing the communication support for our organisation.

A group communications function was established in 2015, underpinning group focus on strategic communication both internally and externally.

Communication has also become an essential part of management training, which is mandatory for all managers in Solar Group. With the increasing pace of change, this will require enhanced communication skills. Further initiatives are, therefore, expected in 2017.

7%

Employee turnover
In 2016, Solar retained 93% of its employees. This is the same level as in 2015, and thus as such not satisfactory. Our unchanged ambition is to reach 95% in employee retention.

87%

Employee stick rate
The stick rate, i.e. employees who are still with the company one year after the start of their employment, increased to 87%, which is an improvement compared to 86% last year and a step in the right direction towards our target of 90%.

3.5%

Absence due to illness
Ending the year at 3.5%, our absence percentage due to illness has greatly improved compared to 4.4% last year. The present level is highly satisfactory throughout Solar.

Group structure

Group structure

Solar A/S

Reg. no. 15908416
Share capital DKK 792,060,700

Solar Danmark A/S, Denmark
Reg. no. 15908416

Solar Sverige AB, Sweden
Reg. no. 5562410406
Share capital SEK 100,000,000

Solar Norge AS, Norway
Reg. no. 980672891
Share capital NOK 70,000,000

Solar Nederland B.V., the Netherlands
Reg. no. 09013687
Share capital € 67,000,500

MAG45 Holding B.V., the Netherlands
Reg. no. 17213145
Share capital € 27,571

Solar Polska Sp. z o.o., Poland
Reg. no. 0000003924
Share capital PLN 65,050,000

Claessen ELGB NV, Belgium
Reg. no. 0436.564.831
Share capital € 3,697,100

GFI GmbH, Austria
Reg. no. FN 44849f
Share capital € 363,365

P/F Solar Føroyar, the Faroes
Reg. no. P/F 104
Share capital DKK 12,000,000

Euro Business School AS, Norway
(renamed to Scandinavian Technology Institute, in 2017)
Reg. no. 976094786
Share capital NOK 533,000

All group companies are wholly owned. Companies where Solar's equity interest is less than 20% and a few companies without any activities are not included in this structure. For more information, see page 123.

Responsibility and management

Risks

Solar takes a structured approach to risk management

We have considerable experience in our business area

Solar operates in the B2B market and our business covers sourcing, services, training, integrated supply, sales and logistics – mostly within electrical, heating and plumbing, and ventilation technologies for installation and industry.

Solar A/S has many years of experience in assessing and handling risks relating to this business area. Solar's subsidiaries run similar activities, which are closely linked to the general activities. This allows us to establish uniform systems and procedures.

As an international business, Solar is affected by global as well as local economic trends in the markets. Consequently, a number of areas are continuously monitored to avoid taking on preventable financial risks.

Risk management

Solar's risk management system consists of policies and procedures approved by the Board of Directors. The overall purpose is to manage all major business risks and risk correlations across the organisation.

Risk management is based on Enterprise Risk Management (ERM) and was established to enable Solar to run a robust business that is able to react quickly and flexibly when conditions change.

The national management teams in our markets take a structured approach to risk management, which gives updated risk assessments at all times. This data is consolidated at group level and the findings are presented to the Board of Directors for approval.

This means that we analyse and identify both specific risks faced by the individual subsidiaries as well as group-wide risks.

Anchoring

Solar's risk management approach observes current corporate governance principles.

The group's risk management is based on the Board of Directors' rules of procedure, which place the responsibility for risk management with the Executive Board.

The Executive Board is responsible for ensuring that any necessary risk management policies and procedures are available, that efficient risk management systems have been established for all relevant areas and that these are improved continuously.

The Executive Board regularly follows up with the subsidiaries.

Risk universe in Solar

Solar's risk management is organised according to the three lines of defence model which demonstrates and structures roles, responsibilities and accountabilities for decision making, risks, and control to achieve effective governance, risk management, and assurance.

The three lines of defence model comprises: The first line of defence – functions that own and manage risks, the second line of defence – functions that oversee or specialise in risk management and compliance, and the third line of defence – functions that provide independent assurance, above all internal audit.

Board of Directors / Audit Committee
Approves and accepts risk policy including risk appetite and tolerance

Executive Board
Monitors the risk management framework and effectiveness

1st line of defence
Business Management & Risk Owners
Owns risks and risk management activities

2nd line of defence
Group Risk Management & Risk Managers
Establishes policies and frameworks, facilitates risk identification and monitoring

3rd line of defence
Internal Audit
Tests, validates and assesses efficiency in risk management processes and activities

Risk appetite and tolerance

Solar's risk appetite and risk tolerance define and articulate the extent to which Solar is willing to take risks and the extent to which Solar is willing to accept risks in five overarching risk categories: Governance, Strategy & Planning, Operations/Infrastructure, Compliance and Reporting.

Accordingly, the risk appetite outlines Solar's strategic outlook towards risk and defines the degree to which Solar is risk seeking or risk avoiding, while the risk tolerance, as an indicative parameter, outlines the level of net risk that Solar is willing to accept for a given measure of reward.

Risk appetite and risk tolerance are set by the Board of Directors and are reviewed annually.

Risk assessment

Solar evaluates the effect of a given risk based on a product of the probability of the risk materialising and the gross impact if the risk does materialise. The risks are then placed in a heat map.

In detail, the probability of the risk is defined as the expected frequency with which the risk may occur, while the impact of the risk is divided into three dimensions:

1. Effect on earnings
2. Reputational damage
3. Compliance (licence to operate)

Risk appetite and tolerance

Risk category	Risk appetite					Risk tolerance
	Risk averse	Moderately risk averse	Risk neutral	Risk tolerant	Risk seeking	
Governance						Low
Strategy and planning						Low-medium
Operations/Infrastructure						Low-medium
Compliance						Low
Reporting						Low

Process

Solar's risk management efforts cover all subsidiaries with the exception of a few minor companies where only high level risks are assessed.

The purpose of the risk management efforts is to assess, prioritise and report the most significant risks of Solar. As part of this process, Solar Group's risk management function collaborates closely with the subsidiaries' local risk managers in administrating the annual cycle of work. This is to ensure that the process is valid and addresses all relevant risk areas to identify all significant business risks.

The individual risk owners are responsible for mitigating the risks to a level within Solar's risk appetite and tolerance. Throughout the year, Solar Group's risk management function and the local risk managers actively monitor the progress of this mitigation to ensure that risks are at an acceptable level by decreasing the probability of the risk materialising or lowering the impact if the risk does so.

Exposure to potential risks and mitigation

IT breakdown

Scenario
Solar's activities rely heavily on IT solutions, and thus are exposed to interruptions.

Impact
This can result in financial losses as well as loss of reputation.

Mitigation
Most of the IT hardware is located at our two central IT data centres. To lower the probability of the risk materialising, all business-critical applications are mirrored at these data centres to safeguard IT operations, meaning that our business can continue to run even if one centre has downtime.

Several procedures are in place in case of a potential IT breakdown, including contingency plans with clear tasks and responsibilities. These contingency plans are updated regularly to decrease the impact should the risk materialise.

Our IT security board reviews IT security continuously and the IT area is meticulously and constantly monitored.

To mitigate IT risks, Solar continuously improves IT security governance and IT processes and procedures.

Central warehouse breakdown

Scenario
Solar's activities are heavily dependent on a fully functioning supply chain. Consequently, Solar's business is exposed to breakdowns from unforeseen events such as fires, power outages, flooding or other natural or manmade disasters that could potentially lead to partial or complete warehouse breakdowns.

Impact
Accordingly, materialisation of this risk can result in financial losses as well as loss of reputation.

Mitigation
To reduce the probability of the risk materialising, external audits are conducted regularly, while performance and software are monitored continuously by Group IT.

Several procedures are in place in case of a potential central warehouse breakdown, including contingency plans with clear tasks and responsibilities. These contingency plans are updated regularly to decrease the impact should the risk materialise.

Digitalisation / IT implementation

Scenario
Risk of increased exposure to business interruptions while working with digitalisation/implementation of new IT systems.

Impact
Solar is aware of potential risks of updating essential platforms which could affect the ability to conduct business. Thus, the implementation of new IT systems is considered a significant risk should unforeseen events or issues appear, which can potentially result in the loss of revenue.

Mitigation
Solar Group anchors risk management thoroughly in project plans with mitigations comprising among other things fallback scenarios, involvement of external experts and IT recovery plans.

Change management / strategy implementation

Scenario
Risk of failure to execute the sourcing and services strategy at a sufficient pace as a result of inappropriate mindset and/or lack of competencies.

Impact
Currently, the impact of this risk is low revenue and profits from services sales. In the long term, this situation will challenge Solar's strategic direction and ability to run a successful business.

Mitigation
To drive the execution of the sourcing and services strategy, a series of initiatives is executed including follow up tools, training, and organisational investments. Extensive communication on the advantages of the business transformation will bear a vital part of mitigating the risk.

Contract management

Scenario
Risk of entering into contracts with terms and conditions (e.g. liabilities and warranties) that exceed Solar's risk appetite.

Impact
The consequence of not complying with these contracts could be significant sanctions that are not proportional to the delivery and responsibility of Solar and exceed the commitment that the local subsidiary is willing to accept.

Mitigation
Contracts have been reviewed, and standard contracts for suppliers and customers adjusted according to the recommendations of a legal advisor. Escalation plans have also been reviewed, and clear guidelines on authority to sign contracts have been prepared. Focus will remain on these tasks and a new and improved standard contract for suppliers is under preparation.

To further mitigate the risk, Solar will introduce activities with the purpose of raising risk awareness within the organisation to always ensure the correct balance between risk and reward.

Cyber risk

Scenario
Worldwide, the speed and variety of cyber security events and crimes continue to intensify. Therefore, Solar must increasingly focus on protecting its critical operations, intellectual property and brands from cyber threats.

Impact
The potential impact of cyber risks is multi-faceted. Business interruptions in the shape of data breaches, intellectual property theft and regulatory consequences as well as loss of reputation are among the consequences of cyber incidents, ultimately leading to financial losses.

Mitigation
Solar works with a governance structure and strives to continuously communicate appropriate internal information about i.e. security policies to uphold organisational awareness. Monitoring policies and procedures are in place for the main networks and systems. Furthermore, external studies are performed regularly to assess the maturity level of Solar's overall cyber and information security management and to provide recommendations in order to ensure that we constantly improve in order to mitigate the changing cyber risk.

Financial risks

Financial risks are described in the notes of the consolidated accounts.

Control

Internal control is described in the statutory report on corporate governance available at:
www.solar.eu/investor/corporate-governance.

Corporate Social Responsibility

Using the power of business to improve the world

Corporate Social Responsibility at Solar

At Solar Group, we remain committed to conducting our business with integrity. While pursuing our strategy to achieve profitable growth, we want to explore opportunities that allow us to address some of the global challenges, as defined in the UN Sustainable Development Goals.

We acknowledge that our success has implications for the world around us in a number of ways. When we transport our goods from A to B, we put a strain on the environment. The goods we sell are manufactured by real people who need proper working conditions. We know that.

Therefore, we have made a formal decision to conduct business ethically and to contribute to sustainable development. We wish to embed CSR thinking into our projects and operational processes to make sure that CSR is not a stand-alone discipline, but a natural part of our way of doing business. Our primary aim is to create profitable growth for our business in a highly competitive market. We are determined to achieve this through responsible behaviour.

Thus, we implement socially responsible activities where it makes sense and where we see that we can create value. Some of these activities are the product of major projects, while others are small everyday actions, which, nevertheless, are equally important when defining Solar as a socially responsible company.

Global Compact

Solar is a registered partner to the UN's Global Compact and is committed to honouring the Global Compact's 10 principles, which encompass human rights, working environment/labour, environment and anti-corruption. As an active participant of the UN Global Compact, Solar Group communicate our CSR activities via an annual communication on progress (COP). Our COP report also represents Solar Group's compliance with sections 99a and 99b of the Danish Financial Statements Act.

In addition to expressing our continued support for the programme, the report outlines our efforts to reduce CO_2 emissions and our compliance with ethical standards.

The report is accessible at
www.solar.eu/our-company/corporate-social-responsibility/
and at the Global Compact's website
www.unglobalcompact.org/what-is-gc/participants/10987-Solar-A-S.

Responsible supplier management

Solar Group operates in a global setting with business partners located internationally. Our global presence underlines the importance of a shared framework for responsible business and ethical behaviour. We seek to ensure safety in our supply chain by requiring our suppliers to act in compliance with the UN Global Compact through our Supplier Code of Conduct. Therefore, Solar Group has intensified the focus on our collaboration with our suppliers in an on-going effort to promote Corporate Social Responsibility – both for us, and for our suppliers. In an updated code of conduct, we have strengthened our expectations of our suppliers.

Our Supplier Code of Conduct communicates a requirement for our suppliers to comply with and support internationally declared human rights and labour standards, endeavour to uphold environmental standards, and to support and comply with a zero tolerance policy on corruption.

Our Supplier Code of Conduct forms the basis of dialogue and control with our suppliers with regard to responsibility. Therefore, we are now in the process of ensuring their commitment to our code of conduct.

Carbon Disclosure Project (CDP)

Solar has set up a reporting system for the company's CO2 consumption, and is rolling this out in most of our subsidiaries. One area measured is CO2 emissions generated from the direct burning of fossil fuels, i.e. fuel consumption relating to company vehicles, forklifts, etc. Other areas measured include CO2 emissions from purchased electricity and from goods distribution. All results are reported to the Carbon Disclosure Project.

SOS Children's Villages

In 2015, the Solar Group entered into a partnership with SOS Children's Villages to ensure a sustainable energy supply for an SOS children's village in Zanzibar, Tanzania. Due to heavy rains and extensive use, the children's village's essential electricity and water supply systems were damaged. In an award-winning partnership with Siemens and Engineers Without Borders, we carried out a renovation of the children's village to ensure water and sustainable energy supply for the 92 orphans.

The project in Zanzibar marked the start of a long-term corporate social responsibility partnership to bring the benefits of solar power and clean energy technologies to one of the poorest countries in Africa. And though we have concluded our involvement in Zanzibar, our partnership with the SOS Children's Villages continues. Over the coming three years, Solar Group together with Engineers without Borders and SOS Children's Villages will be implementing solar energy in a children's village in Ethiopia to provide a much cheaper and stable energy source.

The extreme situation in some parts of Africa made first Zanzibar and since Ethiopia an obvious pick for Solar Group. We are very excited to be able to challenge our expertise within energy efficiency and at the same time make a difference to children in need.

You can read more about our partnership with SOS Children's Villages at www.solar.eu/our-company/corporate-social-responsibility/sos-partnership/.

Corporate Governance

In general Solar follows the corporate governance recommendations

Overall, Solar views the May 2013 recommendations of the Danish Committee on Corporate Governance as a valuable tool for ensuring sound management, good transparency for shareholders and other stakeholders and for efficient risk management.

Solar, therefore, basically follows the recommendations relevant to the company. A complete description of Solar's stand on the individual points of the corporate governance recommendations is available at: www.solar.eu/investor/corporate-governance.

Deviations

Solar complies with 44 of 47 recommendations but deviates from:

Recommendation on nomination of candidates for the Board of Directors

The Board of Directors neither selects nor nominates candidates to the Board of Directors as it is the Fund of 20th December, which is a majority shareholder, that submits proposals for the composition of the Board of Directors. In this connection, importance is attached to board members representing relevant skills in relation to the company's needs.

Recommendation on fixing an age limit for board members

The age of the members of the Board of Directors is listed in Solar's annual report. Solar wishes to promote age diversity on the Board of Directors but believes that skills are more important than age. Thus there is no fixed retirement age for board members.

Recommendation on establishment of a nomination committee

The Fund of 20th December, the majority shareholder, makes proposals for the composition of the Board of Directors. Due to this ownership structure with a majority shareholder, Solar has not established a permanent nomination committee tasked with nominating members of the Board of Directors. However, every year, the board evaluates the skills requirements of the Board of Directors. In connection with the appointment of members of the Executive Board, a temporary nomination committee is established.

Evaluation

The chairman carries out the evaluation of the Board of Directors' work by means of a questionnaire survey. The purpose is to assess whether the overall skills of the Board of Directors match the company's current needs, the quality of material distributed to the board and the holding of the meetings themselves as well as the relevance of issues discussed as regards legal requirements, risk factors and the company's development potential. The 2016 evaluation has not given rise to the introduction of additional measures.

Statutory corporate governance statement

Solar has chosen to make the statutory corporate governance statement, cf. Danish Financial Statements Act section 107b, available on the company's website. Please use this link to find the statutory corporate governance statement 2016: www.solar.eu/investor/corporate-governance.

The Audit Committee and Internal Audit

Descriptions about the roles and responsibilities for The Audit Committee and Internal Audit, respectively, are available at: www.solar.eu/investor/corporate-governance.

Shareholder information

Solar has an open approach towards all investors

Investor relations policy

Solar aims at transparency by giving investors and analysts the best possible insight into relevant issues.

The publication of information that may affect the share price must be issued in good time and in compliance with the stock exchange's rules of ethics.

Everyone must have access to such information at the same time. We ensure this by publishing relevant information via Nasdaq Copenhagen and on www.solar.eu.

We hold meetings with investors and financial analysts. Investor meetings or similar events cannot be held during our IR quiet periods. These periods start on the 10th of every month following a closed quarter and end with the publication of the next quarterly or annual report. During such periods, no comments on financial results, expectations or market outlook will be issued by the company. The IR quiet periods are listed in the financial calendar.

Communicating with investors

Solar wants to be visible and accessible to both existing and potential institutional and private shareholders.

We need to know our target groups to have the best possible dialogue with them. This is why we recommend shareholders that they register by name and e-mail in the register of shareholders.

We communicate with shareholders at general meetings, through frequent announcements via Nasdaq Copenhagen and our website www.solar.eu as well as via web presentations.

Relevant investor relations material is published on www.solar.eu, where Solar's stakeholders can also sign up to receive company announcements by e-mail.

Investor relations activities

We hold audio webcasts in connection with the publication of annual and quarterly reports. In addition, Solar is also available for individual meetings with investors and analysts in Denmark and abroad.
Again in 2016, Solar took part in 58 investor and analyst meetings.

In 2016, Solar attended roadshows in Copenhagen, Amsterdam, Brussels, Paris, Zurich and Geneva. We also took part in other events, including SEB Nordic Seminar and Danske Bank Markets Copenhagen Winter Seminar.

Audio webcast

The presentation of Annual Report 2016 will be transmitted online on 10 February 2017 at 14:00 CET and will be accessible via www.solar.eu.

Solar's capital and share structure

The Board of Directors regularly assess the company's capital and share structures to ensure that these are appropriate for both the shareholders and the company.

As a result the Board of Directors have decided to submit a proposal at the annual general meeting for distributing DKK 88m as dividend corresponding to DKK 12.00 per share outstanding of DKK 100.

The payout ratio for 2016 is then 70% of net profit, which is above Solar's targeted payout ratio of 35-45%. The proposal of distributing dividend above targeted payout ratio is submitted with due consideration of our continuous expansion option interests.

Share buy-back programmes

On 23 November 2015, Solar launched a share buy-back programme set to end by 30 June 2016. The share buyback programme was completed on 30 June 2016 and the accumulated share buy-back totals 174,982 B shares at DKK 66.1m.

Furthermore, the Board of Directors decided to launch a share buy-back programme on 16 August 2016 totalling up to DKK 150m, structured as an auction process that gave all B shareholders the opportunity to sell B shares back to Solar at the same price. The programme was successfully completed at 30 August 2016 and a total of 382,160 B shares were bought back at DKK 392.5 per share of a nominal value of DKK 100, corresponding to a total purchase sum of DKK 150m cf. company announcement 39 2016.

Solar's shares

Solar's share capital is divided into nominally DKK 90 million A shares and nominally DKK 702 million B shares. The A shares are not listed. The B shares are listed on Nasdaq Copenhagen under the ID code DK0010274844 with the short designation SOLAR B and form part of the MidCap index and MidCap on Nasdaq Nordic.

Share capital includes 900,000 A shares and 7,020,607 B shares.

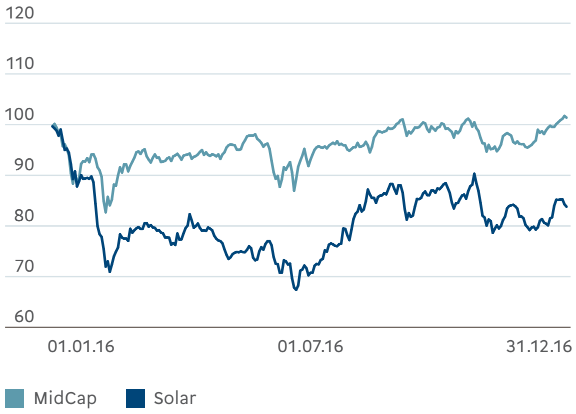
A shares have 10 votes per share amount of DKK 100, while B shares have 1 vote for each share amount of DKK 100.

To be entitled to vote, shares must be registered in Solar's register of shareholders no later than one week before the date of the annual general meeting.

Share price development

On 31 December 2016, the price of Solar's B share was DKK 362, down from the 2016 starting price of DKK 432. This is a 16% decrease in Solar's share price over the year.

Share price development (index)



Dividends and return per share

At the annual general meeting, the Board of Directors will propose dividends distribution of DKK 12.00 per share, up from DKK 10.00 distributed in 2016.

Return per share of nominally DKK 100

DKK	Total 2012-16	Average 2012-16	Year 2016	Year 2015
Share price increase	137.44	27.49	-69.89	144.18
Dividends distributed	40.85	8.17	10.00	7.00
Return	178.29	35.66	-59.89	151.18

Shareholders

As at 31 December 2016, registered share capital totalled 94.3%, distributed on 3,940 shareholders.

Solar's portfolio of treasury shares totalled 622,315 B shares or 7.9% of share capital as at 31 December 2016.

Distribution of share capital and votes as at 31 December 2016 in %

Holdings of 5% or more of share capital	Share capital	Votes
The Fund of 20th December, Kolding, Denmark	15.6%	57.5%
Chr. Augustinus Fabrikker A/S, København, Danmark	10.3%	5.1%
RWC Asset Management LLP*, London, England	10.0%	4.9%
Nordea Funds Oy, Danish Branch, Copenhagen, Denmark	9.8%	4.9%
Solar A/S, Vejen, Denmark	7.9%	3.9%

*Figures from 13 January 2017, cf. company announcement no. 1 2017.

Annual general meeting

Solar will hold its annual general meeting on Friday 17 March 2017 at 11.00 at our premises: Solar A/S, Industrivej Vest 43, DK-6600 Vejen, Denmark.

Shareholders can register for the annual general meeting on the investor portal, accessible via www.solar.eu.

The Board of Directors will submit the following proposals for approval by the annual general meeting:

- Payment of DKK 12.00 in return per share outstanding of DKK 100.
- Authority to make the decision to distribute extraordinary dividends of up to DKK 15.00.
- Authority to acquire treasury shares valued at up to 10% of share capital.
- Reduction of the share capital by nominally DKK 17,498,200 by cancelling part of the holding of treasury shares and in consequence changing the articles of association § 3.1 and § 3.2.
- Authority to increase share capital changed to DKK 68,456,000 in consequence of cancelling part of the holding of treasury shares leading to changing articles of association § 9.1, § 9.2 and § 9.4.
- Approval of the Board of Directors' remuneration in 2017.

Please find a presentation of our Board of Directors on pages 36-37.

Company announcements
(exclusive weekly share buy-back announcements)

Date	No.	Announcement 2017
27.01	02	Swedish BIMobject AB has made a targeted emission, enabling Solar A/S to acquire 19.99% of the shares in BIMobject
13.01	01	Major shareholder announcement

Date	No.	Announcement 2016
27.12	44	Major shareholder announcement
28.10	43	Financial calendar 2017 for Solar A/S
28.10	42	Quarterly Report Q3 2016
09.09	41	Solar A/S further strengthens its digital and transformative focus by appointing a Chief Commercial Officer
31.08	40	Major shareholder announcement
31.08	39	Result of share buy-back completed on 30 August 2016
16.08	38	Launch of share buy-back programme of up to DKK 150m
11.08	37	Quarterly Report Q2 2016
11.08	36	Solar A/S acquires Norwegian training business Euro Business School AS
01.07	35	Share buy-back and completion of buy-back programme in Solar A/S
27.04	25	Quarterly Report Q1 2016
01.04	20	Articles of Association of Solar A/S
01.04	19	Course of annual general meeting (AGM) of Solar A/S
09.03	15	Grant of share options to the Executive Board and management team of Solar A/S
09.03	14	Exercise of share options in Solar A/S
08.03	13	Notice of annual general meeting
24.02	10	Annual Report 2015
01.02	06	Solar A/S acquires MAG45, a Dutch integrated supply company, and announces preliminary results for 2015 and expectations for 2016

Financial calendar

17 March	Annual general meeting
10 April - 3 May	IR quiet period
3 May	Quarterly Report Q1 2017
10 July - 10 August	IR quiet period
10 August	Quarterly Report Q2 2017
10-26 October	IR quiet period
26 October	Quarterly Report Q3 2017

Analysts

The following financial institutions cover the Solar share:

- Carnegie Bank
- Danske Bank
- Nordea Bank

Investor contact

Charlotte Risskov Kræfting
Director, Stakeholder Relations

Tel.: +45 79 300 257
E-mail: crk@solar.dk

Executive Board and Solar Management

Executive Board and Solar Group Management

Executive Board

Anders Wilhjelm (born 1966)
CEO

- Chairman of the boards of directors of all Solar Group subsidiaries.
- Member of the boards of directors of DAT-Schaub A/S and the Confederation of Danish Industry.

- Holds 1,270 Solar B shares. Has not traded shares in 2016.
- Holds 9,787 share options, 4,865 of these granted in 2016.

- Remuneration: DKK 7m.

Hugo Dorph (born 1965)
CCO

- Chairman of the board of directors of Flexya Innovations A/S.
- Member of the boards of directors of Flexya A/S, Viva Labs AS and Geniebelt A/S.

- Holds no Solar shares.
- Holds 8,894 share options, 2,928 of these granted in 2016.

- Remuneration: DKK 1m in the period from joining the Executive Board on 9 September 2016.

Michael H. Jeppesen (born 1966)
CFO

- Member of the boards of directors of all Solar Group subsidiaries.

- Holds 1,269 Solar B shares. Has not traded Solar shares in 2016.
- Holds 6,844 share options, 2,432 of these granted in 2016. Exercised 5,102 share options in 2016.

- Remuneration: DKK 2m.

Solar Group Management

Solar Group Management is made up of the Executive Board, our senior vice presidents and the MDs of the Solar Group subsidiaries.

Jens Andersen (born 1968)
Senior Vice President & MD Denmark

Jan Willy Fjellvær (born 1961)
Senior Vice President, Sourcing & MD Norway

Lars Goth (born 1961)
Senior Vice President, Supply Chain & MD Austria

Tore Håkonsson (born 1964)
Senior Vice President, HR and Communications

Anders Koppel (born 1969)
Senior Vice President & MD Sweden

Dariusz Targosz (born 1969)
Senior Vice President & MD Poland

Martin Trampe (born 1955)
Senior Vice President & MD Benelux

Bauke Zeinstra (born 1966)
Senior Vice President & MD MAG45

Board of Directors

Jens Borum (born 1953, joined 1982)
CHAIRMAN

- Associate professor, University of Copenhagen.
- M.Sc. 1980, PhD 1985.
- Member of the Board of Directors of the Fund of 20th December.

- Represents the Fund of 20th December and has long-time experience as chairman.

- Remuneration 2016: DKK 768,750.
- Holds 6,900 Solar A shares and 118,520 Solar B shares. Has not traded Solar shares in 2016.

Agnete Raaschou-Nielsen (born 1957, joined 2012)
VICE CHAIRMAN

- MSc in economics (1985) and PhD in economics (1988).
- Chairman of the boards of directors of Brødrene Hartmann A/S, Arkil Holding A/S and the unit trusts Danske Invest, Danske Invest Select, Profil Invest, ProCapture and the capital trusts Danske Invest Institutional and AP Invest.
- Vice chairman of the board of directors of Dalhoff Larsen og Horneman A/S.
- Member of the boards of directors of Novozymes A/S, Aktieselskabet Schouw & Co., and Danske Invest Management A/S.

- Represents managerial experience of production and service businesses with strong international relations and has deep knowledge of production, supply chain, sales and marketing.

- Remuneration 2016: DKK 484,375.
- Holds no Solar shares.

Lars Lange Andersen (born 1968, joined 2010)
EMPLOYEE-ELECTED MEMBER

- Sales Manager.

- Remuneration 2016: DKK 189,583.
- Holds 93 Solar B shares. Has not traded Solar shares in 2016.

Niels Borum (born 1948, joined 1975)

- MSc. in engineering 1973.
- Chairman of the Board of Directors of the Fund of 20th December.

- Represents the Fund of 20th December and has experience of IT and processes.

- Remuneration 2016: DKK 320.833.
- Holds 6,900 Solar A shares and 89,539 Solar B shares. Has not traded Solar shares in 2016.

Ulrik Damgaard (born 1973, joined 2014)
EMPLOYEE-ELECTED MEMBER

- Regional Manager.

- Remuneration 2016: DKK 189,583.
- Holds 60 Solar B shares. Has not traded Solar shares in 2016.

Bent H. Frisk (born 1961, joined 2006)
EMPLOYEE-ELECTED MEMBER

- Central Warehouse Manager.

- Remuneration 2016: DKK 189,583.
- Holds 60 Solar B shares. Has not traded Solar shares in 2016.

Ulf Gundemark (born 1951, joined 2014)

- Holds an electrical engineering degree (1975) and has since gotten supplementary education at, among others, IFL and INSEAD.
- Chairman of the board of directors of Nordic Waterproofing Holding A/S.
- Member of the boards of directors of Papyrus AB, Constructor Group AS, Lantmännen Ekonomisk Förening, Scandi Standard Group AB, AQ Group AB and Ripasso Energy AB.

- Represents managerial experience from global and local businesses and holds significant knowledge of the trade and markets.

- Remuneration 2016: DKK 320,833.
- Holds 1,500 B shares. Has not traded Solar shares in 2016.

Jens Peter Toft (born 1954, joined 2009)

- CED of Selskabet af 11. december 2008 ApS and one subsidiary hereof.
- B.Com. Management Accounting 1983, the Executive Program, University of Michigan Business School.
- Chairman of the boards of directors of Mipsalus Holding ApS and one subsidiary hereof.
- Vice chairman of the board of directors of M. Goldschmidt Holding A/S.
- Member of the boards of directors of Bitten og Mads Clausens Fond, the unit trusts Danske Invest, Danske Invest Select, Profil Invest, Procapture and the capital units Danske Invest Institutional and AP Invest, Civilingeniør N.T. Rasmussens Fond, Enid Ingemanns Fond, Fondet for Dansk Norsk Samarbejde, six subsidiaries of M. Goldschmidt Holding A/S, Dansk Vækstkapital II and Selskabet af 11. december 2008 ApS.
- Member of the investment committee of GRO Capital.

- Represents experience of capital market transactions, financial matters, investments, organisation, general management and stock exchange matters.

- Remuneration 2016: DKK 484,375.
- Holds 1,250 Solar B shares. Has not traded Solar shares in 2016.

Steen Weirsøe (born 1948, joined 2013)

- MSc in Economics & Business Administration 1973.
- Member of the board of directors of Larsen og Ibsen HoldingA/S.

- Represents wide managerial and international experience and considerable experience and knowledge of retail and wholesaling related to the construction industry.

- Remuneration 2016: DKK 320,833.
- Holds 1,000 Solar B shares. Has not traded Solar shares in 2016.

Board of Directors' affiliation with Solar

Ulf Gundemark, Steen Weirsøe, Agnete Raaschou-Nielsen and Jens Peter Toft are independent of the company pursuant to the definition in the recommendations on corporate governance in Denmark. Jens Borum and Niels Borum are affiliated with the Fund of 20th December, which is the majority shareholder in Solar A/S. Agnete Raaschou-Nielsen and Jens Peter Toft are members of the Audit Committee together with Chairman of the Board of Directors Jens Borum. Jens Peter Toft chairs the Audit Committee and has special accounting qualifications.

Election of employee representatives

The most recent ordinary election of employee representatives took place electronically on 17-27 March 2014. The participation rate in the election was 57.3%. Under the law, employee representatives have the same rights, duties and responsibilities as the other members of the board. Under Danish law, employees have the right to elect a number of representatives and alternates, corresponding to half of the representatives elected by the annual general meeting at the time of calling the election of employee representatives.

Election period

All board members elected at the annual general meeting are up for election each year, whereas employee representatives are elected by and among the company's employees for four-year terms.

Activities

A minimum of six ordinary board meetings as well as one conference for the Board of Directors will be held each year. In 2016, we had nine board meetings and one conference for the Board of Directors.

Financial statements

Consolidated financial statements

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Summary for the Solar Group

2012-2016

Income statement (DKK million)	2016	2015	2014	2013	2012
Revenue	11,072	10,587	10,252	10,463	12,201
Earnings before interest, tax, depreciation and amortisation (EBITDA)	330	362	227	307	348
Earnings before interest, tax and amortisation (EBITA)	278	296	117	225	263
Earnings before interest and tax (EBIT)	222	249	-73	160	198
Financials, net	-34	-48	-49	-54	-42
Earnings before tax (EBT)	188	201	-122	106	156
Net profit for the year	125	167	-234	21	117

Balance sheet (DKK million)	2016	2015	2014	2013	2012
Non-current assets	1,397	1,250	1,324	1,814	1,907
Current assets	3,109	3,421	3,250	3,147	3,817
Balance sheet total	4,506	4,671	4,574	4,961	5,724
Equity	1,683	1,831	1,732	2,138	2,203
Non-current liabilities	375	592	655	771	1,070
Current liabilities	2,448	2,248	2,187	2,052	2,451
Interest-bearing liabilities, net	43	-184	302	316	559
Invested capital	1,744	1,662	2,172	2,637	2,950
Net working capital, year-end	998	989	1,111	1,318	1,607
Net working capital, average	1,187	1,252	1,267	1,538	1,706

Cash flow (DKK million)	2016	2015	2014	2013	2012
Cash flow from operating activities, continuing operations	219	331	187	310	427
Cash flow from investing activities, continuing operations	-147	-24	-58	-9	-69
Cash flow from financing activities, continuing operations	-388	-125	-151	-291	-106
Net investments in intangible assets	-88	-36	-18	-10	-17
Net investments in property, plant and equipment	56	-25	-41	-81	-52
Acquisition and divestment of subsidiaries and operations, net	-97	37	1	82	0

Financial ratios (% unless otherwise stated)	2016	2015	2014	2013	2012
Revenue growth	4.6	3.3	-2.0	-5.9	11.1
Organic growth	2.8	5.2	0.4	-5.4	-0.1
Organic growth adjusted for number of working days	1.8	5.2	0.1	-5.0	0.9
Gross profit margin	20.8	20.8	21.2	21.8	21.2
EBITDA margin	3.0	3.4	2.2	2.9	2.8
EBITA margin	2.5	2.8	1.1	2.2	2.2
EBIT margin	2.0	2.4	-0.7	1.5	1.6
Effective tax rate	33.5	33.2	-47.2	17.3	33.0
Net working capital (year-end NWC)/revenue (LTM)	9.0	9.3	10.8	10.7	12.3
Net working capital (average NWC)/revenue (LTM)	10.7	11.8	12.4	13.2	13.7
Gearing (net interest-bearing liabilities/EBITDA), no. of times	0.1	-0.5	1.3	1.0	1.6
Return on equity (ROE)	7.1	9.4	-12.1	1.0	5.6
Return on invested capital (ROIC)	7.5	8.5	-4.3	4.5	4.5
Adjusted enterprise value/earnings before interest, tax and amortisation (EV/EBITA)	9.4	10.6	21.7	12.8	9.6
Equity ratio	37.4	39.2	37.9	43.1	39.2

Summary for the Solar Group

2012-2016 – continued

Share ratios (DKK unless otherwise stated)	2016	2015	2014	2013	2012
Earnings per share outstanding (EPS)	16.50	21.26	-29.79	2.67	14.88
Intrinsic value per share outstanding	230.60	234.43	220.62	272.34	274.54
Cash flow from operating activities per share outstanding	28.88	42.05	23.77	39.46	54.34
Share price	362	432	288	336	257
Share price/intrinsic value	1.57	1.84	1.30	1.23	0.92
Dividends per share	12.00	10.00	7.00	12.00	6.65
Dividend in % of net profit for the year (payout ratio)	70.2	46.8	-	421.5	44.8
Price Earnings (P/E)	21.9	20.3	-9.7	125.7	17.2

Employees					
Average number of employees (FTEs), continuing operations	3,032	2,871	2,898	2,943	3,505

Definitions	
Organic growth	Revenue growth adjusted for enterprises acquired and sold off and any exchange rate changes. No adjustments have been made for number of working days.
Net working capital	Inventories and trade receivables less trade payables.
ROIC	Return on invested capital calculated on the basis of operating profit or loss less tax calculated using the effective tax rate.

Financial ratios are in general calculated in accordance with the Danish Finance Society's "Recommendations & Financial Ratios 2015".

In general, restatements have been made of income statements, cash flow and key ratios for the discontinued operations in Solar Deutschland GmbH for 2013 and 2014 and for the divestment of Aurora Group Danmark A/S for 2012 and 2013, whereas these are not adjusted for previous years. In accordance with IFRS, the balance sheet has not been restated. The key ratio interest-bearing liabilities, net, has been adjusted for interest-bearing receivables relating to the divestment of Aurora Group Danmark A/S, up until the settlement in Q1 2015.

Statement of comprehensive income

Income statement

Note	DKK million	2016	2015
4	Revenue	11,072	10,587
	Cost of sales	-8,764	-8,388
	Gross profit	**2,308**	**2,199**
	Other operating income and costs	0	2
27	External operating costs	-492	-421
5	Staff costs	-1,469	-1,396
6	Loss on trade receivables	-17	-22
	Earnings before interest, tax, depreciation and amortisation (EBITDA)	**330**	**362**
7	Depreciation and write-down on property, plant and equipment	-52	-66
	Earnings before interest, tax and amortisation (EBITA)	**278**	**296**
7	Amortisation of intangible assets	-56	-47
	Earnings before interest and tax (EBIT)	**222**	**249**
22	Financial income	26	22
23	Financial expenses	-60	-70
	Earnings before tax (EBT)	**188**	**201**
8	Income tax	-63	-67
	Profit or loss of continuing operations	**125**	**134**
18	Profit or loss of discontinued operations	0	33
9	**Net profit for the year**	**125**	**167**
20	Earnings in DKK per share outstanding (EPS) for the year	16.50	21.26
20	Diluted earnings in DKK per share outstanding (EPS-D) for the year	16.49	21.21
20	Earnings in DKK per share outstanding (EPS) of continuing operations for the year	16.50	17.06
20	Diluted earnings in DKK per share outstanding (EPS-D) of continuing operations for the year	16.49	17.02

Please see the note 18 on discontinued operations for earnings per share outstanding (EPS) from discontinued operations.

Other comprehensive income

DKK million	2016	2015
Net profit for the year	**125**	**167**
Other income and costs recognised:		
Items that cannot be reclassified for the income statement		
Actuarial gains / losses on defined benefit plans	-9	-13
Tax on actuarial gains/losses on defined benefit plans	2	0
Items that can be reclassified for the income statement		
Foreign currency translation adjustments of foreign subsidiaries	2	-7
Value adjustments of hedging instruments before tax	8	35
Tax on value adjustments of hedging instruments	-2	-9
Other income and costs recognised after tax	**1**	**6**
Total comprehensive income for the year	**126**	**173**

Balance sheet

as at 31 December

Note	DKK million	2016	2015
	ASSETS		
10	Intangible assets	475	333
11	Property, plant and equipment	865	882
8	Deferred tax asset	10	28
	Other non-current assets	47	7
	Non-current assets	**1,397**	**1,250**
12	Inventories	1,321	1,302
13	Trade receivables	1,404	1,295
	Income tax receivable	5	4
	Other receivables	10	10
	Prepayments	26	23
	Cash at bank and in hand	343	699
18	Assets held for sale	0	88
	Current assets	**3,109**	**3,421**
	Total assets	**4,506**	**4,671**

Note	DKK million	2016	2015
	EQUITY AND LIABILITIES		
19	Share capital	792	792
	Reserves	-135	-143
	Retained earnings	938	1,104
	Proposed dividends for the financial year	88	78
	Equity	**1,683**	**1,831**
21	Interest-bearing liabilities	194	430
14	Provision for pension obligations	18	15
8	Provision for deferred tax	122	128
15	Other provisions	41	19
	Non-current liabilities	**375**	**592**
21	Interest-bearing liabilities	192	60
	Trade payables	1,727	1,608
	Income tax payable	16	11
16	Other payables	495	516
15	Other provisions	18	28
18	Liabilities held for sale	0	25
	Current liabilities	**2,448**	**2,248**
	Liabilities	**2,823**	**2,840**
	Total equity and liabilities	**4,506**	**4,671**

Cash flow statement

Note	DKK million	2016	2015
	Net profit or loss of continuing operations for the year	**125**	**134**
7	Write-down, depreciation and amortisation	108	113
	Changes to provisions and other adjustments	4	-64
22, 33	Financials, net	34	48
	Income tax	63	67
22	Financial income, received	10	4
23	Financial expenses, settled	-52	-42
	Income tax, settled	-54	-55
	Cash flow before working capital changes	**238**	**205**
	Working capital changes		
	Inventory changes	5	-61
	Receivables changes	-63	-28
	Non-interest-bearing liabilities changes	39	215
	Cash flow from operating activities, continuing operations	**219**	**331**
18	Cash flow from operating activities, discontinued operations	0	-53
	Cash flow from operating activities	**219**	**278**
	Investing activities		
10	Purchase of intangible assets	-88	-36
	Purchase of property, plant and equipment	-46	-28
	Disposal of property, plant and equipment	102	3
17	Acquisition of subsidaries and activities	-97	0
	Divestment of subsidiary[1]	0	37
	Other financial investments	-18	0
	Cash flow from investing activities, continuing operations	**-147**	**-24**
18	Cash flow from investing activities, discontinued operations	0	345
	Cash flow from investing activities	**-147**	**321**

Note	DKK million	2016	2015
	Financing activities		
	Repayment of non-current interest-bearing debt	-114	-51
19	Treasury share purchases	-197	-19
	Dividends distributed	-77	-55
	Cash flow from financing activities, continuing operations	**-388**	**-125**
18	Cash flow from financing activities, discontinued operations	0	0
	Cash flow from financing activities	**-388**	**-125**
	Total cash flow	**-316**	**474**
	Cash at bank and in hand at the beginning of the year	639	167
17	Assumed on acquisition of subsidaries	-2	0
	Foreign currency translation adjustments	0	-2
	Cash at bank and in hand at the end of the year	**321**	**639**
	Cash at bank and in hand at the end of the year		
	Cash at bank and in hand	343	699
	Current interest-bearing liabilities[2]	-22	-60
	Cash at bank and in hand at the end of the year	**321**	**639**

1. Instalments of the fixed and variable parts of the selling price of Aurora Group Danmark A/S.
2. Not including the short-term part of long-term liabilities that falls due in March 2017.

Statement of changes in equity

DKK million	Share capital	Reserves for hedging transactions	Reserves for foreign currency translation adjustments	Retained earnings	Proposed dividends	Total
2016						
Equity as at 1 January	**792**	**-79**	**-64**	**1,104**	**78**	**1,831**
Foreign currency translation adjustments of foreign subsidiaries			2			2
Value adjustments of hedging instruments before tax		8				8
Actuarial gains / losses on defined benefit plans				-9		-9
Tax on value adjustments		-2		2		0
Net income recognised in equity via other comprehensive income in the statement of comprehensive income	0	6	2	-7	0	1
Net profit for the year				37	88	125
Comprehensive income	**0**	**6**	**2**	**30**	**88**	**126**
Distribution of dividends					-77	-77
Buy-back of treasury shares[1]				-196	-1	-197
Transactions with the owners	**0**	**0**	**0**	**-196**	**-78**	**-274**
Equity as at 31 December	**792**	**-73**	**-62**	**938**	**88**	**1,683**

1. For information on buy-back of treasury shares see the description of capital structure on page 32.

Statement of changes in equity

– continued

DKK million	Share capital	Reserves for hedging transactions	Reserves for foreign currency translation adjustments	Retained earnings	Proposed dividends	Total
2015						
Equity as at 1 January	**792**	**-105**	**-57**	**1,047**	**55**	**1,732**
Foreign currency translation adjustments of foreign subsidiaries			-7			-7
Value adjustments of hedging instruments before tax		35				35
Actuarial gains / losses on defined benefit plans				-13		-13
Tax on value adjustments		-9				-9
Net income recognised in equity via other comprehensive income in the statement of comprehensive income	0	26	-7	-13	0	6
Net profit for the year				89	78	167
Comprehensive income	**0**	**26**	**-7**	**76**	**78**	**173**
Distribution of dividends					-55	-55
Buy-back of treasury shares[1]				-19		-19
Transactions with the owners	**0**	**0**	**0**	**-19**	**-55**	**-74**
Equity as at 31 December	**792**	**-79**	**-64**	**1,104**	**78**	**1,831**

1. For information on buy-back of treasury shares see the description of capital structure on page 32.

1

General accounting policies

The consolidated financial statements of Solar A/S for 2016 are presented in accordance with the International Financial Reporting Standards (IFRSs) as approved by the EU and additional Danish disclosure requirements for annual reports of listed companies cf. Nasdaq Copenhagen's disclosure requirements for annual reports of listed companies and the IFRS executive order issued in accordance with the Danish Financial Statements Act.

The consolidated financial statements have been prepared using the historical cost formula with the exception of derivative financial instruments, which are measured at fair value, as well as non-current assets and groups of assets held for sale, which are measured at the lowest value of the book value before changes in classification or fair value less sales costs.

The accounting policies described below have been applied consistently in the financial year and to the comparative figures.

Implementation of new financial reporting standards
As of 1 January 2016, Solar implemented those new standards and interpretations approved by the EU that became effective in the financial year 2016 as well as any annual improvements on applicable IFRSs. The changes have no effect on Solar.

Note 28 includes a description of new standards and interpretations that have not yet become effective.

Presentation currency
The annual report is presented in Danish kroner rounded off to the nearest 1,000,000 Danish kroner. Danish kroner is the parent company's functional currency.

Translation of foreign currency items
A functional currency has been set for each reporting group entity. The functional currencies are the currencies used in the primary economic environments in which each individual reporting entity operates. Transactions in other currencies than the functional currency are considered transactions in foreign currencies.

Transactions in foreign currency are translated at first recognition to the functional currency at the exchange rate prevailing at the date of the transaction. Differences between the exchange rate prevailing on the date of the transaction and the exchange rate on the payment date are recognised in the income statement as items under financial income and expenses.

All monetary items in foreign currencies that have not been settled on the balance sheet date are translated into the functional currencies using the exchange rates on the balance sheet date. Any difference between the exchange rate prevailing on the date of the transaction and the balance sheet date exchange rate are recognised in the income statement as items under financial income and expenses.

When recognising entities with different functional currencies than Danish kroner in the consolidated financial statements, the income statements are translated at the exchange rate prevailing on the date of the transaction and balance sheet items are translated at the balance sheet date exchange rates. The average rate of exchange for the individual months is used as exchange rate prevailing on the date of the transaction when this does not result in a considerably different presentation. Exchange rate differences, from translation of these entities' equity at the beginning of the year at the balance sheet date exchange rates and in connection with the translation of income statements from the exchange rate prevailing at the date of transaction to the balance sheet date exchange rates, are recognised directly in other comprehensive income as a separate reserve for foreign currency translation adjustments.

Consolidated financial statements
The consolidated financial statements include the financial statements of the parent company Solar A/S and subsidiaries in which Solar A/S has control of the financial or operational policies in order to get returns or otherwise benefit from their activities. Control is achieved by directly or indirectly owning or controlling more than 50% of the voting rights or by other means controlling the entity in question.

The consolidated financial statements have been prepared as a summary of the parent company and the individual subsidiaries' financial statements and in accordance with the group's accounting policies. Intercompany revenue, other intercompany operating items, intercompany balances, profit and loss from transactions between the consolidated entities as well as internal equity investments are eliminated.

Statement of comprehensive income
Solar A/S presents the statement of comprehensive income in two statements. An income statement and a statement of comprehensive income that show the year's results and income that forms part of other comprehensive income. Other comprehensive income includes exchange rate adjustments, actuarial gains and losses, adjustments of investments in associates and hedging transactions.

1

General accounting policies – continued

Presentation of discontinued operations
Discontinued operations make up a considerable part of the enterprise if activities and cash flow can be clearly separated in an operational and accounting sense from the other parts of the entity and when the entity has either been divested or separated as held for sale.

Earnings after tax of discontinued operations as well as gains / losses from any sale are presented in a separate line in the income statement with adjustment of the comparative figures. Notes include information on revenue, costs, value adjustments, financials and tax for any discontinued operations. Assets and related liabilities of discontinued operations are recognised separately in the balance sheet without adjustments to comparative figures.

Cash flow statement
The cash flow statement shows cash flow distributed on operating, investing and financing activities for the year, changes in cash and cash equivalents, and cash at bank and in hand at the beginning and end of the year.

The effect of cash flow on the acquisition and divestment of entities is shown separately under cash flow from investing activities. Cash flow from acquired entities is recognised in the cash flow statement from the date of acquisition and cash flow from divested entities is recognised until the time of divestment. Cash flow from discontinued operations is presented separately under operating, investing and financing activities.

Cash flow from operating activities is determined using the indirect method as profit before tax adjusted for non-cash operating items, changes in working capital, interest received and paid, and income tax paid. Cash flow from investing activities includes payments in connection with the acquisition and sale of intangibles, property, plant and equipment and investments, and acquisition and divestment of entities. Cash flow from financing activities includes acquisition and sale of treasury shares, dividends distribution and incurrence or repayment of non-current interest-bearing liabilities. Cash at bank and in hand includes cash holdings, deposits with banks and current interest-bearing liabilities.

Financial ratios
Earnings per share (EPS) and diluted earnings per share (EPS-D) are determined in accordance with IAS 33. In general, financial ratios are calculated in accordance with the “Recommendations and Financial Ratios 2015” of the Danish Finance Society.

Description of accounting policies in notes
Descriptions of accounting policies in the notes form part of the overall description of accounting policies.
These descriptions are found in the following notes:

Note 4	Segment information
Note 8	Income tax
Note 9	Net profit or loss for the year
Note 10	Intangible assets
Note 11	Property, plant and equipment
Note 12	Inventories
Note 13	Trade receivables
Note 14	Provisions for pension obligations
Note 15	Other provisions
Note 18	Assets and liabilities held for sale
Note 19	Share capital
Note 21	Interest-bearing liabilities and maturity statement
Note 24	Share option plans
Note 25	Contingent liabilities and other financial liabilities

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Significant accounting estimates and assessments

When preparing the annual report in accordance with generally applicable principles, management make estimates and assumptions that affect the reported assets and liabilities. Management base their estimates on historic experience and expectations for future events. Therefore, actual results may differ from these estimates.

The following estimates and accompanying assessments are deemed material for the preparation of the financial statements:

- Impairment test of goodwill and equity investments
- Capitalisation of software
- Inventory write-down
- Write-down for meeting of loss on doubtful receivables
- Provision for deferred tax

These estimates and assessments are described in the following notes:
Note 8 Income tax
Note 10 Intangible assets
Note 12 Inventories
Note 13 Trade receivables

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Financial risks

Results and equity are affected by a range of financial risks. All financial transactions are based on commercial activities, and no speculative transactions are made. Financial instruments are solely used for hedging of financial risks.

The financial risks are described in the following notes:

Note 13 Trade receivables
Note 21 Interest-bearing liabilities and maturity statement

For description of Solar's other business related risks and our approach to risk management, see the management's review on page 23-28.

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Segment information

Solar's business segments are Installation, Industry and Others and are based on the customers' affiliation with the segments. Installation covers installation of electrical, and heating and plumbing products, while Industry covers industry, offshore and marine, and utility and infrastructure. Others covers other small areas. The three main segments have been identified without aggregation of operating segments. Segment income and costs include any items that are directly attributable to the individual segment and any items that can be reliably allocated to the individual segment. Non-allocated costs refer to income and costs related to joint group functions. Assets and liabilities are not included in segment reporting.

DKK million	Installation	Industry	Others	Total
2016				
Revenue	7,316	2,988	768	11,072
Cost of sales	-5,869	-2,297	-598	-8,764
Gross profit	**1,447**	**691**	**170**	**2,308**
Direct costs	-299	-96	-19	-414
Earnings before indirect costs	**1,148**	**595**	**151**	**1,894**
Indirect costs	-570	-170	-48	-788
Segment profit or loss	**578**	**425**	**103**	**1,106**
Non-allocated costs				-776
Earnings before interest, tax, depreciation and amortisation (EBITDA)				**330**
Depreciation and amortisation				-108
Earnings before interest and tax (EBIT)				**222**
Financials, net				-34
Earnings before tax (EBT)				**188**

Accounting policies

The reporting on business segments follows the structure of Solar's internal management reporting to top operational management, the group Executive Board. The group Executive Board uses business segmentation when allocating resources and following up on results.

No single customer makes up more than 10% of the total revenue.

Furthermore, Solar presents the geographical distribution of revenue and non-current assets divided on Denmark, Sweden, Norway, Benelux and Other markets. The geographical distribution is based on the business units operating in these geographical areas.

Revenue
Revenue includes goods for resale recognised in the income statement if the passing of the risk to the customer takes place before the end of the year and if revenue can be determined reliably. Revenue is measured exclusive VAT and duties charged on behalf of a third party. All types of discounts allowed are recognised in revenue.

Cost of sales
Cost of sales includes the year's purchases and change in inventory of goods for resale. This includes shrinkage and any write-down resulting from obsolescence.

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Segment information – continued

DKK million	Installation	Industry	Others	Total
2015				
Revenue	7,255	2,651	681	10,587
Cost of sales	-5,793	-2,034	-561	-8,388
Gross profit	**1,462**	**617**	**120**	**2,199**
Direct costs	-294	-89	-12	-395
Earnings before indirect costs	**1,168**	**528**	**108**	**1,804**
Indirect costs	-560	-141	-57	-758
Segment profit or loss	**608**	**387**	**51**	**1,046**
Non-allocated costs				-684
Earnings before interest, tax, depreciation and amortisation (EBITDA)				**362**
Depreciation and amortisation				-113
Earnings before interest and tax (EBIT)				**249**
Financials, net				-48
Earnings before tax (EBT)				**201**

Geographical information

Solar A/S primarily operates on the Danish, Swedish, Norwegian and Benelux markets. In the below table, Other markets covers the remaining markets, which can be seen in the group structure available on page 21. The below allocation has been made based on the products' place of sale.

DKK million	Revenue	Adjusted organic growth	Non-current assets
2016			
Denmark[1]	3,008	7.3	1,811
Sweden	2,499	1.3	281
Norway	1,866	4.5	208
Benelux	2,680	-3.6	287
Other markets	1,084	-2.0	104
Eliminations	-65		-1,294
Total	**11,072**	**1.8**	**1,397**
2015			
Denmark[1]	2,771	3.9	1,657
Sweden	2,460	9.4	283
Norway	1,835	0.4	138
Benelux	2,765	4.1	321
Other markets	814	13.3	43
Eliminations	-58		-1,192
Total	**10,587**	**5.2**	**1,250**

1. Denmark's figures include non-current assets determined for Solar A/S, the parent company. In 2016, the parent company switched accounting policies from cost method to equity value method. As a result, non-current assets for 2015 were restated, from DKK 1,746m to DKK 1,657m, changing the eliminations figures from DKK -1,281m to DKK -1,192m.

5

Staff costs

DKK million	2016	2015
Salaries and wages etc.	1,224	1,148
Pensions, defined contribution	85	85
Pensions, defined benefit[1]	-3	-7
Costs related to social security	169	160
Share-based payment	-6	10
Total	**1,469**	**1,396**
Average number of employees (FTEs)	3,032	2,871
Number of employees at year-end (FTEs)	3,059	2,855
Remuneration of Board of Directors		
Remuneration of Board of Directors	3	3
Remuneration of Executive Board		
Remuneration and bonus	11	10
Share-based payment[2]	-1	2
Total	**10**	**12**

1. See note 14, Provision for pension obligation.
2. See note 24, Share option plans.

We have prepared a remuneration policy that describes guidelines for determining and approving remuneration of the Board of Directors and Executive Board. The annual general meeting adopts the Board of Directors' remuneration for one year ahead at a time. The Executive Board's remuneration is assessed every two years. The Board of Directors jointly approve the elements that make up the Executive Board's salary package as well as all major adjustments to this package following previous discussions and recommendations of the chairman and vice-chairman of the Board of Directors. Under section 139 of the Danish Companies Act, a complete remuneration policy for the Board of Directors and Executive Board is presented for adoption at the annual general meeting.

Terms of notice for members of the Executive Board is 12 months. When stepping down, the CEO is entitled to 6 months' remuneration.

6

Loss on trade receivables

DKK million	2016	2015
Recognised losses	22	37
Received on trade receivables previously written off	-2	-2
	20	**35**
Change in write-down for bad and doubtful debts	-3	-13
Total	**17**	**22**

Relevant accounting policies are described in note 13, trade receivables.

7

Depreciation, write-down and amortisation

DKK million	2016	2015
Buildings	29	29
Plant, operating equipment, tools and equipment	25	30
Leasehold improvements	3	4
Write-down on buildings	12	0
Profit/loss from the sale of property, plant and equipment	-17	3
Total depreciation and write-down on property, plant and equipment	**52**	**66**
Customer-related assets	9	7
Software	47	40
Total amortisation of intangible assets	**56**	**47**

Relevant accounting policies are described in note 10, intangible assets, and note 11, property, plant and equipment.

8

Income tax

DKK million	2016	2015
Current tax	54	56
Deferred tax	10	12
Tax on profit or loss for the year	**64**	**68**
Tax on taxable profit previous year	-1	0
Adjustment of deferred tax for previous years	0	1
Deduction of Danish and Norwegian income tax rates	0	-2
Total	**63**	**67**
Statement of effective tax rate:		
Danish income tax rate	22.0%	23.5%
Tax base change for non-capitalised loss in subsidiaries	8.2%	5.8%
Change to tax rates in Denmark and Norway	-0.1%	-1.2%
Non-taxable/deductible items in parent company	0.0%	2.4%
Non-taxable/deductible items and differing tax rates compared to Danish tax rate in foreign subsidiaries	3.4%	2.1%
Tax for previous years	0.0%	0.6%
Effective tax rate	**33.5%**	**33.2%**

Accounting policies

Tax for the year is recognised with the share attributable to results for the year in the income statement and with the share attributable to other recognised income and costs in the statement of comprehensive income. Tax consists of current tax and changes to deferred tax.

8

Income tax – continued

DKK million	2016	2015
Provision for deferred tax		
1/1	100	79
Foreign currency translation adjustments	-2	1
Acquired enterprises	5	0
Recognised in other comprehensive income	0	9
Ordinary tax recognised in income statement	10	12
Other items, including reduction of Danish and Norwegian income tax rates	-1	-1
Total 31/12	**112**	**100**
Specified as follows:		
Deferred tax liabilities	122	128
Deferred tax assets	-10	-28
Total deferred tax, net	**112**	**100**
Further specified as follows:		
Expected use within 1 year	0	2
Expected use after 1 year	112	98
Total, net	**112**	**100**
Not recognised in balance sheet:		
Deferred tax assets	90	63

Deferred tax assets not recognised in the balance sheet are the part of tax losses where it is not considered sufficiently certain that the tax losses can be realised within a short time frame based on the same assumptions as described in note 10, Intangible assets. Non-recognised tax assets can in all material respects be attributed to tax losses in the Netherlands and Austria, where the non-recognised tax assets may be exercised until 2025.

Accounting policies

Current tax liabilities and current tax receivables are recognised in the balance sheet as calculated tax on the year's taxable income, adjusted for tax on previous year's taxable income and for tax paid on account.

Deferred tax is measured in accordance with the balance sheet liability method of all temporary differentials between accounting and tax-related amounts and provisions. Deferred tax is recognised at the local tax rate that any temporary differentials are expected to be realised at based on the adopted or expected adopted tax legislation on the balance sheet date.

Deferred tax assets, including the tax value of tax loss allowed for carryforward, are measured at the value at which the asset is expected to be realised, either by elimination in tax of future earnings or by offsetting against deferred tax liabilities.

Deferred tax assets are assessed annually and only recognised to the extent that it is probable that they will be utilised.

Deferred tax is also recognised for the covering of the retaxation of losses in former foreign subsidiaries participating in joint taxation assessed as becoming current.

Accounting estimates and assesments

Deferred tax assets
Deferred tax assets are not recognised if it is not deemed sufficiently safe that these can reduce future taxable income. In this connection, management assess expected future taxable income.

8

Income tax – continued

DKK million	1/1	Foreign currency translation adjustments	Acquired enterprises	Change in tax rate	Other adjustments	2016	2015
Specification by balance sheet items							
Property, plant and equipment	46	0	0	0	2	48	46
Inventories	-3	0	0	0	1	-2	-3
Provisions for loss on receivables	-2	0	-1	0	0	-3	-2
Pension obligations	-5	0	0	0	1	-4	-5
Other items[1]	64	-2	6	-2	7	73	64
Total, net	**100**	**-2**	**5**	**-2**	**11**	**112**	**100**

1. Other items particular cover intangible assets and loss balances in jointly taxed entities.

9

Net profit for the year

DKK million	2016	2015
Proposed distribution of net profit for the year:		
Proposed dividends, parent	88	78
Retained earnings	37	89
Net profit for the year	**125**	**167**
Dividends in DKK per share of DKK 100[1]	12.00	10.00

1. Based on proposed dividends.

Accounting policies

Dividends
Proposed dividends are recognised as a liability at the time of adoption of the general meeting.

10

Intangible assets

DKK million	Customer related assets	Goodwill	Software	Total
2016				
Cost 1/1	827	263	347	1,437
Foreign currency translation adjustment	-9	-3	0	-12
Acquired enterprises	30	74	9	113
Additions during the year	0	0	88	88
Disposals during the year	0	0	0	0
Cost 31/12	**848**	**334**	**444**	**1,626**
Amortisation 1/1	813	110	181	1,104
Foreign currency translation adjustment	-9	0	0	-9
Amortisation during the year	9	0	47	56
Amortisation of abandoned assets	0	0	0	0
Amortisation and depreciation 31/12	**813**	**110**	**228**	**1,151**
Carrying amount 31/12	**35**	**224**	**216**	**475**
Remaining amortisation period in number of years	**2-7**	**-**	**2-8**	**-**

Accounting policies

Customer-related intangible assets
Customer-related intangible assets acquired in connection with business combinations are measured at cost less accumulated amortisation and impairment loss.

Customer-related intangible assets are amortised using the straight-line principle over the expected useful life. Typically, the amortisation period is 5-7 years.

Goodwill
Goodwill is initially recognised in the balance sheet as the positive balance between the acquisition consideration of an enterprise on one side and the fair value of the assets, liabilities and contingent liabilities acquired on the other side. In cases of measurement uncertainty, the goodwill amount can be adjusted until 12 months after the date of the acquisition. Goodwill is not amortised but an impairment test is done annually. The first impairment test is done by the end of the year of acquisition. Subsequently, goodwill is measured at this value less accumulated impairment losses.
On acquisition, goodwill is assigned to the cash-generating units that form the basis of the impairment test subsequently. The determination of cash-generating units follows the managerial structure and management control.

Software
Software is measured at cost less accumulated amortisation and writedown. Cost includes both direct internal and external costs. Software is amortised using the straight-line principle over 4-8 years. The basis of amortisation is reduced by any write-down.

10

Intangible assets – continued

DKK million	Customer related assets	Goodwill	Software	Total
2015				
Cost 1/1	927	258	311	1,496
Foreign currency translation adjustment	-11	5	0	-6
Disposals relating to discontinued operations	0	0	0	0
Additions during the year	0	0	36	36
Disposals during the year	-89	0	0	-89
Cost 31/12	**827**	**263**	**347**	**1,437**
Amortisation and depreciation 1/1	906	110	141	1,157
Foreign currency translation adjustment	-11	0	0	-11
Reversed amortisation related to discontinued operations	0	0	0	0
Amortisation during the year	7	0	40	47
Amortisation of abandoned assets	-89	0	0	-89
Amortisation 31/12	**813**	**110**	**181**	**1,104**
Carrying amount 31/12	**14**	**153**	**166**	**333**
Remaining amortisation period in number of years	**1-3**	**-**	**3-8**	**-**

Accounting policies (continued)

Impairment of intangible assets
Goodwill is tested yearly for impairment and first before the end of the year of acquisition.

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit to which goodwill is allocated, and is written down to the recoverable amount via the income statement, provided that the carrying amount is larger. Most often, the recoverable amount is determined as the present value of the expected future net cash flow from the company or activity (cash-generating unit) that the goodwill is affiliated to. Write-down of goodwill is recognised in the income statement as part of amortisation of intangible assets.

The carrying amount of intangible assets is assessed annually to determine whether there is any indication of impairment.

When such an indication is present, the asset's recoverable amount is calculated, which is the highest of the asset's fair value less expected costs of disposal or value in use. Value in use is calculated as the present value of expected cash flow from the smallest cash flow-generating unit to which the asset belongs.

Impairment loss is recognised when the carrying amount of an asset exceeds the asset's recoverable amount. Impairment loss is recognised in the income statement.

Impairment loss relating to goodwill is not reversed. Amortisation and depreciation on other intangible assets are reversed to the extent that changes have been made to the assumptions and estimates that led to the write-down.

10

Intangible assets – continued

Goodwill
(Comparative figures for 2015 in brackets)
On 31 December 2016, management completed an impairment test of the carrying amount of goodwill. The impairment test was performed in the fourth quarter and is based on the estimates and expectations as well as other assumptions approved by the Executive Board and Board of Directors with the necessary adjustments under IAS 36.

When performing an impairment test of cash-generating units, the recoverable amount (value in use), determined as the discounted value of expected future cash flow, is compared to the carrying amounts of the individual cash-generating units. Non-allocated costs are proportionately distributed between the individual segments and thus affect the individual impairment tests by the estimated total costs.

Overall, impairment tests made are based on the strategy approved by the Executive Board and Board of Directors. Budgets and expectations for the next 6 years (6 years) are based on Solar's current, on-going and contract investments in which risks of the material parameters have been assessed and recognised in future expected cash flow. Expected growth is based on a conservative outlook for market growth in the coming years.

Management's final assessment of the impairment tests made is based on an assessment of probable changes to the basic assumptions and that these will not result in the carrying amount of goodwill exceeding the recoverable amount.

Alvesta V.V.S.-Material AB
DKK 142m of the carrying amount of goodwill result from the acquisition of the Swedish enterprise Alvesta V.V.S.-Material AB in 2007 by Solar Sverige AB. The impairment test is based on the installation segment in Sweden, which is estimated to be the lowest level of cash-generating units to which we can allocate.

The growth rate used in the impairment test for 2017 is 5% (7%), while the growth rate used in impairment tests for the years succeeding 2016 is 2-3% (2-4%). Growth for 2017 is a continuation of the growth rates seen in 2016 and trends until the terminal period should be regarded as a normalisation of growth expectations.

Terminal value after 6 years is determined while taking into consideration general expectations for growth, which by considerations of realistic assumptions are determined at 2% (2%).

The discount rates (WACC) used to calculate the recoverable amount is 8.5% (8.5%), equalling a pre-tax discount rate of approx. 11% (11%). Cash flow used includes any effect of related future risks, and therefore, such risks have not been added to the applied discount rates.

Based on the above and other impairment tests completed, there is no need for impairment relating to the carrying amount of goodwill.

Accounting estimates and assessments

Impairment test for goodwill and equity investments
In connection with the annual impairment test of goodwill, or when there is an indication of impairment, an estimate is made of how the parts of the business (cash-generating units), that goodwill is linked to, will be able to generate sufficient positive cash flow in future to support the value of goodwill and other net assets in the relevant part of the business.

Due to the nature of the business, estimates must be made of expected cash flow for many years ahead which, naturally, results in a certain level of uncertainty. This uncertainty is reflected in the discount rate determined. The impairment test and the very sensitive related aspects are described in more detail in the comments section.

Software
Software is evaluated annually for indicators of a need for impairment. If a need to perform impairment is identified, an impairment test for the software is performed.

The impairment test is made on the basis of different factors, including the software's future application, the present value of the expected cost saving as well as interest and risks.

11

Property, plant and equipment

DKK million	Land and building	Plant operating equipement, tools and equipment	Leasehold Improvements	Assets under construction	Total
2016					
Cost 1/1	1,213	518	67	1	1,799
Foreign currency translation adjustments	-1	-2	1	0	-2
Acquired enterprises	0	4	1	0	5
Additions during the year	6	21	3	28	58
Disposals during the year	-8	-19	-1	-12	-40
Cost 31/12	**1,210**	**522**	**71**	**17**	**1,820**
Write-down and depreciation 1/1	390	471	56	0	917
Foreign currency translation adjustments	-2	-3	1	0	-4
Write-down and depreciation during the year	41	25	3	0	69
Write-down and depreciation of abandoned assets	-8	-18	-1	0	-27
Write-down and depreciation 31/12	**421**	**475**	**59**	**0**	**955**
Carrying amount 31/12	**789**	**47**	**12**	**17**	**865**

Accounting policies

Property, plant and equipment
Land and buildings as well as other plant, operating equipment, and tools and equipment are measured at cost less accumulated depreciation and write-down.

Cost includes the purchase price and costs directly attributable to the acquisition until the time when the asset is ready for use. Cost of a combined asset is disaggregated into separate components which are depreciated separately if the useful lives of the individual components differ.

Subsequent expenditure, for example in connection with the replacement of components of property, plant or equipment, is recognised in the carrying amount of the relevant asset when it is probable that the incurrence will result in future economic benefits for the group.

The replaced components cease to be recognised in the balance sheet and the carrying amount is transferred to the income statement. All other general repair and maintenance costs are recognised in the income statement when these are incurred.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives which are:

- Buildings 40 years
- Technical installations 20 years
- Plant, operating equipment, and tools and equipment 2-5 years.

There are a few differences from the mentioned depreciation periods in which useful life is estimated as shorter. Leasehold improvements are depreciated over the lease term, however, maximum 5 years.

Land is not depreciated.

11

Property, plant and equipment – continued

DKK million	Land and building	Plant operating equipement, tools and equipment	Leasehold Improvements	Assets under construction	Total
2015					
Cost 1/1	1,241	525	71	1	1,838
Foreign currency translation adjustments	-2	4	-1	0	1
Assets held for sale	-29	0	0	0	-29
Additions during the year	3	20	5	5	33
Disposals during the year	0	-31	-8	-5	-44
Cost 31/12	**1,213**	**518**	**67**	**1**	**1,799**
Write-down and depreciation 1/1	377	464	60	0	901
Foreign currency translation adjustments	0	3	-1	0	2
Reversed write-down and depreciation related to discontinued operations	-16	0	0	0	-16
Write-down and depreciation during the year	29	30	4	0	63
Write-down and depreciation of abandoned assets	0	-26	-7	0	-33
Write-down and depreciation 31/12	**390**	**471**	**56**	**0**	**917**
Carrying amount 31/12	**823**	**47**	**11**	**1**	**882**

Accounting policies (continued)

The basis of depreciation is determined in consideration of the asset's residual value and reduced by any impairment. Residual value is determined at the time of acquisition and reassessed annually. If residual value exceeds the asset's carrying amount, depreciation will cease.

By changing the depreciation period or residual value, the effect of future depreciation is recognised as a change to accounting estimates.

Impairment of property, plant and equipment
The carrying amount of property, plant and equipment is assessed annually to determine whether there is any indication of impairment. When such an indication is present, the asset's recoverable amount is calculated, which is the highest of the asset's fair value less expected costs of disposal or value in use. Value in use is calculated as the present value of expected cash flow from the smallest cash flow-generating unit to which the asset belongs.

Impairment loss is recognised when the carrying amount of an asset exceeds the asset's recoverable amount.

Impairment loss is recognised in the income statement. Write-down on property, plant and equipment is reversed to the extent that changes have been made to the assumptions and estimates that led to the write-down.

12

Inventories

DKK million	2016	2015
End products	1,321	1,302
Recognised write-down	3	-10

The main reason for the recognised write-downs is an increase in write-down articles.

Accounting policies

Inventories are measured at cost according to the FIFO method or at net realisable value, if this is lower.

Cost of inventories includes purchase price with addition of delivery costs.

The net realisable value of inventories is determined as selling price less costs incurred to make the sale and is determined in consideration of marketability, obsolescence and development of expected selling price.

Accounting estimates and assesments

Write-down of inventories
Write-down of inventories is made due to the obsolescence of products.

Management specifically assess inventories, including the products' turnover rate, current economic trends and product development when deciding whether the write-down is sufficient.

13

Trade receivables

DKK million	2016	2015
Maturity statement, trade receivables		
Not due	1,261	1,148
Past due for 1-30 day(s)	121	133
Past due for 31-90 days	26	20
Past due for 91+ days	36	37
	1,444	1,338
Write-down	-40	-43
Total	**1,404**	**1,295**
Write-down based on:		
Age distribution	14	12
Individual assessment	26	31
Total	**40**	**43**
Write-down 1/1	43	57
Foreign currency translation adjustment	0	-1
Write-down for the year	12	14
Losses realised during the year	-9	-20
Reversed for the year	-6	-7
Write-down 31/12	**40**	**43**

Accounting policies

Trade receivables are measured at fair value at acquisition and at amortised cost subsequently. Based on an individual assessment of the loss risk, write-down to net realisable value is made, if this is lower.

Accounting estimates and assesments

Write-down for meeting of loss on doubtful trade receivables
Write-down is made to meet loss on doubtful trade receivables. Management specifically analyses trade receivables, including the customers' credit rating and current economic trends, to ensure that write-down is sufficient.

Financial risks

Credit risk
Solar is subject to credit risks in respect of trade receivables and cash at bank. No credit risk is deemed to exist in respect of cash as the counterparts are banks with good credit ratings. Solar A/S' main banker is Nordea Bank Danmark A/S.

As a result of customer diversification, trade receivables are distributed so that the risk is not assessed as unusual. Credit granting to customers is regarded as a natural and important element in Solar's business operations. Solar conducts efficient credit management at all times. The vast majority of our companies generally takes out insurance to hedge against loss to the extent possible. As a result, 71% of trade receivables is covered by insurance against 32% at year-end 2015.

Loss due to credit granting is considered a normal business risk and, therefore, will occur.

14

Provision for pension obligation

Most of the group's employees have pension plans; mainly defined contribution pension plans and, to a smaller degree, defined benefit pension plans.

The Solar Group's defined benefit plans are, in all material aspects, constituted by the subsidiaries Solar Norge AS, Conelgro B.V., Claessen ELGB NV and GFI GmbH. Overall, these pension plans are similar and primarily comprise a number of different pension plans and, to a smaller extent, anniversary plans and retirement benefit plans. The majority of this obligation covers lifelong retirement pensions.

No major changes have been made to the method of accounting, and at the same time, no major risks are assessed as being associated with the group's defined benefit plans.

In 2016 the Conelgro B.V. defined benefit pension plan has been closed and all risks transferred to an insurance company. The present value of pension obligations equivaling the fair value of plan assets amounts to DKK 250m are included in the below figures.

DKK million	2016	2015
Present value of pension obligations	313	303
Fair value of plan assets	-295	-288
Deficit	18	15
Pension obligations (net) recognised in the balance sheet	**18**	**15**

The following specifications show how this obligation is recognised in the balance sheet and income statement as well as development in present values of the obligation and pension assets. In addition, the specifications show the composition of pension assets and the most significant actuarial assumptions.

DKK million	2016	2015
Amounts recognised in income statement		
Expected pension costs	3	2
Calculated interests on obligations	7	8
Calculated interest revenue	-7	-8
Adjustment related to the integration of Solar Nederland B.V. and Conelgro B.V.	-8	-9
Other adjustments	2	0
Total	**-3**	**-7**

Accounting policies

Obligations concerning the defined contribution plans are recognised in the income statement in the period that these are earned and any payments due are included under other payables.

Obligations related to defined benefit plans for present and former employees are determined systematically by an actuarial discount to net present value of the pension obligation. Value in use is calculated on the basis of presumptions about future developments in, for example, inflation, pay level and life expectancy. The discount rate used is the effective interest rate on corporate bonds with high credit quality and with terms that correspond to that of the pension obligation.

The actuarially calculated value in use less fair value of assets attached to the plan is recognised in the balance sheet under pension provisions. If the net amount is an asset, this is recognised under pension assets in the balance sheet to the extent that any surplus leads to a reduction in future contributions or repayment to the enterprise.

Results recognise current service costs based on actuarial estimates made at the beginning of the year. Returns on the net obligation are also recognised. Differences between the calculated development of the pension activities and obligations and realised values calculated at year-end are termed actuarial gains and losses and are recognised as other comprehensive income.

The effect of a change in value in use as a consequence of changes to the pension agreements made is recognised in the income statement at the modification date.

14

Provision for pension obligation – continued

DKK million	2016	2015
Amounts recognised in the balance sheet		
Obligations, defined benefit pension plans etc.	18	15
Assets	0	0
Total	**18**	**15**
Actual return on the plan's assets	**13**	**-2**
Development in present value of obligation		
1/1	303	312
Foreign currency translation adjustments	0	-1
Adjustment relating to change in pension obligation	-7	-13
Expected pension costs	3	2
Calculated interest on obligations	7	8
Benefits paid out	-8	-8
Actuarial gains and losses relating to change in demographic assumptions	1	-11
Actuarial gains and losses relating to change in financial assumptions	14	14
Total 31/12	**313**	**303**

14

Provision for pension obligation – continued

DKK million	2016	2015
Development in fair value of pension assets		
1/1	288	293
Foreign currency translation adjustments	0	-1
Adjustments relating to change in pension obligation	0	0
Calculated interest income	7	8
Administrative costs	0	0
Paid in by the Solar group	2	5
Paid in by staff	0	1
Pensions paid	-8	-8
Actuarial gains and losses	6	-10
Total 31/12	**295**	**288**

The group's expected payments to defined benefit pension plans in 2017 total DKK 3m (2016: DKK 3m).

Distribution of pension assets		
Equity instruments	0	50
Debt instruments	0	194
Others	295	44
Total 31/12	**295**	**288**

The change of the distribution in 2016 is due to closing of the Conelgro B.V. defined benefit pension plan and transferring all risks to an insurance company where assets are pooled.

Average actuarial assumptions:		
Discount rate	0.9-2.6%	1.7-2.5%
Pay increase rate	2.0-2.5%	2.0-2.5%
Pension increase rate	0.0%	2.5%

14

Provision for pension obligation – continued

The table below shows the sensitivity of the pension obligations to changes in key assumptions for the statement of the obligation on the balance sheet date. In addition, the Solar Group is also exposed to general development in the market value of the assets.

DKK million	2016	2015
Pension obligation	**313**	**303**
Sensitivity to discount rate:		
Discount rate - 0.5 %	35	26
Discount rate + 0.5 %	-31	-23
Sensitivity to pay increase rate:		
Pay increase rate - 0.5 %	-2	-1
Pay increase rate + 0.5 %	2	1
Sensitivity to pension increase rate:		
Pension increase rate - 0.5 %	-1	-27
Pension increase rate + 0.5 %	1	26
Pension obligations are expected to be payable as follows:		
0 - 1 year	8	8
1 - 5 year(s)	40	36
> 5 years	265	259
Total 31/12	**313**	**303**

Due to the fact that all risks of the defined benefit obligation in Conelgro B.V. have been transferred to an insurance company, a change in the discount rate will result in an offsetting change of the value of the plan assets. This has also reduced the sensitivity to pension increase rate in 2016.

The expected duration of the obligation at year-end 2016 is expected at 18.1 years (2015: 19.5 years) and may be divided into active employees at 12.4 years (2015: 24.9 years) and retired/inactive employees at 20.1 years (2015: 9.5 years).

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Other provisions

DKK million	2016	2015
Non-current		
Restructuring costs	0	2
Others	41	17
Total 31/12	**41**	**19**
Specification, non-current		
1/1	19	13
Acquired enterprises	7	0
Reversed during the year	-2	-1
Provisions of the year	17	7
Total 31/12	**41**	**19**
Current		
Other provisions	18	28
Total 31/12	**18**	**28**
Specification, current		
1/1	28	77
Reversed during the year	-28	-77
Provisions of the year	18	28
Total 31/12	**18**	**28**

Accounting policies

Provisions are measured in accordance with management's best estimate of the amount required to settle a liability.

Restructuring expenses are recognised as liabilities when a detailed official plan for the restructuring has been published to the parties affected by the plan on the balance sheet date at the latest.

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Other payables

DKK million	2016	2015
Staff costs	220	218
Taxes and charges	93	92
Hedging instruments	94	112
Other payables and amounts payable	88	94
Total	**495**	**516**

Relevant accounting policies for derivative financial instruments are described in note 21 on interest-bearing liabilities and maturity statement on page 82.

17

Acquisitions of subsidiaries

On 1 February 2016, Solar A/S acquired the shares of MAG45 B.V.

The acquisition price of 100% of the MAG45 shares on a net debt-free basis is made up of a fixed amount of DKK 60m and a variable amount (earn-out) which will total DKK 160m at the most. The earn-out amount depends on the results in 2016, 2017 and 2018.

At closing, DKK 53m was paid for 100% of the shares of MAG45 B.V., equalling DKK 59m on a net debtfree basis (normalised approx. DKK 64m).

The acquisition has had no significant impact on revenue or EBITA in 2016.

Transaction costs related to the acquisition totalled DKK 2m.

The assumptions applied regarding the MAG45 opening balance have changed. Compared to previously published figures goodwill has been impacted by DKK -37m, expected earn-out by DKK -20m and the acquisition price on net debt-free basis excl. expected earn-out by DKK -17m.

Goodwill has been identified with DKK 22m and is attributable to synergies as MAG45 fits well with both our sourcing and services focus and with our interest in increasing our industrial exposure. The key rationale behind the acquisition of MAG45 is growth.

Accounting policies

Newly acquired or newly founded subsidiaries are recognised in the consolidated financial statements from the date of acquisition.

For acquisitions of subsidiaries, cost is stated as the fair value of the assets transferred, obligations undertaken and shares issued. Cost includes the fair value of any earn-outs. Acquisition-related costs are recognised in the period in which they are incurred. Identifiable assets, liabilities and contingent liabilities (net assets) relating to the enterprise acquired are recognised at fair value at the date of acquisition calculated in accordance with group accounting policies. Intangible assets are recognised if they are separately recognisable or originate in a contractual right. Deferred tax related to all temporary differentials except taxable temporary differentials on goodwill is recognised.

For business combinations, positive balances (goodwill) between the acquisition consideration of the enterprise on one side and the fair value of the assets, liabilities and contingent liabilities acquired on the other side, are recognised as goodwill under intangible assets. In cases of measurement uncertainty, goodwill can be adjusted until 12 months after the acquisition. Goodwill is not amortised but an impairment test is done annually. The first impairment test is done by the end of the year of acquisition. On acquisition, goodwill is assigned to the cash-generating units that form the basis of the impairment test subsequently.

Comparative figures are not restated for newly acquired enterprises.

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Acquisitions of subsidiaries – continued

Fair value at the date of acquisition: (DKK million)	
Property, plant and equipment	3
Inventories	30
Trade receivables	41
Other receivables	1
Cash	17
Provision for deferred tax	-6
Other non-current liabilities, interest-bearing	-21
Current liabilities	-91
Net assets acquired	**-26**
Goodwill	22
Customer-related intangible assets	30
Other intangible assets	5
Acquisition cost	**31**
Of this, net cash	3
Other interest-bearing liabilities, net	20
Acquisition price on net debt-free basis	**54**
Hereof expected earn-out	0
Acquisition price on net debt-free basis excl. expected earn-out	**54**

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Acquisitions of subsidiaries – continued

On 11 August 2016, Solar A/S acquired the shares of Euro Business School AS

The acquisition price of 100% of the Euro Business School shares on a net debt-free basis is made up of a fixed amount of DKK 43m and variable amount (earn-out) expected to total DKK 15m. The earn-out amount depends on the achievement of set financial results by 2021 with payment to be made in 2022.

At closing, DKK 43m was paid for 100% of the shares of Euro Business School AS. Including expected earn-out of DKK 15m this equals DKK 58m on a net debtfree basis (normalised approx. DKK 58m). The expected earn-out is included in other provisions, non-current.

The acquisition has had no significant impact on revenue or EBITA in 2016.

Transaction costs related to the acquisition totalled DKK 1m.

Goodwill has been identified with DKK 52m and is attributable to synergies as the acquisition reinforces Solar's focus on growing our service business. It provides us with expert competences, professional training tools, and increases critical mass. This will facilitate the process of growing training as a business for Solar Group.

Fair value at the date of acquisition: (DKK million)	
Property, plant and equipment	2
Trade receivables	7
Other receivables	3
Cash	1
Provision for deferred tax	2
Other non-current liabilities	-8
Current liabilities	-4
Net assets acquired	**3**
Goodwill	52
Other intangible assets	4
Acquisition cost	**59**
Of this, net cash	-1
Acquisition price on net debt-free basis	**58**
Hereof expected earn-out	-15
Acquisition price on net debt-free basis excl. expected earn-out	**43**

Total acquisition price for MAG45 and EBS	95
Of this, net cash	2
Total acquisition price for MAG45 and EBS recognised in cash flow statement	**97**

18

Assets and liabilities held for sale

2015
Discontinued operation
On 16 March 2015, Solar A/S finalised the divestment of the assets of Solar Deutschland GmbH to Sonepar Group with an accounting profit of DKK 50m. The discontinued operation impacted the income statement as follows:

DKK million	2016	2015
Revenue	0	185
Cost of sales	0	-157
Gross profit	**0**	**28**
Costs	0	8
Earnings before interest and tax (EBIT)	**0**	**36**
Financials	0	0
Earnings before tax (EBT)	**0**	**36**
Tax on net profit or loss for the period	0	-3
Net profit or loss for the period	**0**	**33**
Earnings from discontinued operations in DKK per share outstanding (EPS)		4.20
Diluted earnings from discontinued operations in DKK per share outstanding (EPS-D)		4.19
Cash flow from operating activities	0	-53
Cash flow from investing activities	0	345
Total cash flow	**0**	**292**

Accounting policies

Assets held for sale are saleable assets with expected sale within 1 year. Write-down to a reduced fair value less sales costs is made.

18

Assets and liabilities held for sale – continued

DKK million	2016	2015
Divestment of the discontinued operations may be specified as follows:		
Carrying amount of net assets	0	298
Gain on divestment	0	50
Total consideration	**0**	**348**
Assets and liabilities held for sale may be divided into the following main items:		
Property, plant and equipment, Solar Deutschland	0	16
Property, plant and equipment, Solar A/S	0	13
Property, plant and equipment, Solar Nederland	0	59
Current assets	**0**	**88**
Assets held for sale	**0**	**88**
Interest-bearing liabilities, Solar A/S	0	25
Non-current liabilities	**0**	**25**
Liabilities held for sale	**0**	**25**

Deferred tax assets not recognised in the balance sheet of Solar Deutschland GmbH amounted to DKK 79m (2015: DKK 87m) at the end of the period.

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Share capital

DKK million	2016	2015
Share capital 1/1	792	792
Share capital 31/12	**792**	**792**
Share capital is fully paid in and divided into the following classes:		
A shares, 40 shares at DKK 10,000	0	0
A shares, 2,240 shares at DKK 40,000	90	90
A shares total	90	90
B shares 7,020,607 at DKK 100	702	702
Total	**792**	**792**

Share capital remained unchanged from 2012 to 2016.

	Number of shares		Nominal value	
DKK million	**2016**	**2015**	**2016**	**2015**
A shares outstanding 31/12[1]	**900,000**	**900,000**	**90**	**90**
B shares outstanding				
Outstanding 1/1	6,910,598	6,955,434	691	695
Purchase of treasury shares	-512,306	-44,836	-51	-4
B shares outstanding 31/12	**6,398,292**	**6,910,598**	**640**	**691**
Total shares outstanding 31/12	**7,298,292**	**7,810,598**	**730**	**781**

1. A shares have been included in the calculation in units of DKK 100.

Accounting policies

Treasury shares
Acquisition and disposal sums related to treasury shares are recognised directly in transactions with the owners

19

Share capital – continued

Treasury shares (B shares)

	Number of shares		Nominal value (DKK million)		Cost (DKK million)		Percentage of share capital	
DKK million	2016	2015	2016	2015	2016	2015	2016	2015
Holding 1/1	110,009	65,173	11	7	45	26	1.4%	0.8%
Purchases	512,306	44,836	51	4	197	19	6.5%	0.6%
Holding 31/12	**622,315**	**110,009**	**62**	**11**	**242**	**45**	**7.9%**	**1.4%**

The share buy-back programmes in 2015 and 2016 have been performed with the purpose of adjusting Solar's capital structure. At the Annual General Meeting in 2017 the Board of Directors will submit a proposal of cancelling 174,982 B shares.

All treasury shares are held by the parent company.

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Earnings per share in DKK per share outstanding for the year

DKK million	2016	2015
Net profit for the year in DKK million	125	134
Average number of shares	7,920,607	7,920,607
Average number of treasury shares	-346,036	-67,316
Average number of shares outstanding	**7,574,571**	**7,853,291**
Dilution effect of share options	7,333	18,525
Diluted number of shares outstanding	**7,581,904**	**7,871,816**
Earnings per share in DKK per share outstanding for the year	16.50	21.26
Diluted earnings per share in DKK per share outstanding for the year	16.49	21.21
Earnings per share from continuing operations in DKK per share outstanding for the year	16.50	17.06
Diluted earnings per share from continuing activities in DKK per share outstanding for the year	16.49	17.02

A shares have been included in the calculation in units of DKK 100.

21

Interest-bearing liabilities and maturity statement

DKK million	Interest rate	2016	2015
Debt to mortgage credit institutions	Fixed[1]	188	195
Debt to credit institutions	Fixed[1]	26	285
Bank loans and overdrafts	Floating	172	10
Interest-bearing liabilities		**386**	**490**
Trade payables		1,727	1,608
Other payables		529	555
Financial liabilities		**2,642**	**2,653**
Cash at bank and in hand		343	699
Trade receivables		1,404	1,295
Other receivables		41	37
Financial assets		**1,788**	**2,031**
Total, net		**854**	**622**

1. Interest swaps have been used to hedge floating-rate loans, converting these loans to fixed-rate loans.

Accounting policies

Financial liabilities
Debt to credit institutions is recognised initially at the proceeds received net of transaction costs incurred.

In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method, meaning that the difference between the proceeds and the nominal value is recognised in the income statement under financials for the term of the loan.

Financial risks

Interest rate risk
Solar monitors and adjusts interest-bearing liabilities on an ongoing basis. Loans are only raised in the currencies of the countries where Solar operates. Of total interest-bearing liabilities, Solar endeavours to ensure that a maximum of half is based on variable payment of interest fixed in accordance with current money market rates. The remaining interest-bearing liabilities are fixed-rate. Solar Group has no significant non-current interest-bearing assets.

Solar's main banker has made no covenant demands on Solar in relation to interest-bearing liabilities. As a result of Solar's policies, a certain interest rate risk exists.

21

Interest-bearing liabilities and maturity statement – continued

DKK million	2016	2015
Maturity < 1 year		
Debt to mortgage credit institutions	6	6
Debt to credit institutions	14	44
Bank loans and overdrafts	172	10
Current interest-bearing liabilities	**192**	**60**
Other financial liabilities	2,256	2,163
Financial liabilities	**2,448**	**2,223**
Financial assets	**1,788**	**2,031**
Total, net	**660**	**192**
Maturity 1-5 year(s)		
Debt to mortgage credit institutions	35	32
Debt to credit institutions	12	241
Total	**47**	**273**
Maturity > 5 years		
Debt to mortgage credit institutions	147	157
Total	**147**	**157**
Total non-current liabilities	**194**	**430**
Maturity, until year	**2037**	**2037**

The carrying amount of financial liabilities corresponds to fair value.

Financial risks (continued)

Currency risk
Solar is exposed to currency risks in the form of translation risks since a substantial proportion of revenue derives from currencies other than Danish kroner. The currencies used are euro, Danish kroner, Swedish kroner, Norwegian kroner and, to a lesser extent, Polish zloty, Swiss Franc, US dollar and British pound.

Effect on recognition of subsidiaries of any change in foreign exchange rates of 10%

	Profit of the year		Equity	
DKK million	2016	2015	2016	2015
NOK	4.4	5.2	32.7	29.0
SEK	5.8	6.9	32.6	31.2
PLN	-0.1	0.1	6.0	6.4
Total	10.1	12.2	71.3	66.6

The individual subsidiaries are not significantly affected by exchange rate fluctuations since revenue and costs in subsidiaries are mainly in the same currencies. Solar has a number of investments in foreign subsidiaries, where the translation of equity into Danish kroner depends on exchange rates. Investments in subsidiaries are not hedged as such investments are regarded as long-term and because hedging is seen as unlikely to create any long-term value.

Liquidity risks
Solar has an objective of substantial self-financing to minimise dependence on lenders and thus gain greater freedom of action. Financing is primarily controlled centrally based on the individual subsidiary's operating and investment cash requirements. Solar ensures that there are always sufficient and flexible cash reserves and diversification of maturities of both non-current and current credit facilities.

21

Interest-bearing liabilities and maturity statement – continued

DKK million	2016	2015
Interest-bearing liabilities and maturity statement of expected interest expense for the period		
< 1 year	13	24
1-5 year(s)	35	49
> 5 years	63	71
Total	**111**	**144**
Outstanding interest swaps made for hedging floating-rate loans		
Principal amount	444	530
Fair value	-94	-112
Amounts recognised in other comprehensive income		
Adjustment to fair value for the year	-12	2
Realised during the year, recognised as financial income/expenses	20	33
Total	**8**	**35**
Effect of a 1% interest rate increase		
Effect on equity	**22**	**28**
Of this, earnings impact is	**0**	**0**
Undrawn credit facilities 31/12	**761**	**744**

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Interest-bearing liabilities and maturity statement – continued

Distribution on currencies

DKK million	Current liabilities 2016	Current liabilities 2015	Non-current liabilities 2016	Non-current liabilities 2015
EUR	20	34	193	214
DKK	0	0	0	0
NOK	0	0	1	39
PLN	2	5	0	0
SEK	170	21	0	177
Total	**192**	**60**	**194**	**430**
Interest rate in %	**2,4-5,8**	**1,2-5,9**	**5,0-5,8**	**5,0-5,9**

Fair value of Solar's respective interest-bearing liabilities is seen as fair value measurement at level 2. Mortgage loans are valued based on underlying securities, while bank debt is calculated based on models for discounting to net present value. Non-observable market data is primarily made up of credit risks, which are seen as insignificant in Solar's case.

The fair value of Solar's derived financial instruments (interest rate instruments) is fixed as fair value measurement at level 2, since fair value can be determined directly based on the actual forward rates and instalments on the balance sheet date. Outstanding interest rate swaps for hedging of floating-rate loans expire over the period until 2037 (2037).

The group's enterprises have raised loans in their respective functional currencies, while the parent company has also raised loans in euro.

We refer to the risk section in our management's review for more information on liquidity risk, interest rate and currency risk management.

Accounting policies

Derivatives
Derivatives are only used to hedge financial risks in the form of interest rate and currency risks.

Derivatives are initially recognised at cost and at fair value subsequently. Both realised and unrealised gains and losses are recognised in the income statement unless the derivatives are part of hedging of future transactions. Value adjustments of derivatives for hedging of future transactions are recognised directly in other comprehensive income.

As hedged transactions are realised, gains or losses are recognised in the hedging instrument from other comprehensive income in the same item as the hedged items. Any non-effective part of the financial instrument in question is recognised in the income statement.

Derivatives are recognised under other receivables or other payables.

Fair value measurement
The group uses the fair value concept for recognition of certain financial instruments and in connection with some disclosure requirements. Fair value is defined as the price that can be secured when selling an asset or that must be paid to transfer a liability in a standard transaction between market participants (exit price).

Fair value is a marked-based and not enterprise-specific valuation. The enterprise uses the assumptions that market participants would use when pricing an asset or liability based on existing market conditions, including assumptions relating to risks.

As far as possible, fair value measurement is based on market value in active markets (level 1) or alternatively on values derived from observable market information (level 2).

If such observable information is not available or cannot be used without significant modifications, recognised valuation methods and fair estimates are used as the basis of fair values (level 3).

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Financial income

DKK million	2016	2015
Interest revenue	10	4
Foreign exchange gains	16	18
Total	**26**	**22**
Financial income, received	**10**	**4**

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Financial expenses

DKK million	2016	2015
Interest expenses	35	37
Foreign exchange losses	18	18
Other financial expenses	7	15
Total	**60**	**70**
Financial expenses, settled[1]	**52**	**42**[1]

1. 2016 figure includes realisation of interest swap entered in 2015.

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Share option plans

DKK million	Board	Others	Total
No. of share options at year-end 2016			
Outstanding at the beginning of 2016	14,436	107,407	121,843
Granted in 2016	7,297	21,101	28,398
Transferred on change to the Executive Board	8,894	-8,894	0
Exercised[1]	-5,102	-36,163	-41,265
Expired	0	0	0
Outstanding at year-end 2016	**25,525**	**83,451**	**108,976**
No. of share options at year-end 2015			
Outstanding at the beginning of 2015	8,745	89,349	98,094
Granted in 2015	7,383	30,989	38,372
Exercised	0	0	0
Expired	-1,692	-12,931	-14,623
Outstanding at year-end 2015	**14,436**	**107,407**	**121,843**

DKK million	2016	2015
Market value estimated using the Black-Scholes model, recognised under other liabilities	4	11
Conditions applying to the statement of market value using the Black-Scholes model:		
Expected volatility	30%	29%
Expected dividends in proportion to market value	3%	2%
Risk-free interest rate	0%	2%

1. In Q1 2016, 41,265 share options were exercised. The share price at the exercise date was DKK 342.60.

Accounting policies

Share options are measured at fair value at the grant date and are recognised in the income statement under staff costs over the period when the final right to the options is vested. The set-off to this is recognised under other payables, as the employees have the right to choose cash settlement. This liability is regularly adjusted to fair value and fair value adjustments are recognised in financials.

The fair value of the granted share options is estimated using the Black-Scholes model. Allowance is made for the conditions and terms related to the granted share options when performing the calculation.

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Share option plans – continued

Specification of share option plans

No. of shares DKK million	2016	2015	2014	2013	Year of granting 2012
Executive Board					
Granted	7,297	7,383	5,892	8,147	7,159
Transferred on change to the Executive Board	2,928	5,966	-3,941	-5,431	-4,773
Exercised	0	0	0	-2,716	-2,386
Total	**10,225**	**13,349**	**1,951**	**0**	**0**
Others					
Granted	21,101	30,989	18,200	30,217	33,112
Transferred on change to the Executive Board	-2,928	-5,966	3,941	5,431	4,773
Forfeited on resignation of management employees	0	0	0	-6,011	-13,245
Exercised	0	0	0	-11,523	-24,640
Total	**18,173**	**25,023**	**22,141**	**18,114**	**0**
Exercise price[1]	**342.60**	**328.26**	**373.64**	**269.18**	**307.27**
Exercise period					
10 banking days following the publication of the annual report in	2019/2020	2018/2019	2017/2018	2016/2017	2015/2016

1. Exercise price was adjusted by DKK -7.00 in 2015 as dividends were distributed in 2015 despite the fact that the year's results were negative.

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Contingent liabilities and other financial liabilities

DKK million	2016	2015
Operational leases and rent contracts		
Non-cancellable minimum lease payments are to be made within the following periods from the balance sheet date:		
< 1 year	115	108
> 1 year < 5 years	190	184
> 5 years	22	20
Total	**327**	**312**
Operational leases and rent recognised in the income statement:		
Total	**119**	**84**
Company cars and office furniture and equipment are leased under operating leases The typical lease period is:		
No. of years	**1-5**	**1-6**
Rent obligations with non-cancellation periods:		
No. of years up to:	**10**	**10**
Collateral		
Assets have been pledged as collateral for bank arrangements at a carrying amount of:		
Land and buildings	249	391
Current assets	85	106
Total	**334**	**497**

In 2013 Solar Nederland B.V. closed its defined benefit pension plan and transferred all risks that in 2013 amounted to DKK 373m to an insurance company. Solar is liable for payment of the benefit vs. the participants and has consequently a credit risk vs. the insurance company. Based on the insurance company's current rating, this risk is determined to be limited.

Accounting policies

Leasing
Leasing agreements, in which the most important aspects of the asset's risks and benefits remain with the lessor, are classified as operational leasing agreements. Leasing agreements, in which the most important aspects of the asset's risks and benefits are transferred to enterprises in the Solar Group, are classified as financial leases. As at the balance sheet date, no leasing agreement is classified as a financial lease. Leasing payments concerning operational leasing are recognised in the income statement on a straight-line basis throughout the leasing period.

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Related parties

Group and parent Solar A/S are subject to control by the Fund of 20th December (registered as a commercial foundation in Denmark), which owns 15.6% of the shares and holds 57.5% of the voting rights. The remaining shares are owned by a widely combined group of shareholders.

Other related parties include the company's Board of Directors and Executive Board. In 2016, member of the Board of Directors Ulf Gundemark invoiced Solar DKK 29,875 via Gumaco AB for consultancy services and member of the Board of Directors Jens Peter Toft DKK received DKK 29,875 as remuneration regarding extra work for the Board. In 2015, member of the Board of Directors Jens Peter Toft invoiced Solar DKK 73,500 via toft advice aps for consultancy services.

Otherwise, there have been no transactions in the financial year with members of the Board of Directors and Executive Board other than those which appear from note 5.

Solar invoices the Fund of 20th December for the performance of administrative services at DKK 20,000. Balances with the Fund of 20th December total 0 on balance sheet date.

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Auditors' fees

DKK million	2016	2015
PricewaterhouseCoopers		
Statutory audit	3	3
Other assurance engagements	0	0
Tax consulting	1	1
Other services	1	1
Total	**5**	**5**
Other auditors		
Other services	2	2
Total	**2**	**2**

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New financial reporting standards

IASB has issued the following new or amended standards which are not yet effective and which are relevant for Solar:

- IFRS 9 on financial instruments, effective date 1. January 2018
- IFRS 15 on revenue from contracts with customers, effective date 1 January 2018
- IFRS 16 leases, effective date 1 January 2019
- Amendments to IAS 7, Cash Flow Statements, effective date 1 January 2017
- Amendments to IAS 12, Income Taxes, effective date 1 January 2017
- Annual Improvements 2014-2016, effective date 1 January 2017 and 1 January 2018
- Amendments to IFRS 2, Sharebased Payment, effective date 1 January 2018
- IFRIC 22, Foreign currency translation and advance payments, effective date 1 January 2017

IFRS 9 and IFRS 15 have been EU endorsed. Solar has assessed the impact to be limited. The other standards and amendments have not yet been EU endorsed. Solar will continuously assess the impact but has not finished this assessment at present.

Separate financial statements

Contents

Notes to the separate financial statements

Statement of comprehensive income

Income statement

Note	DKK million	2016	2015
	Revenue	3,008	2,771
	Cost of sales	-2,280	-2,067
	Gross profit	**728**	**704**
	Other operating income and costs	36	36
21	External operating costs	-85	-58
3	Staff costs	-460	-466
4	Loss on trade receivables	-6	-6
	Earnings before interest, tax, depreciation and amortisation (EBITDA)	**213**	**210**
5	Depreciation and write-down on property, plant and equipment	-6	-24
	Earnings before interest, tax and amortisation (EBITA)	**207**	**186**
5	Amortisation of intangible assets	-51	-45
	Earnings before interest and tax (EBIT)	**156**	**141**
	Profit from subsidiaries	7	79
17	Financial income	22	22
18	Financial expenses	-28	-44
	Earnings before tax (EBT)	**157**	**198**
6	Income tax	-32	-31
7	**Net profit for the year**	**125**	**167**

Other comprehensive income

DKK million	2016	2015
Net profit for the year	**125**	**167**
Items that cannot be reclassified for the income statement		
Actuarial gains / losses on defined benefit plans, subsidiaries	-9	-13
Tax on actuarial gains / losses on defined benefit plans, subsidiaries	2	0
Items that can be reclassified for the income statement		
Foreign currency translation adjustments of foreign subsidiaries	2	-7
Value adjustments of hedging instruments before tax, parent company	-4	26
Value adjustments of hedging instruments before tax, subsidiaries	12	9
Tax on value adjustments of hedging instruments, parent company	1	-7
Tax on value adjustments of hedging instruments, subsidiaries	-3	-2
Other income and costs recognised after tax	**1**	**6**
Total comprehensive income for the year	**126**	**173**

Balance sheet

as at 31 December

Note	DKK million	2016	2015
	ASSETS		
8	Intangible assets	209	180
9	Property, plant and equipment	264	281
10	Other non-current assets	1,338	1,196
	Non-current assets	**1,811**	**1,657**
11	Inventories	383	357
12	Trade receivables	350	317
	Receivables from subsidiaries	562	424
	Income tax receivable	5	3
	Other receivables	7	3
	Prepayments	13	9
	Cash at bank and in hand	227	572
	Assets held for sale	0	13
	Current assets	**1,547**	**1,698**
	Total assets	**3,358**	**3,355**

Note	DKK million	2016	2015
	EQUITY AND LIABILITIES		
15	Share capital	792	792
	Reserves	-75	-143
	Retained earnings	878	1,104
	Proposed dividends for the financial year	88	78
	Equity	**1,683**	**1,831**
16	Interest-bearing liabilities	193	214
	Provision for pension obligations	0	1
6	Provision for deferred tax	78	73
13	Other provisions	16	0
	Non-current liabilities	**287**	**288**
16	Interest-bearing liabilities	20	29
	Trade payables	613	616
	Amounts owed to subsidiaries	519	303
	Income tax payable	0	0
14	Other payables	234	257
13	Other provisions	2	6
	Liabilities held for sale	0	25
	Current liabilities	**1,388**	**1,236**
	Liabilities	**1,675**	**1,524**
	Total equity and liabilities	**3,358**	**3,355**

Cash flow statement

Note	DKK million	2016	2015
	Net profit for the year	**125**	**167**
5	Depreciation, write-down and amortisation	57	69
	Changes to provisions and other adjustments	-6	-3
	Profit from subsidiaries	-7	-79
17, 18	Financials, net	6	22
	Income tax	32	31
17	Financial income, received	16	12
18	Financial expenses, settled	-32	-23
	Income tax, settled	-29	-39
	Cash flow before working capital changes	**162**	**157**
	Working capital changes		
	Inventory changes	-26	-1
	Receivables changes	-40	-6
	Non-interest-bearing liabilities changes	-20	78
	Cash flow from operating activities	**76**	**228**
	Investing activities		
8	Purchase of intangible assets	-80	-35
	Purchase of property, plant and equipment	-6	-11
	Disposal of property, plant and equipment	30	0
	Acquisition of subsidiaries / activities	-97	0
	Capital increase subsidiaries	-33	0
	Divestment of subsidiary	0	37[1]
	Other financial investments	-18	0
	Cash flow from investing activities	**-204**	**-9**

Note	DKK million	2016	2015
	Financing activities		
	Repayment of non-current interest-bearing debt	-46	-29
	Changes to loans to subsidiaries	78	378
	Dividends from subsidiaries	34	16
	Treasury share purchases and sales	-197	-19
	Dividends distributed	-77	-55
	Cash flow from financing activities	**-208**	**291**
	Total cash flow	**-336**	**510**
	Cash at bank and in hand at the beginning of the year	543	33
	Cash at bank and in hand at the end of the year	**207**	**543**
	Cash at bank and in hand at the end of the year		
	Cash at bank and in hand	227	572
	Current interest-bearing liabilities	-20	-29
	Cash at bank and in hand at the end of the year	**207**	**543**

1. Instalments of the fixed and variable parts of the selling price of Aurora Group Danmark A/S.

Statement of changes in equity

DKK million	Share capital	Reserves for hedging transactions	Reserves for foreign currency translation adjustments	Reserves for development costs	Retained earnings	Proposed dividends	Total
2016							
Equity as at 1 January	**792**	**-67**	**-1**	**0**	**1,121**	**78**	**1,923**
Adjustments owing to changes in accounting policies		-12	-63		-17		-92
Equity as at 1 January	**792**	**-79**	**-64**	**0**	**1,104**	**78**	**1,831**
Foreign currency translation adjustments of foreign subsidiaries			2				2
Value adjustments of hedging instruments before tax		8					8
Actuarial gains / losses on defined benefit plans					-9		-9
Tax on value adjustments		-2			2		0
Net income recognised in equity via other comprehensive income in the statement of comprehensive income	0	6	2	0	-7	0	1
Net profit for the year				60	-23	88	125
Comprehensive income	**0**	**6**	**2**	**60**	**-30**	**88**	**126**
Distribution of dividends						-77	-77
Buy-back of treasury shares[1]					-196	-1	-197
Transactions with the owners	**0**	**0**	**0**	**0**	**-196**	**-78**	**-274**
Equity as at 31 December	**792**	**-73**	**-62**	**60**	**878**	**88**	**1,683**

1. For information on buy-back of treasury shares see the description of capital structure on page 32.

Statement of changes in equity

– continued

DKK million	Share capital	Reserves for hedging transactions	Reserves for foreign currency translation adjustments	Reserves for development costs	Retained earnings	Proposed dividends	Total
2015							
Equity as at 1 January	**792**	**-86**	**-1**	**0**	**1,164**	**55**	**1,924**
Adjustments owing to changes in accounting policies		-19	-56		-117		-192
Adjusted equity as at 1 January	**792**	**-105**	**-57**	**0**	**1,047**	**55**	**1,732**
Foreign currency translation adjustments of foreign subsidiaries			-7				-7
Value adjustments of hedging instruments before tax		35					35
Actuarial gains / losses on defined benefit plans					-13		-13
Tax on value adjustments		-9					-9
Net income recognised in equity via other comprehensive income in the statement of comprehensive income	0	26	-7	0	-13	0	6
Net profit for the year					89	78	167
Comprehensive income	**0**	**26**	**-7**	**0**	**76**	**78**	**173**
Distribution of dividends						-55	-55
Buy-back of treasury shares[1]					-19		-19
Transactions with the owners	**0**	**0**	**0**	**0**	**-19**	**-55**	**-74**
Equity as at 31 December	**792**	**-79**	**-64**	**0**	**1,104**	**78**	**1,831**

1. For information on buy-back of treasury shares see the description of capital structure on page 32.

1

General accounting policies

A general description of accounting policies can be found in the consolidated financial statements on page 48, note 1, Accounting policies.

Change in accounting policies
In Annual Report 2016 and going forward, Solar changes on the measurement method for equity investments in subsidiaries in the separate financial statements of the parent company from historical cost to the equity method. The change is a result of our attempt to reduce complexity in the presentation of our financial statements and in line with the amendments to IAS 27 effective from 2016.

The accounting effect of the change for the parent company is as follows:

DKK million	2016	2015
Adjustment of equity, beginning of year		
Equity beginning of year, former policy	1,923	1,924
Intangible assets, former policy, reversed	0	-1
Other non-current assets, former policy, reversed	-1,299	-1,352
Intangible assets, new policy	14	20
Other non-current assets, new policy	1,196	1,145
Deferred tax	-3	-4
Equity beginning of year, new policy	**1,831**	**1,732**

DKK million	2016	2015
Movements of the year in income statement		
Net profit for the year, former policy	158	54
Amortisation of intangible assets, former policy, reversed	46	40
Dividends, former policy, reversed	-34	-16
Financial expenses, former policy, reversed	28	98
Amortisation of intangible assets, new policy	-51	-45
Profit from subsidiaries, new policy	7	79
Financial expenses, new policy	-28	-44
Deferred tax	-1	1
Net profit for the year, new policy	**125**	**167**
Movements of the year in other comprehensive income		
Other comprehensive income, former policy	-3	19
Adjustment relating to changed accounting policy	7	-11
Deferred tax	-3	-2
Other comprehensive income, new policy	**1**	**6**
Comprehensive income, former policy	155	73
Comprehensive income, new policy	**126**	**173**

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General accounting policies – continued

Consequently, the above changes result in adjustments to the following items: equity, beginning of financial year 2015 was reduced by DKK 192m distributed as a reduction of other non-current assets by DKK 207m, an increase of intangible assets by DKK 19m and a reduction in provision for deferred tax by DKK 4m. In the financial year 2015, the effect of the policy change is an increase in earnings before tax by DKK 112m, a reduction of tax by DKK 1m and increase of net profit for the year of DKK 113m. Other comprehensive income decreases by DKK 13m. The resulting DKK 89m decrease to the balance sheet total means that this amounts to DKK 3,355m at the end of the financial year 2015.

Descriptions of accounting policies in notes

Descriptions of accounting policies in the notes form part of the overall description of accounting policies. Parent-specific descriptions are found in the following notes:

Note 6 Income tax
Note 7 Net profit or loss for the year
Note 8 Intangible assets
Note 9 Property, plant and equipment
Note 10 Other non-current assets
Note 11 Inventories
Note 12 Trade receivables
Note 13 Other provisions
Note 15 Share capital
Note 16 Interest-bearing liabilities
Note 19 Contingent liabilities and other financial liabilities

2

Significant accounting estimates and assessments

When preparing the annual report in accordance with generally applicable principles, management make estimates and assumptions that affect the reported assets and liabilities. Management base their estimates on historic experience and expectations for future events. Therefore, actual results may differ from these estimates.

The following estimates and accompanying assessments are deemed material for the preparation of the financial statements:

- Impairment test of goodwill and equity investments
- Capitalisation of software
- Inventory write-down
- Write-down for meeting of loss on doubtful receivables
- Provision for deferred tax

These estimates and assessments are described in the following notes:
Note 8 Intangible assets
Note 11 Inventories
Note 12 Trade receivables

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Staff costs

DKK million	2016	2015
Salaries and wages etc.	426	415
Pensions, defined contribution	30	29
Costs related to social security	10	12
Share-based payment	-6	10
Total	**460**	**466**
Average number of employees (FTEs)	782	747
Number of employees at year-end (FTEs)	782	760
Remuneration of Board of Directors		
Remuneration of Board of Directors	3	3
Remuneration of Executive Board		
Remuneration and bonus	11	10
Share-based payment	-1	2
Total	**10**	**12**

We have prepared a remuneration policy that describes guidelines for determining and approving remuneration of the Board of Directors and Executive Board. The annual general meeting adopts the Board of Directors' remuneration for one year ahead at a time. The Executive Board's remuneration is assessed every two years. The Board of Directors jointly approve the elements that make up the Executive Board's salary package as well as all major adjustments to this package following previous discussions and recommendations of the chairman and vice-chairman of the Board of Directors. Under section 139 of the Danish Companies Act, a complete remuneration policy for the Board of Directors and Executive Board is presented for adoption at the annual general meeting.

Terms of notice for members of the Executive Board is 12 months. When stepping down, the CEO is entitled to 6 months' remuneration.

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Loss on trade receivables

DKK million	2016	2015
Recognised losses	10	7
Received on trade receivables previously written off	-1	-1
	9	**6**
Change in write-down for bad and doubtful debts	-3	0
Total	**6**	**6**

5

Depreciation, write-down and amortisation

DKK million	2016	2015
Buildings	10	10
Plant, operating equipment, tools and equipment	9	13
Leasehold improvements	1	1
Write-down on property, plant and equipment	3	0
Profit/loss from the sale of property, plant and equipment	-17	0
Total depreciation and write-down on property, plant and equipment	**6**	**24**
Customer-related assets	5	6
Software	46	39
Total amortisation and depreciation of intangible assets	**51**	**45**

6

Income tax

DKK million	2016	2015
Current tax	26	35
Deferred tax	7	-2
Tax on profit or loss for the year	**33**	**33**
Reduction of Danish income tax rate	0	-2
Tax on taxable profit previous year	-1	0
Total	**32**	**31**
Statement of effective tax rate:		
Danish income tax rate	22.0%	23.5%
Profit from subsidiaries	0.0%	-9.4%
Tax rate change	0.0%	-0.9%
Non-taxable/deductible items in parent	0.0%	2.7%
Tax regarding prevoius year	-0.3%	0.0%
Effective tax rate	**21.7%**	**15.9%**

Accounting policies

Tax for the year is recognised with the share attributable to results for the year in the income statement and with the share attributable to other recognised income and costs in the statement of comprehensive income. Tax consists of current tax and changes to deferred tax.

6

Income tax – continued

DKK million	2016	2015
1/1	73	69
Recognised in other comprehensive income	-1	7
Ordinary tax recognised in income statement	7	-2
Other items, including reduction of Danish income tax rates	-1	-1
Total 31/12	**78**	**73**
Specified as follows:		
Deferred tax	78	73
Deferred tax assets	0	0
Total deferred tax, net	**78**	**73**
Further specified as follows:		
Expected use within 1 year	0	0
Expected use after 1 year	78	73
Total, net	**78**	**73**

Accounting policies

Current tax liabilities and current tax receivables are recognised in the balance sheet as calculated tax on the year's taxable income, adjusted for tax on previous year's taxable income and for tax paid on account.

Deferred tax is measured in accordance with the balance sheet liability method of all temporary differentials between accounting and tax-related amounts and provisions. Deferred tax is recognised at the local tax rate that any temporary differentials are expected to be realised at based on the adopted or expected adopted tax legislation on the balance sheet date.

Deferred tax assets, including the tax value of tax loss allowed for carryforward, are measured at the value at which the asset is expected to be realised, either by elimination in tax of future earnings or by offsetting against deferred tax liabilities.

Deferred tax assets are assessed annually and only recognised to the extent that it is probable that they will be utilised.

Deferred tax is also recognised for the covering of retaxation of losses in former foreign subsidiaries participating in joint taxation assessed as becoming current.

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Income tax – continued

Specification by balance sheet items

DKK million	1/1	Other adjustments	2016	2015
Property, plant and equipment	17	0	17	17
Inventories	0	0	0	0
Provisions for loss on receivables	-1	0	-1	-1
Pension obligations	0	0	0	0
Other items[1]	57	5	62	57
Total, net	**73**	**5**	**78**	**73**

1. Other items cover intangible assets and loss balances in jointly taxed entities.

7

Net profit for the year

DKK million	2016	2015
Proposed distribution of net profit for the year:		
Proposed dividends, parent	88	78
Reserves for development costs	60	0
Retained earnings	-23	89
Net profit for the year	**125**	**167**
Dividends in DKK per share of DKK 100[1]	12.00	10.00

1. Based on proposed dividends.

Accounting policies

Dividends
Proposed dividends are recognised as a liability at the time of adoption of the general meeting.

8

Intangible assets

DKK million	Goodwill	Customer-related assets	Software	Total
2016				
Cost 1/1	9	41	346	396
Additions during the year	0	0	80	80
Disposals during the year	0	0	0	0
Cost 31/12	**9**	**41**	**426**	**476**
Amortisation and depreciation 1/1	9	27	180	216
Amortisation during the year	0	5	46	51
Amortisation of abandoned assets	0	0	0	0
Amortisation and depreciation 31/12	**9**	**32**	**226**	**267**
Carrying amount 31/12	**0**	**9**	**200**	**209**
Remaining amortisation period in number of years	**-**	**1-2**	**2-8**	**-**

Accounting policies

Customer-related intangible assets
Customer-related intangible assets acquired in connection with business combinations are measured at cost less accumulated amortisation and impairment loss.

Customer-related intangible assets are amortised using the straight-line principle over the expected useful life. Typically, the amortisation period is 5-7 years.

Goodwill
Goodwill is initially recognised in the balance sheet as the positive balance between the acquisition consideration of an enterprise on one side and the fair value of the assets, liabilities and contingent liabilities acquired on the other side. In cases of measurement uncertainty, the goodwill amount can be adjusted until 12 months after the date of the acquisition. Goodwill is not amortised but an impairment test is done annually. The first impairment test is done by the end of the year of acquisition. Subsequently, goodwill is measured at this value less accumulated impairment losses. On acquisition, goodwill is assigned to the cash-generating units that form the basis of the impairment test subsequently. The determination of cash-generating units follows the managerial structure and management control.

Software
Software is measured at cost less accumulated amortisation and write-down. Cost includes both direct internal and external costs. Software is amortised using the straight-line principle over 4-8 years. The basis of amortisation is reduced by any write-down.

8

Intangible assets – continued

DKK million	Goodwill	Customer-related assets	Software	Total
2015				
Cost 1/1	0	10	311	321
Effect of change in accounting policies	9	120	0	129
Additions during the year	0	0	35	35
Disposals during the year	0	-89	0	-89
Cost 31/12	**9**	**41**	**346**	**396**
Amortisation and depreciation 1/1	0	9	141	150
Effect of change in accounting policies	9	101	0	110
Amortisation during the year	0	6	39	45
Amortisation of abandoned assets	0	-89	0	-89
Amortisation and depreciation 31/12	**9**	**27**	**180**	**216**
Carrying amount 31/12	**0**	**14**	**166**	**180**
Remaining amortisation period in number of years	-	1-2	3-8	-

Accounting policies (continued)

Impairment of intangible assets
The carrying amount of intangible assets is assessed annually to determine whether there is any indication of impairment.

When such an indication is present, the asset's recoverable amount is calculated, which is the highest of the asset's fair value less expected costs of disposal or value in use. Value in use is calculated as the present value of expected cash flow from the smallest cash flow-generating unit to which the asset belongs.

Impairment loss is recognised when the carrying amount of an asset exceeds the asset's recoverable amount. Impairment loss is recognised in the income statement.

Impairment loss on intangible assets is reversed if changes have been made to the assumptions and estimates that led to the impairment loss.

Accounting estimates and assesments

Software
Software is evaluated annually for indicators of a need for impairment. If a need to perform impairment is identified, an impairment test is performed for the software.

The impairment test is made on the basis of different factors, including the software's future application, the present value of the expected cost saving as well as interest and risks.

9

Property, plant and equipment

DKK million	Land and buildings	Plant, operating equipment, tools and equipment	Leasehold-improvements	Total
2016				
Cost 1/1	401	234	7	642
Additions during the year	0	6	0	6
Disposals during the year	0	0	0	0
Cost 31/12	**401**	**240**	**7**	**648**
Write-down and depreciation 1/1	140	215	6	361
Write-down and depreciation during the year	13	9	1	23
Write-down and depreciation of abandoned assets	0	0	0	0
Write-down and depreciation 31/12	**153**	**224**	**7**	**384**
Carrying amount 31/12	**248**	**16**	**0**	**264**

Accounting policies

Property, plant and equipment
Land and buildings as well as other plant, operating equipment, and tools and equipment are measured at cost less accumulated depreciation and write-down.

Cost includes the purchase price and costs directly attributable to the acquisition until the time when the asset is ready for use. Cost of a combined asset is disaggregated into separate components which are depreciated separately if the useful lives of the individual components differ.

Subsequent expenditure, for example in connection with the replacement of components of property, plant or equipment, is recognised in the carrying amount of the relevant asset when it is probable that the incurrence will result in future economic benefits for the group. The replaced components cease to be recognised in the balance sheet and the carrying amount is transferred to the income statement. All other general repair and maintenance costs are recognised in the income statement when these are incurred.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives which are:

- Buildings 40 years
- Technical installations 20 years
- Plant, operating equipment, and tools and equipment 2-5 years.

There are a few differences from the mentioned depreciation periods in which useful life is estimated as shorter. Leasehold improvements are depreciated over the lease term, however, maximum 5 years.

Land is not depreciated.

9

Property, plant and equipment – continued

DKK million	Land and buildings	Plant, operating equipment, tools and equipment	Leasehold-improvements	Assets under construction	Total
2015					
Cost 1/1	427	226	7	1	661
Assets held for sale	-29	0	0	0	-29
Additions during the year	3	9	0	0	12
Disposals during the year	0	-1	0	-1	-2
Cost 31/12	**401**	**234**	**7**	**0**	**642**
Write-down and depreciation 1/1	146	202	5	0	353
Assets held for sale	-16	0	0	0	-16
Write-down and depreciation during the year	10	13	1	0	24
Write-down and depreciation of abandoned assets	0	0	0	0	0
Write-down and depreciation 31/12	**140**	**215**	**6**	**0**	**361**
Carrying amount 31/12	**261**	**19**	**1**	**0**	**281**

Accounting policies (continued)

The basis of depreciation is determined in consideration of the asset's residual value and reduced by any impairment. Residual value is determined at the time of acquisition and reassessed annually. If residual value exceeds the asset's carrying amount, depreciation will cease.

By changing the depreciation period or residual value, the effect of future depreciation is recognised as a change to accounting estimates.

Impairment of property, plant and equipment
The carrying amount of property, plant and equipment is assessed annually to determine whether there is any indication of impairment.

When such an indication is present, the asset's recoverable amount is calculated, which is the highest of the asset's fair value less expected costs of disposal or value in use. Value in use is calculated as the present value of expected cash flow from the smallest cash flow-generating unit to which the asset belongs.

Impairment loss is recognised when the carrying amount of an asset exceeds the asset's recoverable amount. Impairment loss is recognised in the income statement.

Write-down on property, plant and equipment is reversed to the extent that changes have been made to the assumptions and estimates that led to the write-down.

10

Other non-current assets

DKK million	Equity investments	Other investments	Other receivables	Total
2016				
Cost 1/1	2,434	0	4	2,438
Additions during the year	124	18	22	164
Disposals during the year	0	0	0	0
Cost 31/12	**2,558**	**18**	**26**	**2,602**
Value adjustment 1/1	-1,242	0	0	-1,242
Foreign currency translation adjustments	2	0	0	2
Dividends from subsidiaries	-34	0	0	-34
Profit from subsidiaries	7	0	0	7
Other adjustments	3	0	0	3
Value adjustment 31/12	**-1,264**	**0**	**0**	**-1,264**
Carrying amount 31/12	**1,294**	**18**	**26**	**1,338**

Accounting policies

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the parent company's share of the post-acquisition profits or losses of the subsdiary in profit or loss, and the parent company's share of movements in other comprehensive income of the investee in other comprehensive income.

Dividends received or receivable from subsidiaries are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the parent company and its subsidiaries are eliminated to the extent of the parent company's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the parent company.

The carrying amount of equity-accounted investments is tested for impairment.

10

Other non-current assets – continued

DKK million	Equity investments	Other receivables	Total
2015			
Cost 1/1	2,434	3	2,437
Additions during the year	0	1	1
Disposals during the year	0	0	0
Cost 31/12	**2,434**	**4**	**2,438**
Value adjustment 1/1	-1,085	0	-1,085
Effect of change in accounting policies	-207	0	-207
Foreign currency translation adjustments	-7	0	-7
Dividends from subsidiaries	-16	0	-16
Profit from subsidiaries	79	0	79
Other adjustments	-6	0	-6
Value adjustment 31/12	**-1,242**	**0**	**-1,242**
Carrying amount 31/12	**1,192**	**4**	**1,196**

11

Inventories

DKK million	2016	2015
End products	383	357
Recognised write-down	2	2

The main reason for the recognised write-down is an increase in write-down articles.

Accounting policies

Inventories are measured at cost according to the FIFO method or at net realisable value, if this is lower.

Cost of inventories includes purchase price with addition of delivery costs.

The net realisable value of inventories is determined as selling price less costs incurred to make the sale and is determined in consideration of marketability, obsolescence and development of expected selling price.

Accounting estimates and assesments

Write-down of inventories
Write-down of inventories is made due to the obsolescence of products.

Management specifically assess inventories, including the products' turnover rate, current economic trends and product development when deciding whether the write-down is sufficient.

12

Trade receivables

DKK million	2016	2015
Maturity statement, trade receivables		
Not due	330	290
Past due for 1-30 day(s)	17	22
Past due for 31-90 days	4	7
Past due for 91+ days	3	5
	354	324
Write-down	-4	-7
Total	**350**	**317**
Write-down based on:		
Age distribution	3	1
Individual assessment	1	6
Total	**4**	**7**
Write-down 1/1	7	7
Write-down for the year	1	11
Losses realised during the year	-2	-7
Reversed for the year	-2	-4
Write-down 31/12	**4**	**7**

We refer to the consolidated accounts, note 13, trade receivables, for information on credit risk.

Accounting policies

Trade receivables are measured at fair value at acquisition and at amortised cost subsequently. Based on an individual assessment of the loss risk, write-down to net realisable value is made, if this is lower.

Accounting estimates and assesments

Write-down for meeting of loss on doubtful trade receivables
Write-down is made to meet loss on doubtful trade receivables. Management specifically analyses trade receivables, including the customers' credit rating and current economic trends, to ensure that write-down is sufficient.

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Other provisions

DKK million	2016	2015
Non-current		
Others	16	0
Total 31/12	**16**	**0**
Specification, non-current		
1/1	0	0
Used during the year	0	0
Provisions of the year	16	0
Total 31/12	**16**	**0**
Current		
Restructuring costs	2	6
Total 31/12	**2**	**6**
Specification, current		
1/1	6	10
Used during the year	-6	-10
Provisions of the year	2	6
Total 31/12	**2**	**6**

Accounting policies

Provisions are measured in accordance with management's best estimate of the amount required to settle a liability.

Restructuring expenses are recognised as liabilities when a detailed official plan for the restructuring has been published to the parties affected by the plan on the balance sheet date at the latest.

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Other payables

DKK million	2016	2015
Staff costs	103	104
Taxes and charges	8	21
Hedging instruments	92	99
Other payables and amounts payable	31	33
Total	**234**	**257**

Accounting policies for hedging instruments are described in note 16 on interest-bearing liabilities and maturity statement.

15

Share capital

DKK million	2016	2015
Share capital 1/1	792	792
Share capital 31/12	**792**	**792**
Share capital is fully paid in and divided into the following classes:		
A shares, 40 shares at DKK 10,000	0	0
A shares, 2,240 shares at DKK 40,000	90	90
A shares total	90	90
B shares 7,020,607 at DKK 100	702	702
Total	**792**	**792**

Share capital remained unchanged from 2012 to 2016.

	Number of shares		Nominal value	
DKK million	**2016**	**2015**	**2016**	**2015**
A shares outstanding 31/12[1]	**900,000**	**900,000**	**90**	**90**
B shares outstanding				
Outstanding 1/1	6,910,598	6,955,434	691	695
Purchase of treasury shares	-512,306	-44,836	-51	-4
B shares outstanding 31/12	**6,398,292**	**6,910,598**	**640**	**691**
Total shares outstanding 31/12	**7,298,292**	**7,810,598**	**730**	**781**

1. A shares have been included in the calculation in units of DKK 100.

Accounting policies

Treasury shares
Acquisition and disposal sums related to treasury shares are recognised directly as transactions with the owners.

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Share capital – continued

Treasury shares (B shares)

	Number of shares		Nominal value (DKK million)		Cost (DKK million)		Percentage of share capital	
DKK million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Holding 1/1	110,009	65,173	11	7	45	26	1.4%	0.8%
Purchases	512,306	44,836	51	4	197	19	6.5%	0.6%
Holding 31/12	**622,315**	**110,009**	**62**	**11**	**242**	**45**	**7.9%**	**1.4%**

The share buy-back programmes in 2015 and 2016 have been performed with the purpose of adjusting Solar's capital structure. At the Annual General Meeting in 2017 the Board of Directors will submit a proposal of cancelling 174,982 B shares.

All treasury shares are held by the company.

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Interest-bearing liabilities and maturity statement

DKK million	Interest rate	2016	2015
Debt to mortgage credit institutions	Fixed[1]	188	195
Debt to credit institutions	Fixed[1]	25	48
Bank loans and overdrafts	Floating	0	0
Interest-bearing liabilities		**213**	**243**
Current interest-bearing liabilities			
Maturity < 1 year			
Debt to mortgage credit institutions		6	6
Debt to credit institutions		14	23
Bank loans and overdrafts		0	0
Current interest-bearing liabilities		**20**	**29**
Non-current interest-bearing liabilities			
Debt to mortgage credit institutions		182	189
Debt to credit institutions		11	25
Total		**193**	**214**
Maturity 1-5 year(s)		46	57
Maturity > 5 years		147	157
Total		**193**	**214**
Maturity, until year		**2037**	**2037**

The carrying amount of financial liabilities corresponds to fair value.
1. Interest swaps have been used to hedge floating-rate loans, converting these loans to fixed-rate loans.

Accounting policies

Financial liabilities
Debt to credit institutions is recognised initially at the proceeds received net of transaction costs incurred.

In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method, meaning that the difference between the proceeds and the nominal value is recognised in the income statement under financials for the term of the loan.

16

Interest-bearing liabilities and maturity statement – continued

DKK million	2016	2015
Outstanding interest swaps made for hedging floating-rate loans		
Principal amount	254	293
Fair value	-92	-99
Amounts recognised in other comprehensive income		
Adjustment to fair value for the year	-15	4
Realised during the year, recognised as financial income/expenses	11	22
Total	**-4**	**26**
Effect of a 1% interest rate increase		
Effect on equity	**22**	**26**
Of this, earnings impact is	**0**	**0**
Undrawn credit facilities 31/12	**607**	**607**

Accounting policies

Derivatives
Derivatives are only used to hedge financial risks in the form of interest rate and currency risks.

Derivatives are initially recognised at cost and at fair value subsequently. Both realised and unrealised gains and losses are recognised in the income statement unless the derivatives are part of hedging of future transactions. Value adjustments of derivatives for hedging of future transactions are recognised directly in other comprehensive income. As hedged transactions are realised, gains or losses are recognised in the hedging instrument from other comprehensive income in the same item as the hedged items. Any non-effective part of the financial instrument in question is recognised in the income statement.

Derivatives are recognised under other receivables or other payables.

Fair value measurement
The group uses the fair value concept for recognition of certain financial instruments and in connection with some disclosure requirements. Fair value is defined as the price that can be secured when selling an asset or that must be paid to transfer a liability in a standard transaction between market participants (exit price).

Fair value is a market-based and not enterprise-specific valuation. The enterprise uses the assumptions that market participants would use when pricing an asset or liability based on existing market conditions, including assumptions relating to risks.

As far as possible, fair value measurement is based on market value in active markets (level 1) or alternatively on values derived from observable market information (level 2).

If such observable information is not available or cannot be used without significant modifications, recognised valuation methods and fair estimates are used as the basis of fair values (level 3).

16

Interest-bearing liabilities and maturity statement – continued

Distribution on currencies

	Current liabilities		Non-current liabilities	
DKK million	**2016**	**2015**	**2016**	**2015**
EUR	20	29	193	214
Interest rate in %	**5.2-5.8**	**5.2-5.8**	**5.2-5.8**	**5.2-5.8**

Fair value of Solar's respective interest-bearing liabilities is seen as fair value measurement at level 2. Mortgage loans are valued based on underlying securities, while bank debt is calculated based on models for discounting to net present value. Non-observable market data is primarily made up of credit risks, which are seen as insignificant in Solar's case.

The fair value of Solar's derived financial instruments (interest rate instruments) is fixed as fair value measurement at level 2, since fair value can be determined directly based on the actual forward rates and instalments on the balance sheet date. Outstanding interest rate swaps for hedging of floating-rate loans expire over the period until 2037 (2037).

The parent company has raised loans in euro. We refer to the consolidated accounts, note 21, interest-bearing liabilities and maturity statement, for more information on liquidity risk, interest rate and currency risk management.

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Financial income

DKK million	2016	2015
Interest revenue	2	2
Foreign exchange gains	6	10
Other financial income	14	10
Total	**22**	**22**
Financial income, received	**16**	**12**

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Financial expenses

DKK million	2016	2015
Interest expenses	20	17
Foreign exchange losses	6	11
Other financial expenses	2	16
Total	**28**	**44**
Financial expenses, settled[1]	**32**	**23**

1. 2016 figure includes realisation of interest swap entered in 2015.

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Contingent liabilities and other financial liabilities

DKK million	2016	2015
Operational leases and rent contracts		
Non-cancellable minimum lease payments are to be made within the following periods from the balance sheet date:		
< 1 year	25	25
> 1 year < 5 years	41	33
> 5 years	4	7
Total	**70**	**65**

Operational leases and rent recognised in the income statement:		
Total	**21**	**23**

Company cars and office furniture and equipment are leased under operating leases The typical lease period is:		
No. of years	**2-4**	**2-4**

Rent obligations with non-cancellation periods:		
No. of years up to:	**10**	**10**

Collateral		
Assets have been pledged as collateral for bank arrangements at a carrying amount of:		
Land and buildings	248	261
Current assets	0	12
Total	**248**	**273**

Accounting policies

Leasing
Leasing agreements, in which the most important aspects of the asset's risks and benefits remain with the lessor, are classified as operational leasing agreements. Leasing agreements, in which the most important aspects of the asset's risks and benefits are transferred to enterprises in the Solar Group, are classified as financial leases. As at the balance sheet date, no leasing agreement is classified as a financial lease. Leasing payments concerning operational leasing are recognised in the income statement on a straight-line basis throughout the leasing period.

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Contingent liabilities and other financial liabilities – continued

DKK million	2016	2015
Mortgaging and guarantees		
As security for subsidiaries' bank arrangements, guarantees have been issued for:		
Total	471	488
As security for subsidiaries' liabilities, guarantees have been issued for:		
Total	391	417

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Related parties

Group and parent Solar A/S are subject to control by the Fund of 20th December (registered as a commercial foundation in Denmark), which owns 15.6% of the shares and holds 57.5% of the voting rights. The remaining shares are owned by a widely combined group of shareholders.

Other related parties include the company's Board of Directors and Executive Board. In 2016, member of the Board of Directors Ulf Gundemark invoiced Solar DKK 29,875 via Gumaco AB for consultancy services and member of the Board of Directors Jens Peter Toft received DKK 29,875 as remuneration regarding extra work for the Board of Directors. In 2015, member of the Board of Directors Jens Peter Toft invoiced Solar DKK 73,500 via toft advice aps for consultancy services.

Otherwise, there have been no transactions in the financial year with members of the Board of Directors and Executive Board than those which appear from note 3.

The parent company has had the following significant transactions with related parties:

DKK million	2016	2015
Sale of services to subsidiaries	145	130
Sale of goods to subsidiaries	50	47

On the balance sheet date, the usual product balances derived from these transactions exist. These appear from the parent company's balance sheet.

Solar also invoices the Fund of 20th December for the performance of administrative services at DKK 20,000. Balances with the Fund of 20th December total 0 on balance sheet date.

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Auditors' fees

DKK million	2016	2015
PricewaterhouseCoopers		
Statutory audit	1	1
Other services	1	1
Total	**2**	**2**
Other auditors		
Other services	1	1
Total	**1**	**1**

Group companies overview

Group companies overview

Companies wholly owned by Solar A/S

Name	Reg. no.	Currency	Share capital	Country
Solar A/S	15908416	DKK	792,060,700	DK
Solar Sverige AB	5562410406	SEK	100,000,000	SE
Solar Norge AS	980672891	NOK	70,000,000	NO
Solar Nederland B.V.	09013687	€	67,000,500	NL
Tolyco B.V.	KvK 23066782	€	1,350,000	NL
Conelgro B.V.	KvK 23066781	€	2,250,000	NL
Eltechna B.V.	KvK 23066336	€	18,151	NL
MAG45 Holding B.V.	17213145	€	27,571	NL
MAG45 B.V.	17168649	€	1,.000	NL
MAG45 Sp.z.oo	277409	PLN	50,000	PL
MAG45 GmbH	18354	€	25,000	DE
MAG45 Ltd	311859	€	152	IE
MAG45 (UK) Ltd	4092664	£	301	UK
MAG45 S.a.r.l.	CHE-265,557,148	€	15	CH
MAG45 INC	123858292	$	1,500	USA
MAG45 NV	0476603857	€	330,000	BE
MAG45 S.R.O	27697690	CZK	200,000	CZ
MAG45 Iss Co. Ltd	91320594693364287L	$	80,000	CN
MAG45 Ltd	39740334	$	1	HK
Solar Polska Sp.z.oo	0000003924	PLN	65,050,000	PL
Claessen Holding N.V	0437.191.965	€	65,094	BE
Claessen ELGB NV	0436.564.831	€	3,697,100	BE
GFI GmbH	FN44849f	€	363,365	AT
P/F Solar Føroyar	P/F 104	DKK	12,000,000	FO

Companies wholly owned by Solar A/S (continued)

Name	Reg. no.	Currency	Share capital	Country
Euro Business School AS (renamed to Scandinavian Technology Institute, in 2017)	976094786	NOK	533,000	NO
SD of 16 March GmbH	HRB 516 NM	€	51,400,000	DE
SD of 17 March Gesellschaft für Vermögensverwaltung mbH	HRB 16642 KI	€	25,000	DE
SD of 16 March Gesellschaft für Vermögensverwaltung mbH	HRB 16638 KI	€	2,556,500	DE
SD of 16 March Immobilienverwaltung GmbH	HRB 16616 KI	€	25,000	DE
Solar Invest A/S	73316111	DKK	500,000	DK
Drivhuseffekten II A/S (established 31 January 2017)	38378171	DKK	500,000	DK

Companies, where Solar's equity interest is less than 20%

Name	Reg. no.	Currency	Share capital	Country
GenieBelt ApS	35231129	DKK	190,372	DK
Minuba ApS	33259336	DKK	99,975	DK
Viva Labs AS	898 444 392	NOK	93,756	NO
BIMobject AB (acquired 27 January 2017)	556856-7696	SEK	1,137,779	SE

Statements and reports

Statement by the executive board and the board of directors

The group's Board of Directors and Executive Board have today discussed and approved Annual Report for the financial year 1 January - 31 December 2016.

The consolidated financial statements and separate financial statements have been presented in accordance with International Financial Reporting Standards as approved by the EU. Moreover, the consolidated financial statements and separate financial statements have been prepared in accordance with further requirements in the Danish Financial Statements Act. Management's review was also prepared in accordance with Danish disclosure requirements of listed companies.

In our opinion, the consolidated financial statements and separate financial statements give a fair presentation of the group and parent company's assets, liabilities and equity, and financial position as at 31 December 2016 as well as the results of the group and parent company's activities and cash flow for the financial year 1 January - 31 December 2016.

Further, in our opinion, Management review gives a true and fair statement of the development of the group and parent company's activities and financial situation, net profit for the year and of the group and parent company's financial positions and describes the most significant risks and uncertainties pertaining to the group and parent company.

The annual report is recommended for approval by the annual general meeting.

Vejen, 10 February 2017

EXECUTIVE BOARD

Anders Wilhjelm
CEO

Hugo Dorph
CCO

Michael H. Jeppesen
CFO

BOARD OF DIRECTORS

Jens Borum
Chairman

Agnete Raaschou-Nielsen
Vice-chairman

Lars Lange Andersen

Niels Borum

Ulrik Damgaard

Bent H. Frisk

Ulf Gundemark

Jens Peter Toft

Steen Weirsøe

Independent auditors’ report

To the shareholders of Solar A/S

Our opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group’s and the Parent Company’s financial position at 31 December 2016 and of the results of the Group’s and the Parent Company’s operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

What we have audited

Solar A/S’s Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January to 31 December 2016 comprise statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the “financial statements”.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory obsolescence write-down, Group The net amount of inventory after write-down at 31 December 2016 amounts to DKK 1,321 million. The inventory write-down is calculated within the Group's accounting systems using an automated process. Where necessary manual adjustments are applied to this write-down to account for unusual circumstances that may have arisen during the year. We focused our audit on valuation of inventory because: • Solar's business model is based on having the broadest range in the industry and delivering products on time, often next day. This results in large quantities of inventory comprising many different types of products, being held for long periods of time, which raises the risk of obsolescence of inventory. • There is uncertainty about the impact of technological advances, expiry dates, and future sales levels which require management to make judgements based on information available at period end. Refer to note 12.	We obtained an understanding of the inventory write down methodology, tested relevant controls and that the write-down is in accordance with Solar's accounting manual. We assessed the completeness of the data used by the system to calculate the write-down by agreeing the subledger to the general ledger. We recalculated the write-down to ensure mathematical accuracy. We challenged the reasonableness of management's judgement regarding the obsolescence percentage applied and expected future sales levels by comparing these assumptions to historic write-offs and historic sales. We tested manual adjustment to the automated calculation by understanding the market-specific considerations behind the adjustments and whether there was a right of return etc. under the contractual arrangements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Acquisition of MAG45 B.V. and Euro Business School AS, Group The Group completed the acquisitions of MAG45 B.V. on 1 February 2016 and Euro Business School AS on 11 August 2016. We focused on this area because the accounting treatment for the provisional opening balance sheet position is inherently judgmental and requires the management to exercise judgements over the valuation of intangible assets, fair value adjustments on identifiable assets, completeness and accuracy of liabilities. Refer to note 17.	We assessed whether the acquisitions were accounted for in accordance with IFRS 3 "Business Combinations" and with the sale and purchase agreements. In particular: • For the valuation of intangible assets we assessed the key business drivers of the cash flow forecasts supporting the intangible valuation; • For the determination of the fair value in relation to inventories and trade receivables, we assessed the assumptions used; and • For liabilities recognised, we evaluated the assessment and calculation of contingent consideration liabilities to check that they reflected information that was known in relation to events that existed at the transaction date. We also checked that the management had considered a range of potential outcomes. We assessed the completeness of the management's list of liabilities using our knowledge of the business, enquiries of the management and reading the sale and purchase agreement.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark 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 financial statements.
As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Trekantområdet, 10 February 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
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