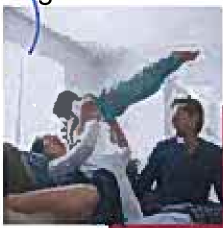
Fremlagt på ordinær generalforsamling den 5. april 2017

dirigent Niels Heering

Enriching modern living

Annual Report 2016

1 January - 31 December 2016



ROCKWOOL

ROCKWOOL International A/S
Hovedgaden 584 Entrance C
DK-2640 Hedehusene
Danish CVR no: 54879415

ROCKWOOL®

Our purpose

We release the natural power of stone to enrich modern living.

We are committed to enriching the lives of everyone who comes into contact with our products. From energy consumption to noise pollution, water scarcity to flooding, our purpose is to create value for our customers and help them address many of the challenges related to modern living.

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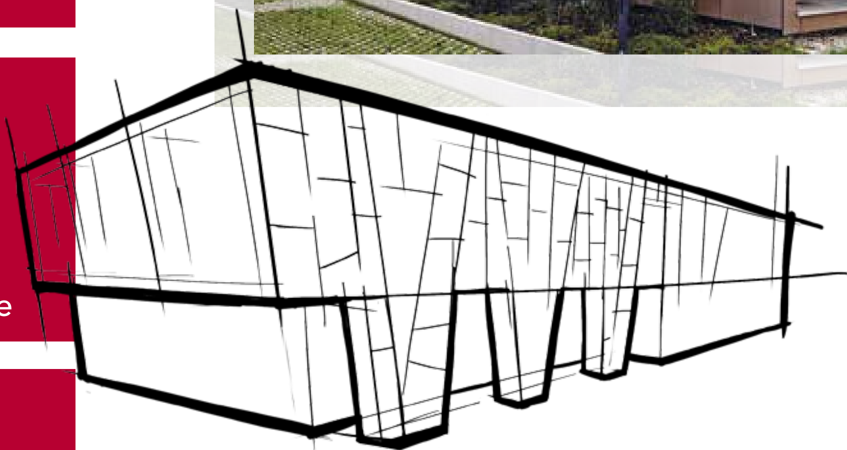
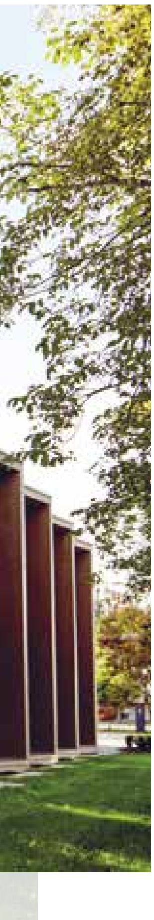
Project
BRUNNER Eggenfelden in Germany

Materials
Rockpanel boards
ROCKWOOL insulation

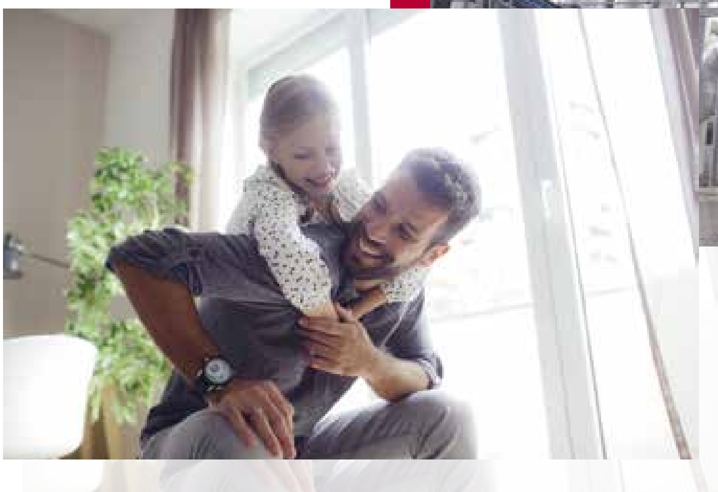
Architect
Frank Architekten GmbH, Eggenfelden

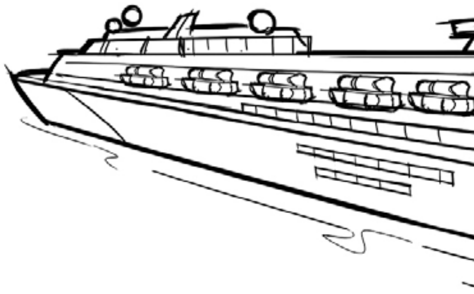


At ROCKWOOL we harness the properties that nature has given us to create products for quality living. We offer carefully designed, innovative and sustainable solutions for your comfort, safety and for the benefit of the environment.



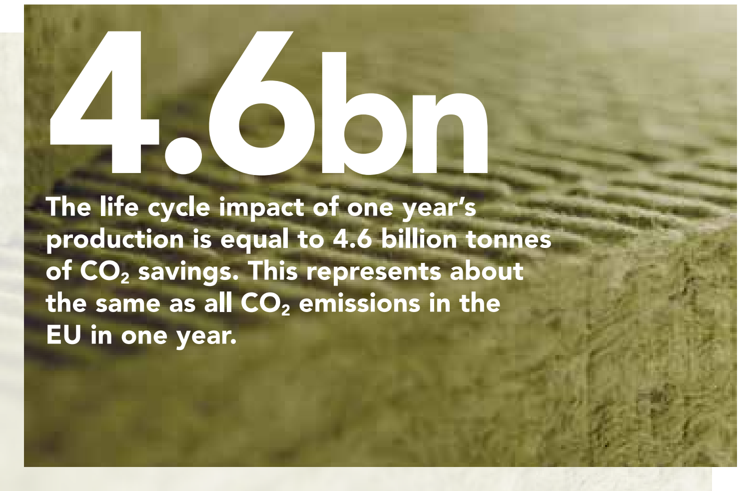
Under our group of brands including ROCKWOOL, Rockfon, Rockpanel, ROCKWOOL Technical Insulation, Grodan and Lapinus the Group has total net sales of EUR 2,202 million, from sales in more than 100 countries.





ROCKWOOL 2016

A focused industrial company with leading positions in insulation, acoustic ceilings and horticultural growing media based on proprietary stone wool technology.



4.6bn

The life cycle impact of one year's production is equal to 4.6 billion tonnes of CO_2 savings. This represents about the same as all CO_2 emissions in the EU in one year.

Proposed dividend of DKK 18.80 per share totalling EUR 55.6 million

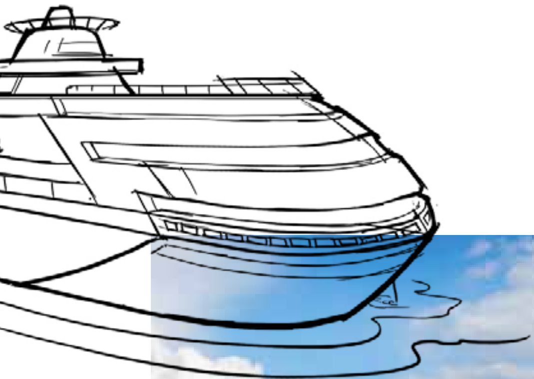
64%▲

EURm2,202

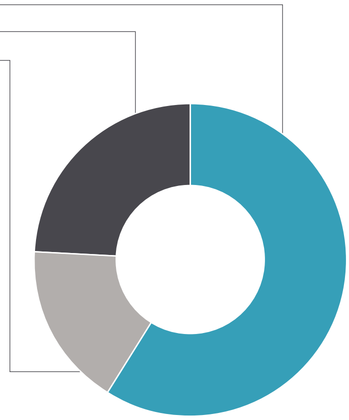
Total Group net sales in 2016

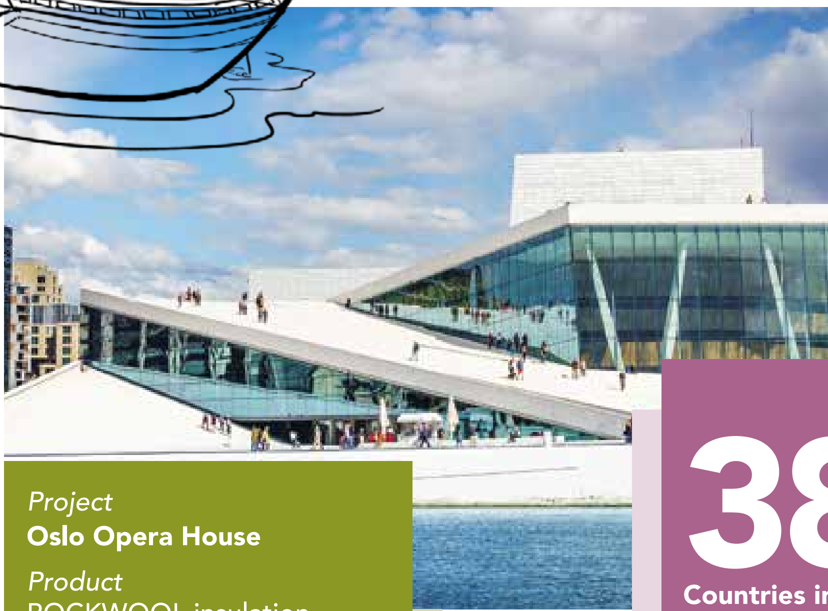
145%▲

Free cash flow EUR 237 million – up 145%



Sales by region



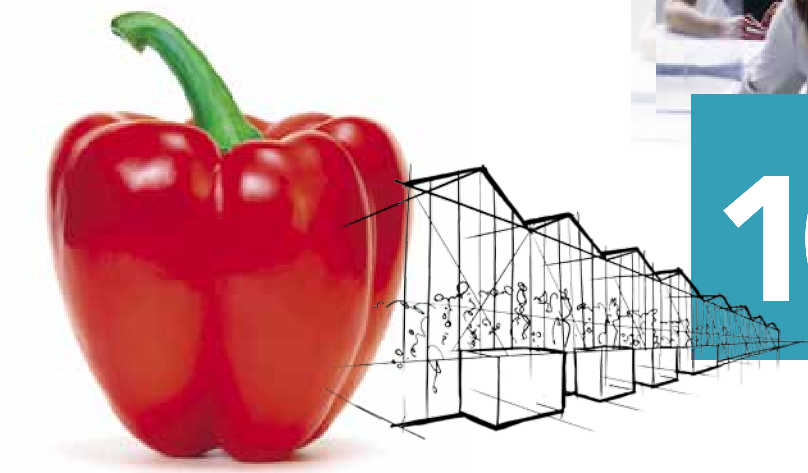


Project
Oslo Opera House
Product
ROCKWOOL insulation and Rockfon ceilings
Architect
Snøhetta

38
Countries in which we operate

30%
Improvement in Environmental, Social and Governance (ESG) Criteria ranking in Denmark

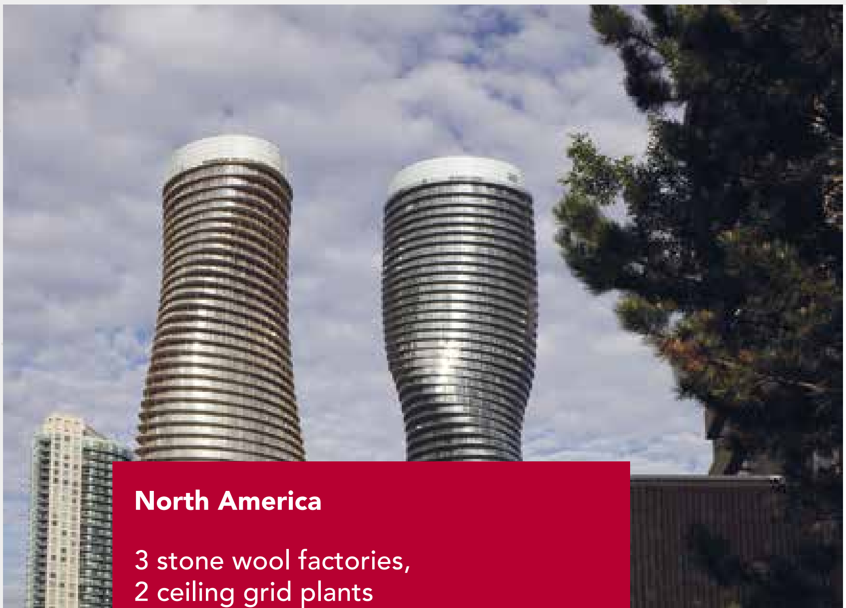
10,500
Employees worldwide



World leader with local presence

We create sustainable solutions to protect life, assets, and the environment today and tomorrow.

▲ Stone wool factories
▲ Other factories
▲ Sales offices



North America

3 stone wool factories,
2 ceiling grid plants

Main business areas: Insulation, acoustic ceilings and horticultural substrates

1,000 employees

- Austria
- Belarus
- Belgium
- Bulgaria
- Canada
- China
- Croatia
- Czech Republic
- Denmark
- Germany
- Estonia
- Finland
- France
- Hungary
- India
- Italy
- Latvia
- Lithuania
- Malaysia
- Mexico
- Norway
- Philippines
- Poland
- Romania
- Russian Federation
- Singapore
- Slovakia
- Spain
- Sweden
- Switzerland
- Thailand
- The Netherlands
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom
- United States of America
- Vietnam

Russia

4 stone wool factories,
1 ceiling tile plant

Main business areas:
Insulation, acoustic ceilings and horticultural substrates

1,300 employees

Europe

16 stone wool factories,
3 ceiling tile plants, 1 ceiling grid plant, 1 facade panel plant, 2 wall systems components plants

Main business areas:
Insulation, acoustic ceilings, horticultural substrates, cladding boards, engineered fibres, and noise & vibration control

7,100 employees

Asia

5 stone wool factories,
1 ceiling grid plant

Main business areas: Insulation, mainly industrial & technical, and acoustic ceilings

1,100 employees

What did we achieve in 2016?

The stone wool markets have been slow this past year; however, thanks to a productivity improvement and an enhanced product mix we reached an EBIT margin of 10.4%. Our consistent focus on product portfolio management, sales force effectiveness alongside the strategic cost savings initiatives have all contributed to the earnings for the year.

Strong profitability in a generally slow market

In 2016 our strong development was driven by cost savings in logistics and production, lower raw material costs during a part of 2016, lower personnel costs as well as quality pricing and better volume and product mix.

The market continued at a slow pace throughout 2016. We had signs of improvement in many Western European markets; although the Russian market continued to decline. North America has performed well.

Overview
Enriching modern living
Sustainability
Performance
Corporate governance

Fire Resilience

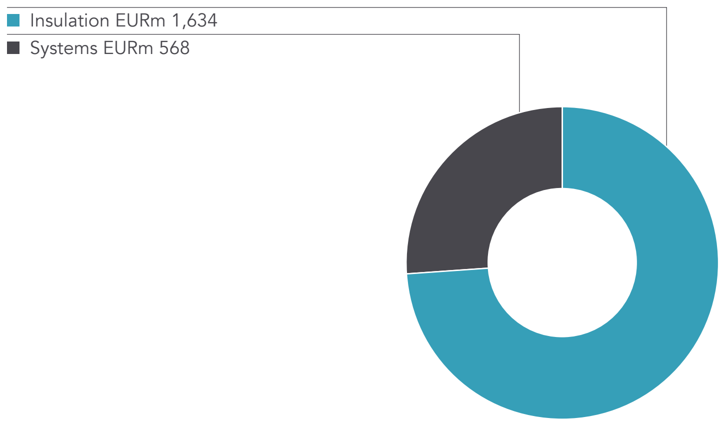
Fire resilience is essential for sustainable buildings, significantly increasing their likelihood of surviving a fire. The ROCKWOOL Group is a founding member of Fire Safe Europe, whose concerns led to initiation of studies in 2016, looking into the performance of facades during a fire.

10.4%
EBIT margin

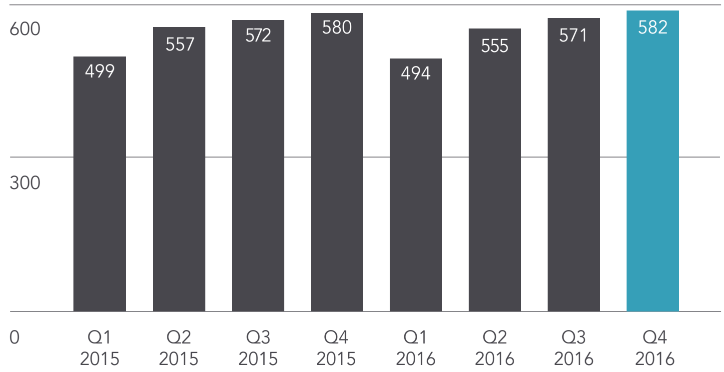
Sales by region compared to last year (%)

	Actual rates	Local currencies
Western Europe	+0.3	+1.4
Eastern Europe	-5.8	-0.7
North America, Asia and others	+2.7	+4.8

Sales by segment



Quarterly net sales
(EURm)



16%
Return on Invested Capital

Chairman's letter

Dear Shareholders,

Over the next week over 1 million people will have moved to an urban environment. By the time we reach 2020 there will be 41 mega cities in the world with at least 10 million inhabitants.

Before the middle of this century, in 2050, the urban population will require 50% more food and 17% more water. In addition to this, energy consumption is expected to rise 50% by 2050 even if we know that the potential for energy savings in buildings is between 50-90%. With these prospects, I believe in the growth potential of the ROCKWOOL Group because we can support these trends in a sustainable way; we enrich modern living.

The year 2016 has been marked by tough conditions. Just as the world was recovering from the credit crisis we were faced with geo-political shifts, sanctions and several natural disasters. However, the transformed ROCKWOOL organisation did not let the difficult conditions determine our overall performance. Quite the opposite, this newly acquired pace in defining a strategy and subsequent execution set the course for another successful year.

We achieved what we had set out to do. We said we would transform the ROCKWOOL Group into a customer centric, agile and cost efficient organisation and this is what we did, even earlier than expected. Our topline growth of 2% has not been large, but it reflects the market. We reached EUR 2,202 million in sales and we have continued to work on efficiencies. This growth was achieved despite that in key markets such as Russia and the challenged business for industrial and technical insulation, we were forced to play in defense as sanctions prevailed and oil prices dropped dramatically.

We were not caught off guard. The newly formed management is always seeking solutions to the problems in the market place, accelerating successful initiatives and ready to pull back on the ideas that do not work.

Our free cash flow improved by EUR 140 million leaving us with a net cash position end of year of EUR 119 million. An impressive result, that allows us to look positively at the future.

We are determined to do more. New energy efficiency regulations, increased renovation rates for buildings, growing concerns for food security, the need for safer and more resilient cities are just of a few of the areas that favour of our stone wool solutions.

Going forward we will invest more in our brand and in particular on our online channels so that we improve the direct and timely communication to the customer and end consumer. Our products are not visible so we feel that we can do better in sharing our story to a wider audience.

I would like to thank Jens, the management team and all the employees for a year of sterling effort. I also thank the board for their continued commitment and support.

Hedehusene, February 2017

Bjørn Høi Jensen
Chairman

Enriching modern living
A purposeful business

Dear Shareholders,

At ROCKWOOL we take pride in being the best stone wool company in the world. We measure our success through our customer's feedback, our employees, and our shareholders and by the impact we have on our physical stakeholder, the planet.

With these parameters and the goals that we set for 2016 we are pleased to present the results delivered.

Focus and timely execution

In 2016 our net sales reached a total of EUR 2,202 million, which is a decrease of 0.3% in reported figures compared to 2015 but an increase of 1.9% in local currencies. This stable development in sales represents a positive outcome for our organisation as the year was challenged by the weakened Russian construction market as well as the low demand for technical insulation in the oil and gas business.

Thanks to flawless execution on the key focus areas our full year operational EBIT (excluding redundancy costs of EUR 8 million) increased 38% to EUR 237 million corresponding to a 10.8% EBIT margin (excluding redundancy costs and write downs in Asia in 2015). This is a 3.0 pp improvement of our profit margin compared to 2015. The way the organisation embraced the challenges and even accelerated the pace of change has been impressive and is something I am very proud of.

We enter 2017 with a very strong cash flow and we are debt free. This means that we are able to communicate a proposed dividend increase from DKK 11.50 to DKK 18.80 per share.

During my first year as CEO, in 2015, we launched our Business Transformation Programme focusing on three main business drivers: organisational agility, cost efficiency and customer centricity. The ambition was to raise our profitability by EUR 50 million by the end of 2017. I am happy to share that this progamme was successfully completed a full year ahead of schedule. We will no longer communicate this as a separate progamme as the changes we introduced are embedded into our day to day business and should be part of our new lifestyle.

Britain, Europe, USA and the environment

The year 2016 is being commented by many as a year of great geopolitical disruption. We ended 2015 on the high note of a promise to tackle global climate change, set out in the Paris Agreement during the COP 21, but many events that followed have swayed the attention and progress has not been as fast as many had expected.

This has not altered our strategy. Our purposeful business model is what motivates our daily work and we continue to remain focused on the challenges facing our planet and our commitment to the United Nations Sustainable Development Goals. We know that our products can make a real positive difference in many ways and even more so when the environment is challenged by both natural and provoked disasters and we take this responsibility seriously.

Buildings account for approximately one third of global carbon emissions. We are convinced that accelerating performance improvements in the building sector is crucial to limit temperature increase to 1.5°C above pre-industrial levels, as established by the Paris agreement. Our view is that the energy efficiency opportunity in this segment is immense, that it is profitable, and that the required technologies and policy solutions are already largely known and readily available. Specifically, there is a major opportunity if we look into the existing building stock. If the world is to stand any chance of meeting the Paris commitment, we have to collectively address such opportunities much more effectively than we do today.

Driving the circular economy is another improvement theme that is highly relevant for the buildings sector. This is an area where both private and public sector can do more and where we as a Group, will increase our attention. The building sector produces approximately a third of all waste, much of which is today landfilled. So re-circulating building materials is another major global opportunity.

It goes without saying that the well-being of the environment goes hand in hand with the well-being of our stakeholders. All our products are designed with that thought in mind. Thanks to the fire resilient properties of our stone wool insulation, which limit the spread of fire from one room to the next, ROCKWOOL can make the difference between having a fire in a building and a building on fire, increasing the safety of the inhabitants and the resilience of the structure itself.

Our well-being is associated with the comfort of the environment where we work, live, learn, play or in the case of a hospital, recover. No matter where we live in the world, we will spend up to 90% of our time in a building. Interior comfort is often interpreted as requiring an expensive interior design. Our aim is to provide affordable retrofitting and energy efficient solutions that have the strong positive effects on a buildings comfort and the well-being of its inhabitants. There are numerous studies proving that noise during the night not only disturbs your sleep but spoils the recovery phase of the human body. Also noise and learning are inversely correlated. The cognitive performance of both children and adults is affected by noise and their ability to work and learn is therefore impaired. Our acoustic ceilings and partition wall insulation can, in many cases, help reduce that noise by approximately half. Once again, the technology for enriched modern living is available and affordable.

The past year saw the launch of our new corporate purpose: we release the natural power of stone to enrich modern living. ROCKWOOL has been a leading brand in stone wool solutions and insulation but we believe that a refreshed dialogue with our customer and the end consumer will ensure that the benefits derived for the use of more stone wool are no longer a secret kept within our walls or in the ground.

Our new focus will engage across all audiences along the value chain from the purchasing process through to the home owner. We understand the increasing importance of web communication and customer experiences and 2017 will see the introduction of a new digital presence.

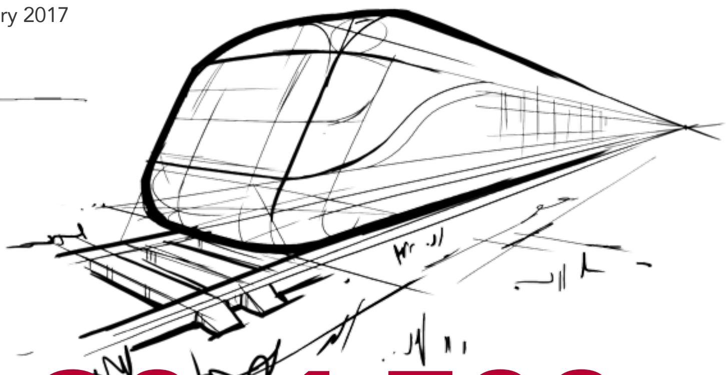
Looking ahead

We achieved what was planned in 2016 and we have already leveraged our greater financial strength to take some important steps forward in defining our digital agenda and to innovate. During the year we have, for example, developed a stone wool based non-combustible insulation solution for cold pipes down to 0°C and piloted more than 15 residential houses with a new innovative wall system comprising load bearing pillars based entirely on stone wool. The new wall system brings an array of features in addition to the excellent insulation properties; it is non-combustible, noise reducing and possible to re-cycle.

The foundation for profitable growth is set and we can proactively consider expanding our business in both existing and new segments and we have the financial means to do so. Going into 2017 we have once again defined some very clear areas where we want to win in the market, with our employees, our customers and with our shareholders. I am confident that you will continue to follow us closely as we progress with this positive prospective and prepare to celebrate the 80th Birthday of the ROCKWOOL Group later this year with you.

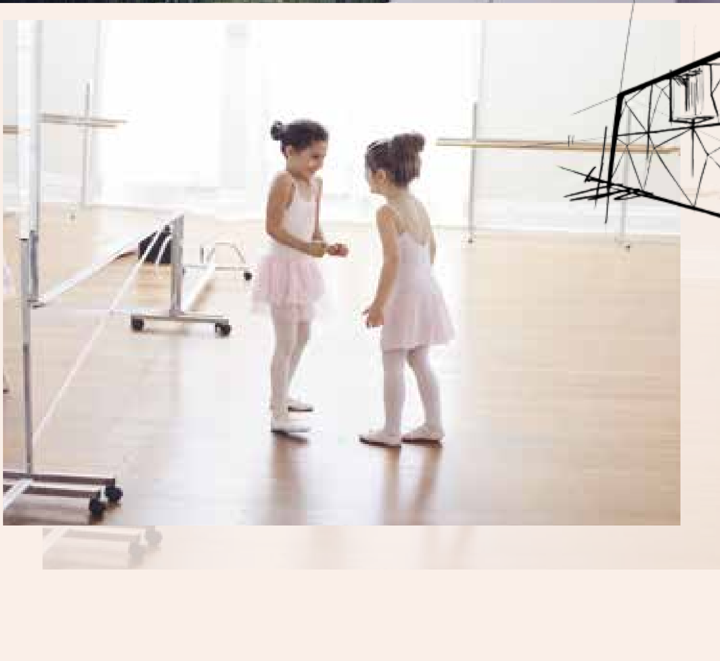
Hedehusene, February 2017

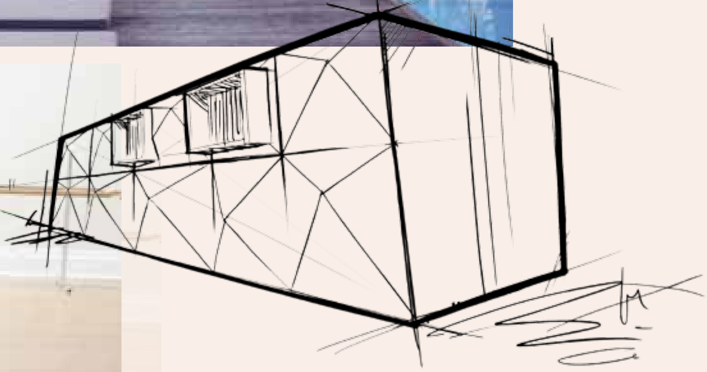
Jens Birgersson
CEO



80–1,500

Throughout their lifespan the ROCKWOOL Group's products typically save between 80 and 1,500 times the carbon emissions emitted during their production.





The ROCKWOOL way forward: Our Strategy

The ROCKWOOL strategy rests on seven pillars: profitable growth, innovative products, our strong brands, digitalisation, operational excellence, passionate employees and our customer's dedication to quality solutions.

Customer value
The customer is central to everything that we do. Our ambition is to always deliver high quality products, systems and services when and where needed by the customer. By utilising Net Promotor Score (NPS) as a common tool, we are able to continuously respond to customer feedback and establish a continuous dialogue with our stakeholders. Through formal and informal channels, we welcome feedback and ensure that we have a shared understanding of what is most valuable to their business so that both parties obtain the desired benefits. Thus we increased our NPS by 4 to 32 in 2016. A seamless access to both our products and our technical services is essential and we will invest time and effort in improving our global digital platforms and presence.

Profitable growth
Our main goal is to be the leading supplier of stone wool solutions in all our key markets. In order to maintain and develop this leadership position and pursue profitable growth we have established the organisational structure that can support our vision. We will continue to grow our core insulation business while we explore opportunities for expansion in our systems segments. In order to ensure sustainable profitability we are optimising our portfolio and the related pricing structure.

Brand
We see improved brand awareness as a crucial driver towards increased market penetration and long term positioning. We have embraced the fact that new communication channels give more and diverse people access to fast and immediate information. We know that to compete in this space we need to speak to a broader audience and this requires new messaging so that our brand can stand as unique and support our differentiation strategy.

Digitalisation
The construction industry is changing and as a leading player we understand the need for a digital playbook to support automated and integrated functions across the organisation. Starting with the customer relationship touch points as a first priority, we will continue to digitise our sales force, supply chain, production and other Group Functions. Our digital strategy is essential to the success of our new business approach.

Innovation
All product development in the Group is based on in-depth customer insight and a tight connection with our global business goals. In addition, our innovation strategy is defined by our corporate purpose to provide products that can make a substantial difference to modern living. The hero of our product is the fire resilient property of stone. From this solid foundation we deliver a wide spectrum of product offerings ranging from energy efficiency, acoustics, comfort and precision growing among others. We are sure that there are new possibilities and therefore, a fixed percentage of our R&D time is dedicated to finding new ways to release the natural power of stone.

Operational excellence
We are the largest stone wool manufacturer in the world. We have a strong heritage within stone wool production and technology and we constantly enhance productivity and improve our operational capabilities to remain a global leader within stone wool. As an integral element in this leadership we drive continuous improvement with LEAN and keep safety and quality as top priorities in all of our operations.

People and planet
In a fast moving global environment it is fundamental to have the right people in the right place, by selectively bringing in and developing competences in line with current and future requirements. People are our most valued asset and we care about the world they will live in today and for the future generations. Sustainability leadership is crucial to realising our strategy. We believe that we can grow profitably while contributing to society by making smarter and more resource-efficient solutions available to an increasing number of people around the world.

Our business model

Release the natural power of stone

External

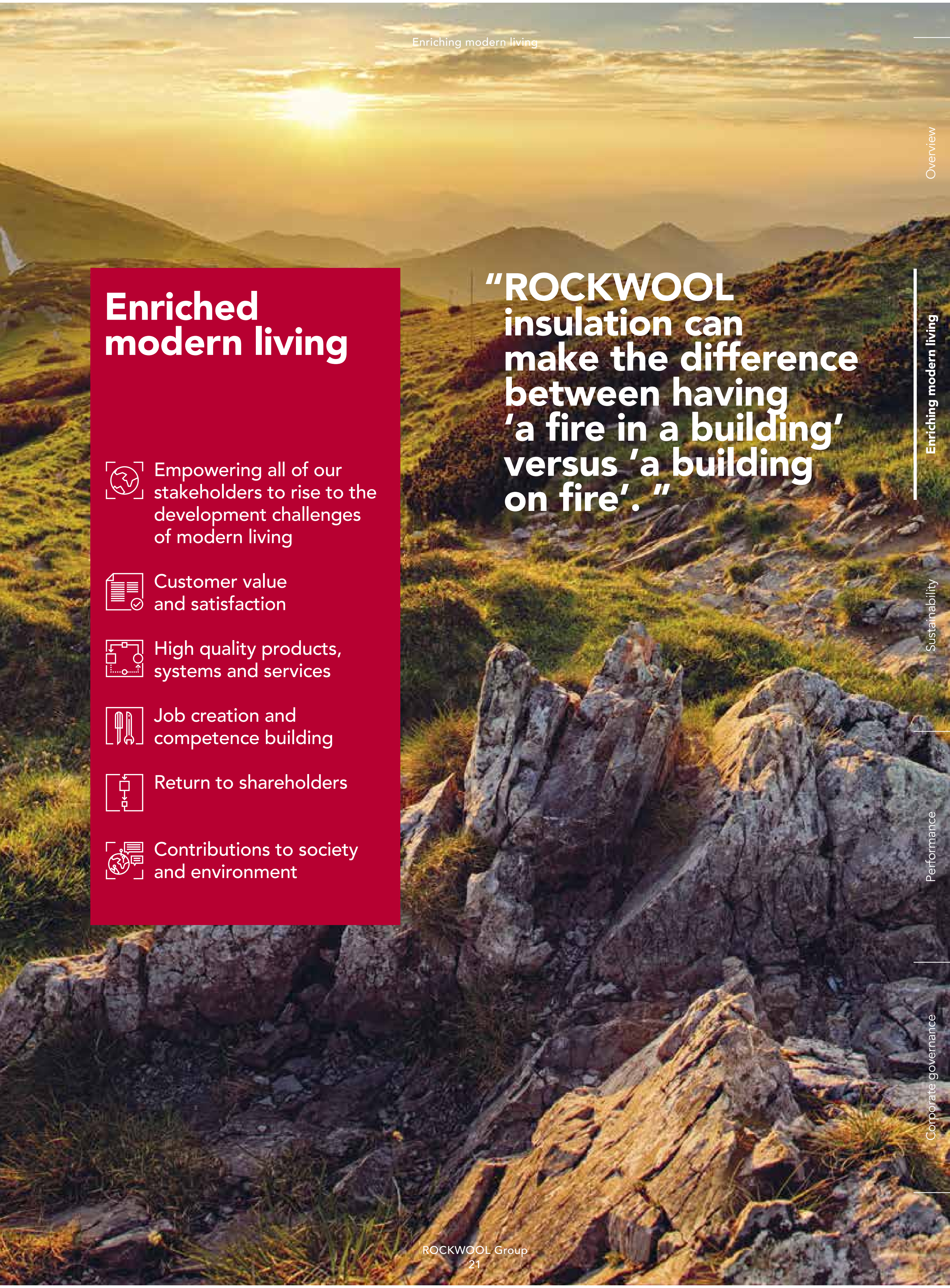
- Recyclable, natural and abundant volcanic stone
- Insight from customers, industry experts and science
- Capital invested

Internal

- A skilled and diverse workforce
- Operations & Technology
- Sustainable research

Purpose

- Energy efficiency
- Acoustic comfort
- Renovation
- Fire resilience
- Urbanisation / Sustainable cities
- Precision growing
- Aesthetics and design



Enriched modern living

- Empowering all of our stakeholders to rise to the development challenges of modern living
- Customer value and satisfaction
- High quality products, systems and services
- Job creation and competence building
- Return to shareholders
- Contributions to society and environment

"ROCKWOOL insulation can make the difference between having 'a fire in a building' versus 'a building on fire'. "

Market and trends

ROCKWOOL Insulation is the leading provider of stone wool insulation. We provide products and solutions for all major application areas for both residential and non-residential buildings. Our offerings can be applied to the complete building envelope ensuring energy efficient and fire safe buildings.

The ROCKWOOL Insulation business area is the largest segment in the ROCKWOOL Group. The insulation solutions are specialised within three key areas; construction and building insulation, technical insulation and core solutions.

Covering the complete building envelope from flat roof and pitched roof solutions, ventilated and rendered facades systems, solutions for partition walls, ceilings and floor as well as HVAC and fire protection. We're the hidden secret to energy efficient buildings as our solutions are covered up being an implicit element to the modern structure. However, the effect of our solutions can be felt and experienced no matter the building type.

Within ROCKWOOL Technical Insulation a general rule of thumb states that properly installed and maintained insulation can allow for at least 80% of heat to be retained. Our technical insulation solutions are engineered to enhance the production for process industry, on-shore and off-shore and the marine industry. With energy demand rising in Africa, ROCKWOOL Technical Insulation is very active in the market of power generation, which already resulted in large orders for several power generation projects in 2016.

ROCKWOOL Core Solutions are dedicated to improve OEM products or systems. Together with our partners we're developing projects to contribute and to improve the thermal, acoustic, fire safety, mechanical, filtering and buffering performance of an OEM offering.

Progress

Established in Europe and growing in North America and Asia.

Fact of 2016

We've transformed our business processes to enhance profitability

Purpose

Improving building performance for quality living

Using effective insulation to provide energy efficient solutions for everyone

Focus

Energy efficient buildings that meet the requirements of modern living: fire resilience, acoustic comfort and durability

1000°C

Due to its stone wool material, ROCKWOOL insulation can withstand fire and high temperatures – at least 1000°C – longer than comparable insulation materials

Grodan®

Market and trends

Grodan is a global leader in the supply of innovative, sustainable stone wool substrate solutions for the professional horticultural sector based on Precision Growing principles. These solutions are used in the cultivation of vegetables and flowers, such as tomatoes, cucumbers, sweet peppers, aubergines, roses and gerberas. The Grodan business offers stone wool substrate solutions together with tailor-made user advice and tools to support Precision Growing, facilitating the sustainable production of healthy, safe, and tasty fresh produce for consumers.

2016 proved to be another strong year for Grodan. Double digit growth was achieved in North America, while Europe & Export also showed improvements. Increased sales to both professional growers and retail customers are behind the strong performance and both segments hold considerable potential for further expansion.

The introduction of the NG2.0 technology in the portfolio, the ramp up of the GroSens® sales and the introduction of the e-Gro® app also contributed to the overall success and provide strong proof of the innovation agenda which is currently rolled-out in Grodan. On top of that legislative developments favouring closed systems support the future expansion of Grodan. This is also reflected in the renewal of the EU Ecolabel at the end of 2016.

On a broader scale, a growing world population drives an increasing need to produce more healthy and nutritious food. Water, land usage and energy are crucial resources for food production and are under growing pressure. It is estimated that by 2050 we will have to produce double the amount of healthy, nutritious food with half the resources of today. By utilising Precision Growing techniques we provide the plant with exactly what it needs, ensuring maximum efficiency in growing, leading to a better yield and quality while reducing the use of valuable and scarce resources. In this way, Grodan helps to future-proof horticulture and will therefore continue to be an investment area for the ROCKWOOL Group.

Purpose

Growth substrate solutions for horticulture for professional growers and home gardeners

Focus

Precision Growing enables growers to provide plants water and nutrients much more precisely and efficiently, resulting in optimal crop yield and quality, with minimum use of resources

Progress

Global leader in stone wool growing media solutions

Fact of 2016

Supporting growers with new app technology e-Gro making it possible for customers to get real-time reporting on their substrates and get direct Grodan customer support

Rockpanel®

Market and trends

Rockpanel board material is used, mostly in ventilated constructions, for facade cladding, roof detailing, soffits and fascias. The product is manufactured from the sustainable rock, basalt. Rockpanel boards are a robust and flexible material which fits perfectly with modern architectural trends such as organic shapes and sustainability, while also providing cost efficiency and short installation times.

Sales of Rockpanel cladding boards was supported by positive market conditions in Germany, the Netherlands and Scandinavia. On the other hand we experienced very difficult market conditions in the UK mainly due to the market uncertainty of continued government incentive packages.

The environmental and sustainability agendas are key drivers of growth in the Rockpanel business as energy performance, as a means for reducing total cost of ownership and waste reduction is becoming more important to customers. These are all key attributes of Rockpanel solutions. The trend towards more sustainable and natural looking facade designs is continuing and will benefit the segment in the long term. At the same time, strengthened regulations and increased focus on fire safety among architects and contractors is also expected to drive growth, as our external cladding solutions deliver superior quality on this parameter.

In the coming years, Rockpanel expects to see continued growth in the market for stone wool solutions, as compared to other cladding types. Despite being relatively mature construction markets, Germany, France and the United Kingdom all offer significant opportunities for growth, with further opportunities in the rest of Europe.

Project
BRUNNER Eggenfelden in Germany

Materials
Rockpanel boards
ROCKWOOL insulation

Architect
Frank Architekten GmbH, Eggenfelden

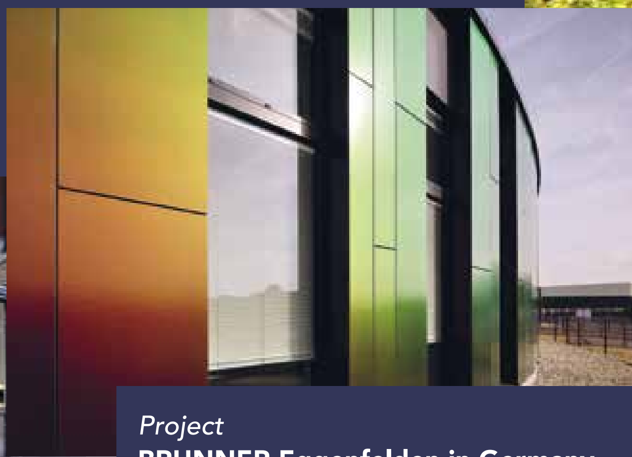
Purpose

Safe and beautiful buildings

Provide aesthetic and protective facade cladding for ventilated facades

Focus

Intriguing facade solutions – customised or standardised – for everyone



Project
BRUNNER Eggenfelden in Germany

Materials
Rockpanel boards
ROCKWOOL insulation

Architect
Frank Architekten GmbH

Progress

Strong and growing position in Europe. Emerging in Russia

Fact of 2016

Customer Excellence – we increased our attention on the customer experience and grew stronger on several customer touchpoints

14

Rockpanel boards are currently sold in 14 European countries: The Netherlands, Belgium, United Kingdom, Ireland, Denmark, Germany, Switzerland, Austria, France, Spain, Portugal, Italy, Russia, Poland

Market and trends

Rockfon provides customers with a complete ceiling system offer, combining stone wool ceiling panels with Chicago Metallic suspension grid systems, accessories and metal ceilings. Rockfon ceiling systems are a fast and simple way to create beautiful, comfortable spaces. Easy to install and durable, they protect people from noise and the spread of fire while making a constructive contribution toward a sustainable future.

Rockfon is the biggest business area in the Systems segment and a leading supplier of stone wool acoustic ceiling systems and wall solutions.

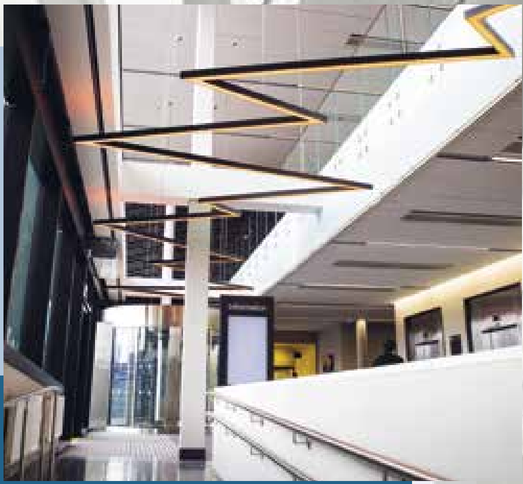
The sales of Rockfon have continued a positive development in 2016 both in terms of market share development and value of sales. Sales in Southern Europe have been positive and slightly ahead of the market development, with Central Europe also demonstrating a solid development. Sales in Northern Europe have been in line with market development. Sales in Asia have been developing very positively and the Rockfon brand and stone wool ceiling offering is clearly appreciated. Sales in North America saw a significant growth within our ceiling tile business.

In the coming years Rockfon expects modest market share growth along a continuation of the positive development of stone wool ceiling offerings in markets where more traditional products are still dominating. At the same time, awareness of the benefits of sound absorption in open offices, health and education environments is increasing, further strengthening our competitiveness in the market.

Rockfon acoustic ceiling tiles are manufactured at four ROCKWOOL stone wool factories located in France, Poland, Russia and the Netherlands, for distribution through sales companies all over the world.

Going forward, we will be seeking to further develop our strong position in Europe, including Russia, where there is still considerable space for further market penetration. At the same time, Rockfon is strengthening its foothold in the North American market, which is the largest in the world. Having now completely integrated Chicago Metallic Corporation into Rockfon, the business will continue to produce, and develop the sale of Chicago Metallic products in the United States, Europe and Asia.

Also in North America, the ROCKWOOL Group has invested in a new acoustic ceiling production facility at our stone wool insulation factory in Mississippi. The plant is expected to be operational in mid-2017, and will enable Rockfon to continue its growth in the North American suspended ceiling market with smooth and highly noise absorbing ceiling tiles.



New Karolinska Solna (NKS) is the project name for the state-of-the-art hospital currently under construction next to Karolinska University Hospital in Solna. By end of project in 2018 Rockfon will have delivered more than 200,000 m^2 acoustic ceiling for a healthy indoor climate.

+200,000m^2

Purpose

Allow everyone to hear every word

Absorb noise so that we can focus on the people around us

Focus

Delivering beautiful, comfortable spaces that protect people from noise and enhance learning, productivity and healing

Progress

Strong and growing position in Europe and Russia. Emerging in Asia and North America

Fact of 2016

Breaking ground for a new factory in USA

Project
Guildford Aquatic Centre, Canada

Material
Rockfon ceilings

Architect of record – exterior and interior
Bing Thom Architects

Architect – pool areas
Shape Architecture

Lapinus®

Market and trends

Lapinus develops versatile, precision-engineered stone wool solutions for a variety of global industries and application materials, gaskets, coatings and water management. In addition to providing high quality stone wool products combined with dedicated practical advice, we supply other raw materials which have been specially modified and designed to meet customer requirements. The Lapinus business also includes the Rockdelta portfolio, which produces mat-based anti-vibration isolation systems, also made from stone wool, that help reduce and manage ground-borne vibration.

Lapinus is one of the world's largest suppliers of precision-engineered stone wool products. Lapinus is active throughout the world with sales in more than 50 countries across all continents.

The automotive industry remains a key segment for Lapinus, specifically friction materials such as brake pads and linings. In 2016 we experienced a positive development in the supply of engineered fibres to brake pad manufacturers in the automotive industry. Global car sales posted a solid advance in 2016 and brake pad models are increasingly changing to new technical concepts in which engineered fibres have a good fit. The increase in customer attention to brake life time, fine dust emissions and comfort in the original equipment manufacturer (OEM) industry helps to drive demand for Lapinus engineered mineral fibres as a key ingredient for friction material. The electrification and transition to electrical cars will lead to new product demands as these cars brake differently.

Rockdelta, today part of Lapinus, provides noise dampening and anti-vibration solutions for the railway industry. The railway market is seeing positive growth with high demand for mass-transportation in major cities, and global awareness about benefits of reducing noise and vibrations is increasing, especially since crowded cities bring people´s homes closer to the tracks. Rockdelta will further expand its business by exploring new application segments within the railway market by anchoring its position in the existing markets.

Growth prospects for the Lapinus business as a whole remain strong, and ROCKWOOL plans to continue to invest in product development and increase application of the different expertise areas in core markets.

Purpose

Protective solutions

Provide versatile materials that help customers rise to the many challenges in today´s busy and noisy world

Focus

Using our knowledge of stone wool to design tailor-made solutions for industrial processes, to deliver a positive impact on safety, emissions, noise, vibrations and water management and to improve quality of life

Progress

Continuously identifying global trends and challenges, and driving the development of tomorrow’s products

Fact of 2016

New focus on water management solutions for tackling water challenges: drain, infiltrate, buffer, transport, etc

Solving global problems

Energy efficiency

Buildings account for 1/3 of the energy used globally.

In order to reduce global energy consumption, there needs to be a focus on both renovating existing buildings and striving for near-zero energy consumption when constructing new buildings. Energy for heating and cooling accounts for two thirds of a building's total energy consumption. ROCKWOOL insulation can provide a healthy and comfortable indoor climate without wasting energy.

Energy efficiency is a priority for us and we will be leading from the front by improving energy efficiency in our own buildings and production while supporting legislation aimed at reducing energy usage in buildings and industry worldwide.

1/3

Buildings account for 1/3 of the energy used globally

Renovation

Nine out of ten buildings in the EU today will still be standing and occupied in 2050. Renovation is key to providing continued quality of life for those who inhabit these buildings.

Whether through improved acoustics, better indoor climate or exterior aesthetics, or providing for urban gardening, renovating buildings can truly improve people's health and well-being. More importantly, renovation can help to increase quality of life for many who today live in energy poverty by significantly reducing expenditure for heating and cooling, making more people able to afford a healthy and comfortable living space.

9/10

Nine out of ten buildings in the EU today will still be standing and occupied in 2050

Fire resilience

People spend up to 90% of their time in buildings and we expect our surroundings to keep us safe. Safe buildings also contribute to sustainable lifestyles, protecting people and possessions from potential loss.

Not only does fire injure and sometimes kill, but it destroys valuables, harms the environment and damages critical parts of society's infrastructure. This is both personally and financially costly, and sometimes impossible to rebuild.

Made from stone fibres, ROCKWOOL insulation is naturally fire proof, and can resist temperatures up to 1,000 degrees centigrade. Limited other material is used to hold the stone wool fibres together and because of this our insulation does not feed, or spread fire or produce a significant amount of toxic smoke. This means that it can protect buildings for longer when fire happens.

We are committed to ensuring regulations deliver high quality buildings, which meet the highest possible fire resilience standards.

90%

People spend up to 90% of their time in buildings and the principal role of buildings is to keep us safe

Acoustics and health

Noise is created constantly in our everyday lives. Much of this is important, and helps us to communicate and socialise. At the same time, most of us appreciate the ability to block sounds as needed.

The ability to choose when and how we are exposed to sound is important for a healthy life and personal well-being. Unwanted sounds are thought of as noise, which can cause us both mental and physical harm. The World Health Organization (WHO) estimates that at least 1 million healthy life years are lost each year to environmental traffic noise in Western Europe alone (WHO 2011).

Noise control in offices and schools ensures we are productive and learn new skills. And noise control at home helps us relax and sleep soundly. Optimised acoustics are needed to help us to be at our most healthy and effective.

50%

More than 50% of European citizens experience annoyance due to traffic noise

Sustainable cities and urbanisation

Continuing population growth and urbanisation are projected to add 2.5 billion people to the population of the world's cities by 2050, putting pressure on urban quality of life.

This level of urbanisation leads to challenges such as water scarcity and lack of sustainable food sources, calling for smarter and more efficient cities. We're committed to helping with future urban challenges; providing solutions for both the indoor environment and outdoor surroundings – supporting sustainable cities.

We are working closely with decision makers to ensure quality urban living spaces are a global priority.

2/3

2/3 of the world's population will live in cities in 2050

The ROCKWOOL Group sets five targets relating to the environment and climate change:

– Reducing CO_2 emissions from our factories 20% by 2030, and 10% by 2022

– Improving the energy efficiency in our own building stock by 75% by 2030, and 35% by 2020

– Reducing water consumption in our factories 20% by 2030, and 10% by 2022

– Reducing waste to landfill 85% by 2030, and 40% by 2022

– Increasing the number of countries where we offer reclaiming of products from the market to 30 countries by 2030 and 15 by 2022

Targets set with 2015 as the baseline

Fulfilling the UN Sustainable Development Goals

Our sustainability promise
The ROCKWOOL Group's product portfolio can help to tackle many of today's biggest sustainability and development challenges. From energy consumption to noise pollution, water scarcity to flooding, our solutions help our customers address many of the big issues of modern living. Our range of products reflects the breadth of solutions we need in order to face the many challenges of the modern world, supporting our customers in reducing their own carbon footprint along the way.

Sustainability is not just about creating products which make a difference. It is also about the way in which these products are conceived, removed, disposed of and eventually recycled. We are dedicated to minimising the negative impacts of our products throughout their life time and beyond, making sure they can be easily extracted and recycled into new stone wool solutions when a building has reached the end of its life.

We are committed to enriching the lives of everyone who comes into contact with our products. We have zero tolerance for anything which could jeopardise the health and safety of our employees, those working with our products or those living in spaces that our products helped to create.

To set our vision for sustainability in stone, this year we announced 6 ROCKWOOL Group sustainability goals where we feel we can make the biggest impact. These goals together actively contribute towards achieving 9 of the 17 UN Sustainable Development Goals. The ROCKWOOL Group is committed to supporting all 17 UN Sustainable Development Goals but has chosen to highlight its work with 9 of them. This aligns with the ROCKWOOL Group's public promise, made in 2015, to identify ways the company can best accelerate change.

9 UN SDGs

We contribute to 9 out of the 17 UN Sustainable Development Goals

Themes of our sustainability goals:

– Climate change and energy efficiency
– The circular economy
– Health and well-being
– Water

Our commitment to driving constant improvements in our own sustainability is a key part of our wider purpose to enrich people´s lives and improve the communities they live in, helping them to address many of the challenges of modern living, making the world a better place for everyone.

Delivering on our sustainability promise
The ROCKWOOL Group is dedicated to meeting our sustainability goals by 2030, and has set intermediate goals for 2022, with a baseline of 2015, to keep us on track.

To ensure a continued focus on these goals, a Group Sustainability Function has been established, alongside a new internal governance structure. Under this new structure, the Head of Sustainability reports directly to Group Management, guaranteeing ongoing engagement with sustainability at the most senior level of the organisation.

Driving sustainability performance
The ROCKWOOL Group will report regularly on the extent of its social performance and sustainability activities, impacting employees, safety, the environment, climate, anti-corruption and human rights. We push ourselves by setting stretch objectives, as well as integrating sustainability considerations into our daily business.

Case study: Promoting health and well-being

Modern society is dependent on effective medical care and facilities. Well-designed spaces help those who are ill to recover faster, and provide a safe community space for patients, families and medical professionals.

Project
Ng Tend Fong General Hospital and Jurong Community Hospital, Singapore

Material
ROCKWOOL insulation

Architect
CPG Consultants Pte Ltd

1,000

These hospitals provide over 1,000 beds to the Jurong District, in the West of Singapore

The Ng Tend Fong General Hospital and Jurong Community Hospital in Singapore are carefully designed to deliver patient-centred services, while acting as an integrated hub for the surrounding community. Together, these hospitals provide over 1,000 beds to the Jurong District, in the West of Singapore.
To deliver an optimal environment, which supports patient care, facilitates interaction and supports rapid recovery, it was important that these hospital buildings were well insulated against noise and sound disruption.

ROCKWOOL Asia was selected to deliver partition insulation, based on its proven track record across other iconic projects in the region, such as the Marina Bay Sands, as well as its experience with numerous other hospitals in Singapore. During the development phase for the hospitals, ROCKWOOL Asia worked closely with the partition system partner to offer the best possible solutions to reduce noise transmission between rooms and provide a peaceful, comfortable environment.

Employees
A dynamic and trusted culture, with passionate and dedicated employees from diverse backgrounds provides us with the solid foundation needed to meet the needs of our customers and stakeholders across the globe. Our team today consists of approximately 10,500 employees, of 61 nationalities, in 103 global locations.

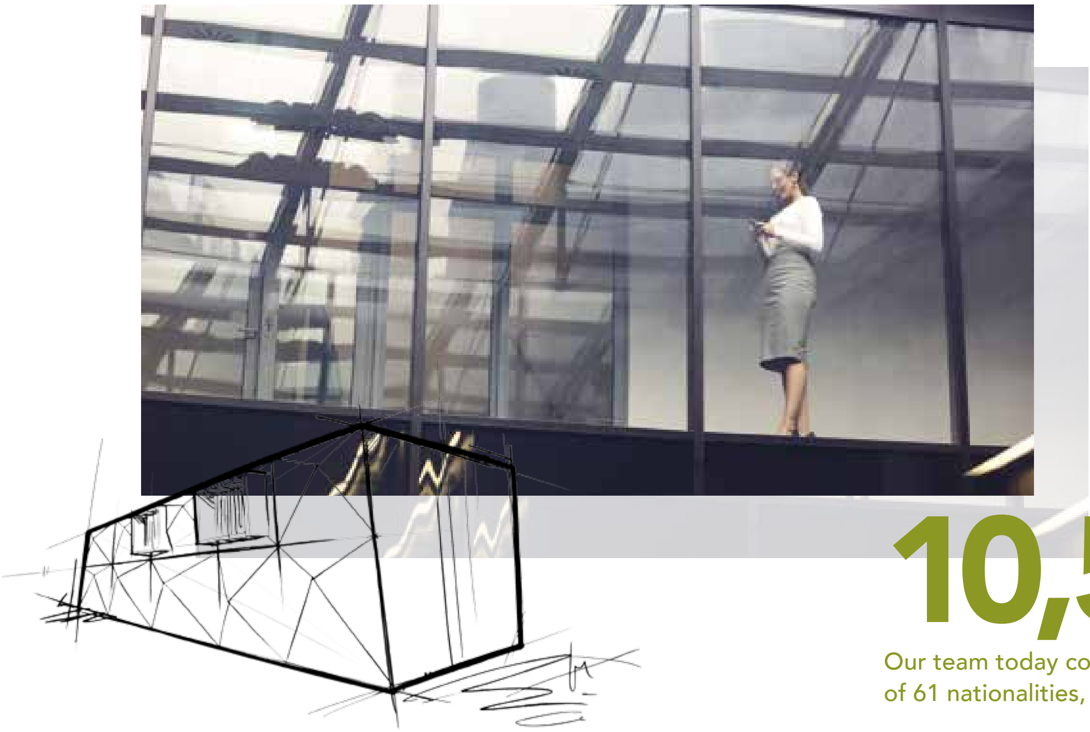
We understand the need to have outstanding people and leaders in order to meet our customers' demands and to work towards the ambitious purpose that we have established for the Group. This begins with a culture of trust, where we listen to the voice of our employees and act on their feedback. In fact, each year, we host a ROCKPULSE survey, whereby all employees are invited to assess various aspects of our company, such as, leadership, teamwork and development in order to allow for comparison and benchmarking with high performing organisations. This year we reached 90% participation rate for indirect employees (in 2014: 89%) and 72% for direct employees (in 2015: 67%).

Transparent communication to all our employees is of fundamental importance to us. All policies which impact them are hosted on our Group Intranet, which permits easy access to all. All employees are encouraged to access these policies and guidelines to initiate open dialogue with their direct managers for further understanding where needed.

These policies are in place to ensure global alignment around key practices, and additional policies have been introduced over the last year, for instance our Global Travel Policy.

Global teams make the difference
A result of the business review was global alignment and harmonisation of three support functions. Group Sourcing and Procurement incorporated local colleagues into one global function and HR moved to a regional business service model, investing in regional specialists in recruitment, learning and development, compensation and benefits and HR Information systems. Finance established a business service centre in Poland to centralise some financial activities.

To win in the market we depend on our teams working together towards the achievement of global goals. These new global functions allowed us to ensure the additional clarity in goal setting and team work required to raise performance to the next level.



10,500

Our team today consists of 10,500 employees, of 61 nationalities, in 103 global locations

Safety
We have zero tolerance regarding anything which can impact the safety of our employees or anyone who comes into contact with our products. We expect and encourage proactive safety behaviours across our operations, through our induction process followed by regular training and information sessions. Our safety policies clarify responsibilities across the organisation, including specific responsibilities of Operational business units and Group Functions. This is supported by a range of policy documents, that cover safety, health, environment among other key focus areas for the Group.

In 2016 we implemented our new IT tool RockSHE in all manufacturing sites. The system is used for reporting of all incidents, being it lost time incidents, near misses or good catches. It ensures proper root cause analysis, risk assessment and statistics, enabling us to improve, both by changed behaviour and technical improvements.

The ROCKWOOL Group has set a target of zero fatalities and a 10% yearly reduction of the rate of Lost Time Incidents (LTI) among its employees.

In 2016 our LTI rate was 3.2, a slight increase compared to 3.1 in 2015, i.e. not meeting our target of 2.5 in 2016. There were zero fatalities. We are however committed to continue to improve our safety performance and reach the target of 2.5 in 2017.

We are however committed to continue to improve our safety performance and to reach the target of 2.5 in 2017.

Increasing engagement with the company's safety culture was a priority for the ROCKWOOL Group in 2016. To do this, we hosted our first Global Safety Day in April, running global training and information sessions, and throughout the year we carried out a series of safety awareness campaigns.

Safety outside factories
A particular focus area for 2016 was travel safety. As a global player with employees operating in 38 countries we have many employees travelling both nationally and internationally. Our sales teams spend many hours on the road visiting customers.
At the same time, we continued our focus on factory safety. A series of Group safety, health and environment factory audits took place, in ten factories in Europe, Russia and North America and new Mandatory Minimum Requirements for occupational exposure to curing ovens were developed and issued.

Climate and environment
Better insulation is a key component of reducing energy usage and protecting our climate. Throughout their lifespan the ROCKWOOL Group's products typically save on average between 80 –1,500 times the carbon emissions emitted during their production. Growing the market for

38,000

The Earth produces 38,000 times more stone material than is used to make ROCKWOOL stone wool annually

insulation has therefore a positive net impact on the climate. This is a focus area for the ROCKWOOL Group's leadership, which regularly reviews and updates the company's strategy for driving this change. The Group has a number of levers to do this, including engagement on regulatory changes and requirements, operations expansion, innovation and new solutions, improved understanding of customer pattern preferences and environmental product declarations. As well as being a focus of our goals, our commitment to the climate and environment is reflected in our internal policies, guidelines and best practice documents.

Our environmental policies commit our operational companies to a series of measures, including:

- An environmental management system, describing responsibility and control procedures, which is continuously updated and improved

- An ongoing open dialogue with stakeholders, including customers, regulatory authorities, employees, suppliers, investors and neighbours, to ensure environmental requirements are being met and needs and expectations are understood

- Ensuring that factories do not cause problems for their local community, above and beyond those expected in an industrial area

- Regular Group auditing of the factories

- Compliance with all relevant regulations, as a minimum. Including reporting of non-compliance, with immediate steps toward compliance

In 2016, we enhanced our focus on the environment and climate change in a number of ways, in addition to setting sustainability goals. We developed and issued new policies e.g. a Group Mandatory Minimum Requirement on Prevention of Soil, Surface and Groundwater pollution to enhance the liability of our factories through ensuring the risk for pollution is minimised and a REACH policy and manual that will be anchored in the organisation in the coming year in order to strengthen chemical management including more transparency in the supply chain.

The environmental performance in our factories is improved continuously, and in 2016 some of the initiatives were the installation of our new melting technology with change of fuel resulting e.g. in reduced CO_2 emissions in the factory in Doense in Denmark, de-sulfurization in the Chinese factory, installation of technology in our factory in Croatia to reduce emissions and optimised binders to reduce emissions.

Ethics, Integrity and Human rights

Ethics

The ROCKWOOL Group recognises that corruption is a potential risk in business and is dedicated to responding to this risk as comprehensively and systematically as possible. The fight against corruption is part of the Business Ethics Manual of the Group.
It is vital for us that every employee conducts the business with the highest level of integrity.

The Group's Integrity Committee is drawn

The ROCKWOOL Group harnesses the properties that nature has yielded to create innovative solutions for modern living.

from the company's senior management and covers competition law, business ethics, anti-bribery, data privacy and export control. The committee also ensures timely and consistent follow through of all issues raised through our whistle blower system. This year, the committee employed a new Integrity Officer, representing legal affairs. The role of the committee is to initiate and monitor progress in the above areas of compliance. It ensures that the Group adheres to the highest standards of business ethics and updates the Group on integrity and associated policies. It is also responsible for formal reporting to the Audit Committee.

The ROCKWOOL Group recognises the importance of employee training in compliance. All Group employees with third party contacts and indirect employees must undertake e-learning training in Business Ethics to ensure they understand how to remain in compliance. Additional training has been focussed in two areas flagged as higher risk: Management in countries with high corruption ratings and Group Sourcing and Procurement management and staff. The Group's whistle blower policy encourages employees, suppliers, distributors and customers to expose any corrupt practices or misconduct with their anonymity protected.

In 2016, we investigated 8 integrity incidents, 3 of which were reported and investigated as a result of whistle-blowing.

Human rights
The ROCKWOOL Group strongly believes in the rights and freedoms to which all human beings are entitled. As a company, we are committed to acting in compliance with international human rights, throughout our businesses.

Group Sourcing and Procurement is responsible for the governance and procurement principles as well as the ethical code of conduct for suppliers as per the Group Procurement Manual. This is to ensure a robust due diligence in compliance with the UN Global Compact. Sourcing is at all times done in compliance with our Group Policies and it is a requirement that suppliers of direct materials with an annual spend above EUR 100,000 sign the ROCKWOOL Code of Conduct based on the UN Global Compact guidelines. Already today 94% of the suppliers who fall into this category have signed this agreement. We carried out 121 supplier evaluations in 2016, two of which led to corrective actions.

We respect our employees and know that they are a key asset for our organisation. It is essential to us that everyone worldwide who carries out activities on behalf of the ROCKWOOL Group, whether at our offices, terminals or warehouses, in our vehicles, as employees or subcontractors, are treated decently and with dignity.

The ROCKWOOL Group endorses and is committed to complying with internationally agreed human rights. We support equal rights and are against differential treatment, harassment, inappropriate or unreasonable interference with work performance and similar in employment and working conditions, whether based on race or gender, or sexual, religious or political orientation or ethnic or social background. The Group opposes discrimination of any kind,

45%

45% of the new hires in 2016 were female

anywhere, and particularly in its workplaces. Our organisation recognises its employees' right to join a union and participate in collective bargaining. We support constructive dialogue between employers and employees, and oppose all forced employment and degraded working conditions. The ROCKWOOL Group is against child labour and does not employ children. We recognise the framework on minimum working age for children set forth in the ILO convention no. 138, also appreciating that youths should work in different types of employment from adults.

All employees of the ROCKWOOL Group will receive a letter of confirmation of their employment conditions if so required by national legislation. We comply with all current national legislation and agreed standards on employee working hours and commit to employee remuneration which meets or exceeds national industry minimum standards.

Diversity as a competitive advantage
Being a global company we acknowledge that diversity is especially crucial in today's marketplace. The rewards of having a diverse workforce touch every area of the business by potentially resulting in increased creativity, broader capabilities, new solutions to difficult problems and successful interaction with different cultures and clients.

We believe in respecting and embracing diversity and strive to stimulate diversity in the management teams, as well as in Group functions.

We base our diversity work on the principle that it is a prerequisite for success that we treat all our employees with respect and dignity and that we will not tolerate discrimination or harassment of any kind.

Accordingly we have taken steps over the past few years to ensure equal opportunities for our employees, irrespective of gender, age, ethnicity, etc. As a principle, we want our employees' career development to be performance and potential based, without the hindrance of any diversity-related obstacles.

Increased focus and follow up
The under representation of women in top management has been under review in Denmark over the past few years. In 2013, we set the target of 15%-30% female executives on our management teams by 2017. Despite the increased focus and follow up we are still at the lower end of this range with a score of 15% compared to 16% the year before. The learnings from our cooperation with a major consultancy firm about a 'women in leadership' survey are used as inspiration to drive initiatives supporting diversity improvement.

ROCKWOOL Group management is today represented by members from six different nationalities. With regard to female members elected to the Board of Directors by the General Assembly, the current aim is to have at least one member by 2020. In the resent election process candidates were identified, but have not been selected due to focus on additional diversity and competence criteria, however, if the opportunity arises, this will be pursued.

Future outlook
Our industry is male dominated and the gender split for the total Group has been very stable over the past few years; we have an 18/82 female/male split at the end of 2016. The male dominance in the factories is clear, but in the offices and amongst our sales force we can see an increasing portion of female employees: 37% female employees at the end of 2016, but with 45% of the new hires in 2016 being female. The trend is similar when looking at the portion of female line managers outside production: 26% female managers, but with 31% of the line managers hired in 2016 being female.

Read more about our Diversity and Equal Opportunity Policy on the global website. www.rockwool.com/diversity

Required reporting referring to the Danish Financial Statements Act §99a and §99b can be found on pages 20-21 and 32-41 and 56-59.

Last year Marina Potoker, Managing Director of ROCKWOOL Russia Group, won the prestigious "Business Women 2016" award from Ernst & Young. The Jury particularly noted Marina's management style, which is based on innovations as a key to brand promotion as well as market and industry development, building up a strong corporate culture and the implementation of personal growth and development programmes for Russian ROCKWOOL employees.

Marina started in 2002 in the purchasing and logistic department of ROCKWOOL Russia and was appointed Logistic Director in 2007. Two years later she was appointed Technical Director and in January 2014 Marina became Managing Director. Not only is Marina herself a role model and good example of an employee utilising her talent to advance in the ROCKWOOL Group, her management team is also outstanding with four out of six positions occupied by women.

ROCKWOOL Young professionals

Getting up to speed with company culture and business

In 2011 a group of young employees decided to set up the company's first Young Professionals Network.

This network is intentionally kept informal, as a place for young employees to share interests, tackle challenges and build on the culture within the organisation. The network is driven by the younger employees with full support from their managers. It has been embraced by many across the organisation as it is seen as a perfect way for the less experienced to build relationships and facilitate business knowledge and understanding.

The network was created in the Hedehusene headquarters and has growing membership from across the organisation, with the range of nationalities, background and roles, reflecting the diversity of the ROCKWOOL Group. A helpful, friendly, open atmosphere constantly draws in new members, who use the Network to help them navigate the wider organisation, learn about the company and its culture and address practical challenges. The ambition is that similar networks will be established in some of the major hubs.

Five years in, many members of the Network have participated since the start, with "old-young" members advising those who are newer to the organisation, and using their growing experience and understanding of the wider organisation to the Network's advantage.

54

54 members – and counting…

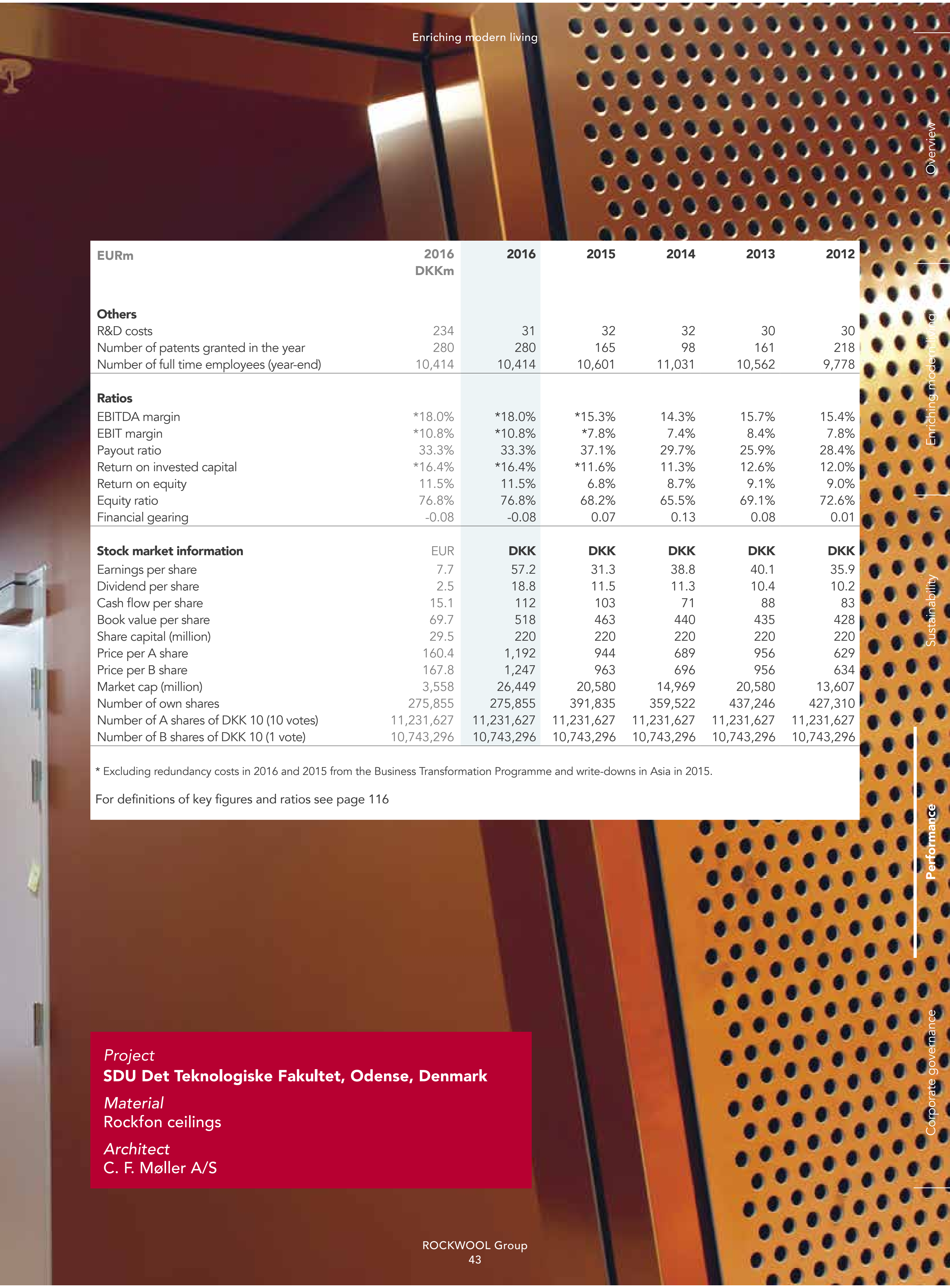
5 year overview

EURm	2016 DKKm	2016	2015	2014	2013	2012
Income statement items						
Net sales	16,394	2,202	2,208	2,180	2,003	1,969
EBITDA	*2,957	*397	*337	312	313	303
Depreciation, amortisation and write-downs	1,190	160	187	150	144	149
EBIT	*1,768	*237	*172	161	169	153
Financial items	-51	-7	-4	-6	-6	-7
Profit before tax	1,672	225	133	157	164	147
Profit for the year	1,237	166	91	113	116	104
Balance sheet items						
Non-current assets	10,472	1,409	1,446	1,431	1,371	1,271
Current assets	4,391	591	559	560	486	470
Total assets	14,864	1,999	2,005	1,991	1,857	1,741
Equity	11,418	1,536	1,367	1,303	1,284	1,263
Non-current liabilities	950	128	119	121	134	138
Current liabilities	2,495	336	519	566	439	339
Net interest-bearing debt	-862	-116	93	175	100	9
Net working capital	1,301	175	162	173	147	149
Invested capital	10,655	1,433	1,467	1,484	1,374	1,309
Gross investment in plant, property and equipment	686	92	167	234	217	125
Cash flow						
Cash flow from operating activities	2,427	326	297	206	253	240
Investments and acquisitions	663	89	201	257	265	133
Free cash flow	1,764	237	97	-52	-13	106

EURm	2016 DKKm	2016	2015	2014	2013	2012
Others						
R&D costs	234	31	32	32	30	30
Number of patents granted in the year	280	280	165	98	161	218
Number of full time employees (year-end)	10,414	10,414	10,601	11,031	10,562	9,778
Ratios						
EBITDA margin	*18.0%	*18.0%	*15.3%	14.3%	15.7%	15.4%
EBIT margin	*10.8%	*10.8%	*7.8%	7.4%	8.4%	7.8%
Payout ratio	33.3%	33.3%	37.1%	29.7%	25.9%	28.4%
Return on invested capital	*16.4%	*16.4%	*11.6%	11.3%	12.6%	12.0%
Return on equity	11.5%	11.5%	6.8%	8.7%	9.1%	9.0%
Equity ratio	76.8%	76.8%	68.2%	65.5%	69.1%	72.6%
Financial gearing	-0.08	-0.08	0.07	0.13	0.08	0.01
Stock market information	EUR	**DKK**	**DKK**	**DKK**	**DKK**	**DKK**
Earnings per share	7.7	57.2	31.3	38.8	40.1	35.9
Dividend per share	2.5	18.8	11.5	11.3	10.4	10.2
Cash flow per share	15.1	112	103	71	88	83
Book value per share	69.7	518	463	440	435	428
Share capital (million)	29.5	220	220	220	220	220
Price per A share	160.4	1,192	944	689	956	629
Price per B share	167.8	1,247	963	696	956	634
Market cap (million)	3,558	26,449	20,580	14,969	20,580	13,607
Number of own shares	275,855	275,855	391,835	359,522	437,246	427,310
Number of A shares of DKK 10 (10 votes)	11,231,627	11,231,627	11,231,627	11,231,627	11,231,627	11,231,627
Number of B shares of DKK 10 (1 vote)	10,743,296	10,743,296	10,743,296	10,743,296	10,743,296	10,743,296

* Excluding redundancy costs in 2016 and 2015 from the Business Transformation Programme and write-downs in Asia in 2015.

For definitions of key figures and ratios see page 116



Project
SDU Det Teknologiske Fakultet, Odense, Denmark

Material
Rockfon ceilings

Architect
C. F. Møller A/S

Outlook 2017

Grooming the business for growth while continuing to improve productivity.

Overall market developments
The geopolitical situation and the most recent indications on energy price development and other raw materials going up in Europe cloud the outlook for the coming year and require an agile approach to market and pricing opportunities around the entire Group.

In Europe there are positive signs of increased construction activities due to a growing awareness of the benefits derived from energy efficient building. The potential for insulation and the fire resilient properties of stone wool in this would benefit the Group. Large markets such as Germany and France are expected to deliver a sound growth going forward, and the overall markets (in Europe) are expected to continue towards a slow recovery of growth.

The market in Russia is slowly stabilising albeit at a lower level and there is still uncertainty about the general market recovery. With higher gas prices, the Russian Rouble has strengthened, which would benefit the exchange rate impact on the Group´s financial performance.

The insulation market in the USA is developing positively and the increased awareness of the benefits of using stone wool leads us to believe that there are sustained growth opportunities in this market. This allows for further expansion in both the Insulation and Systems segment. The Group´s technical insulation business is still impacted by lower activities within the oil and gas industry, however with our strong product portfolio we are confident that new market opportunities can be established to compensate for the lower activity level in our traditional markets.

The Systems segment expect to continue the good trend from 2016 – especially our horticultural substrate business (Grodan) delivered healthy growth. With a new ceiling tile plant, for our Rockfon offering, coming on line in the middle of 2017, we are confident that we are able to serve the growing market for acoustic ceilings in both North America and Europe.

Project
BBVA offices, Madrid, Spain

Material
ROCKWOOL insulation

Architects
Herzog & de Meuron and
Ortiz León Arquitectos

2-4%

The Group forecasts a net sales growth of 2–4% in local currencies

Project
Szczecin Philharmonic, Szczecin, Poland

Material
ROCKWOOL insulation

Architects
Estudio Barozzi Veiga

>10%
EBIT margin slightly above 10%

Sales price increase to compensate for inflation

After a period with stable raw material prices, we foresee an inflationary pressure not only on stone wool producers but for the insulation industry in general. This will affect the cost of manufacturing. It will therefore be necessary to implement sales price increases to complement productivity improvements to ensure that the Group will deliver an acceptable earnings level. Efforts to achieve savings from a more centralised approach to procurement continue and will to some degree also compensate for an increased inflation.

Financial outlook

With the assumption of no further contraction in the technical insulation business and the market in Russia, the Group forecasts a net sales growth of 2-4% in local currencies.

While margins will come under pressure compared to 2016, especially during the first part of the year, we have initiated actions to safeguard our earnings level and with the benefits from the continued focus on productivity and efficiency, we expect to deliver an EBIT margin slightly above 10%. Investments excluding acquisitions for 2017 will be at a similar level as the year before at around EUR 130 million, with the opening of the ceiling tile plant in the US and a larger improvement of a production line in one of our factories in Poland as the main investments planned for the year. Review of investment for capacity requirements to cater for growth in North America and Europe is ongoing however this will only have limited financial impact for 2017. Investment plans include the purchase of land in Sweden, Romania and the United States to increase capacity and improve the efficiency and quality of the production process.

Market overview

Group Sales Development and Market Overview

In 2016 the ROCKWOOL Group generated net sales of EUR 2,202 million, an increase of 2% compared to 2015 when measured in local currencies with 26% of the net sales generated by the Systems segment.

Systems segment had a strong 2016 with an EBIT of EUR 81 million and an EBIT margin of 14.2%. This is 1.2 pp higher compared to last year.

The Group sales shows a stable development thanks to the continued increase in both North America and in the Systems segment. This is a positive outcome when you take into account the challenged Russian construction market and the lower demand for technical insulation from the Energy industry due to the low oil prices; situations that could have had a more negative impact.

The Insulation segment shows solid performance

Insulation

Insulation is our largest business area and will continue to be the primary focus for the organisation. This core segment includes insulation offerings for interior buildings, facades, roofs as well as industrial and technical insulation. These products represent 74% of all sales in the ROCKWOOL Group.

Sales in the Insulation segment reached EUR 1,634 million in 2016, which is an increase of 0.7% in local currencies. As mentioned before, the relatively low increase was mainly due to the industrial and technical insulation industries and the slow development of construction in Russia in both new build and renovation. Our new organisational agility allows us to adapt quickly to changing market dynamics and despite the turmoil in these two areas the Insulation Segment EBIT reached EUR 149 million with an EBIT margin of 7.9%. This was an increase of 3.1 pp, adjusted for redundancy costs in 2016 and 2015 related to the Business Transformation Programme as well as write downs last year.

ROCKWOOL Product Applications

The **flat roof insulation business** had a satisfying year, seeing strong growth in Germany and several eastern European countries. When we step outside Europe, and take a look, in particular, at the North American market, we experienced a positive development in Canada on the back of growing market penetration, whereas we saw sales declining in the US market. Flat roof insulation is often used in commercial constructions to reduce heat loss, provide fire resistance and reduce noise pollution. As our stone wool solution is a perfect match for all these concerns we will continue to develop products for this segment with the aim of matching offering to the customers´ needs.

74%

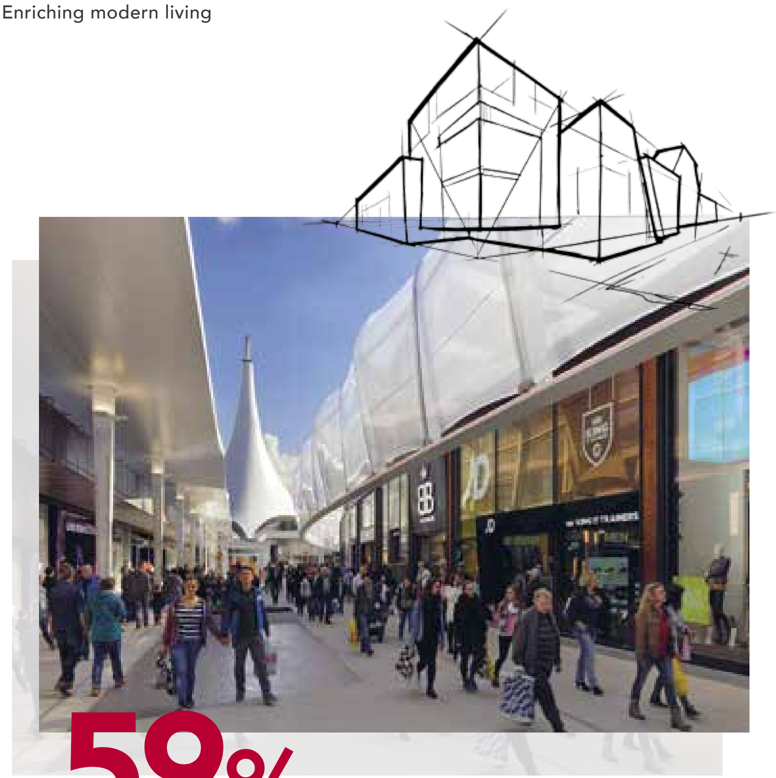
ROCKWOOL insulation represents 74% of all sales in the ROCKWOOL Group

The **building insulation business** performed as expected in 2016. Sales were slightly down compared to last year, due to weaker sales in some of the important central European markets. This was offset to a certain extent by an improved performance in Southern Europe where Spain showed positive development and confidence, especially in new build and where the Italian market showed a pick up in the latter part of the year as a result of increasing focus on energy efficiency in renovation.

For the **facade insulation business** we provide a wide range of solutions to cater to the different market regulations and building requirements. Regulation within fire safety is a key driver for our facade insulation as sales levels are often correlated to the desire for markets to tighten these regulations. In the latter part of the year we saw a shift to stricter regulations and a preference for non-combustible stone wool products in some of our key markets. This shift of focus provides optimism that the continued upswing within residential as well as non-residential construction in Germany and the rest of Western Europe will translate into improved facade-sales in 2017, a shift from the slow progress made, especially in the first half of 2016.

Our **HVAC/Fire Protection insulation** business saw good growth rates in Europe, especially in UK, Germany and Scandinavia. The positioning of the high quality systems and solutions in the Fire Protection segment was well received in the market. These new offerings led to gained market shares in most of our key markets and during 2017. As an example, at the end of 2016 we launched an innovation in the cold pipe segment in Central Europe, an area where we had a gap in the offering that had been focused on hot pipes. This product is already showing success in Germany and Central Europe and we expect further growth opportunities for this segment in new markets going forward.

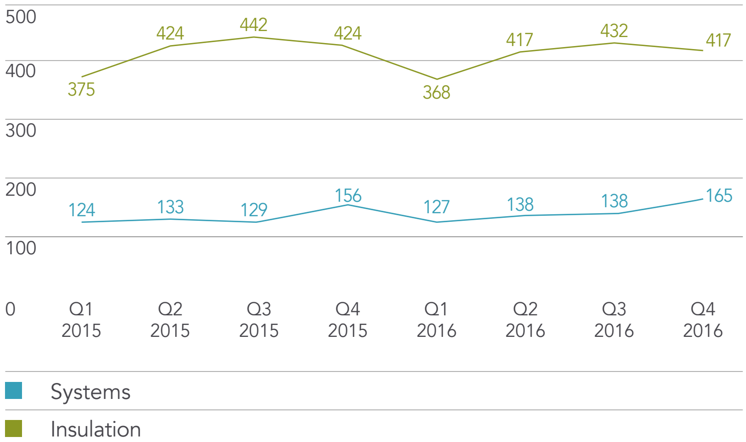
We are the world leader in **technical insulation** where stone wool products are used to insulate pipes, ducts and boilers in industrial plants and power stations. A significant part of the business is related to oil and gas which, as already mentioned throughout the report, has been negatively affected by the oil price drop and the uncertainty related to recovery



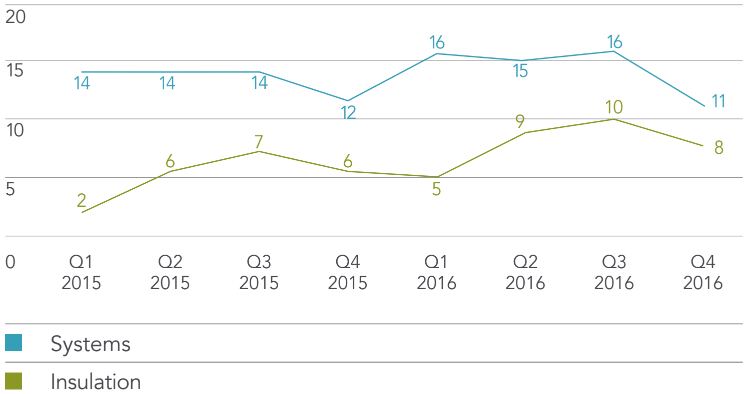
59%

Western Europe is 59% of the total sales in the Group

Net sales per segment
(EURm)



EBIT margin per segment
(EURm)



Overview
Enriching modern living
Sustainability
Performance
Corporate governance

Project
Nova Scotia Power Headquarters, Halifax, Canada

Material
ROCKWOOL insulation

Architect
WZMH Architects

30%

Students in schools using Rockfon solutions hear 30% more consonants than without noise insulation

to previous levels. More or less all geographical areas showed a slowdown in business. A positive exemption was Africa, demonstrating strong growth related to booming solar power plant installations. Another important area within the technical insulation segment is the marine and offshore market. We are satisfied with the positive development in the Marine business where our innovative new light weight product lines are successful especially within the cruise liner business, light weight vessels and offshore installations.

Total sales by geography

Western Europe

In these markets, the construction cycle generally follows that of the overall economy, which means that when the economy is strong, there is a high level of construction activity which drives demand for insulation.

The Western European market showed a slight increase in the sales compared to last year. This region, approximately 59% of our total net sales, managed to sustain a positive activity level, although it is clear that growth in the construction sector has not yet completely recovered from the recession. For 2016, sales in Western Europe improved by 1.4 % in local currencies. The Scandinavian and Spanish markets performed particularly well throughout the year, while other markets such as the German started to show signs of improvement after a slow start.

We expect greater growth in demand for stone wool products in Western Europe between 2017 and 2020 than what we saw during the last 24 months. This increase in demand for insulation will be driven by both residential new build activity and an improved renovation rates for pre-existing buildings, also as a result of the recent energy efficiency directives issued at EU level.

The three biggest markets for new housing, France, Germany and the United Kingdom, have now returned to normal levels of development. We remain positive about the outlook for the British market, noting that although growth may not reach pre-Brexit levels, new housing demand currently seems to be relatively unaffected. Scandinavia, Benelux and Spain are all forecasted to continue to grow as renewed demand and favourable financing conditions have a positive effect on the business.

Expected strengthening of European regulations on energy performance for buildings and manufactured products will continue to be an important driver of demand for insulation for renovation. We see increased renovation rates in Europe as absolutely fundamental to the EU's efforts to reduce emissions and meet its environmental commitments. At current rates of refurbishment, these commitments cannot be met, and the Group is dedicated to increasing political and regulatory awareness of this, at both the EU and national levels. Favourable EU-wide and national incentives and finance schemes will be key to ensuring increased renovation to meet these commitments.

A growing focus among builders on the benefits of indoor comfort and fire safety considerations, which is in part driven by new regulation, is also increasingly impacting new build and renovation activities. We welcome this development, as it fully aligns with our purpose of creating better and safer living for all.

Eastern Europe & Russia

Eastern Europe and Russia are important markets for our Group and for stone wool insulation in general.

In 2016 sales in Eastern Europe decreased 0.7% in local currencies, despite an impressive performance in several of the Eastern European markets. Sales in Russia, which remains an important market for us, continued to be impacted by the geopolitical situation, where the decline in the oil price and trade-sanctions have had a continued negative impact on the economy and construction activity in Russia. This in turn has had a direct effect on sales in this market compared to last year.

Given this, the expectation is stable sales in this region. The demand for stone wool insulation is expected to be driven to a large extent by public expenditure on new build development as well as the use of financial incentives and guarantees. Despite recent market fluctuations, our operations in Russia remain a profitable and value-adding contributor to the Group, with a strong brand and well-located assets, proving a stable foothold in the market.

17%

Eastern Europe and Russia: 17% of the total sales in the Group

North America, Asia and other markets

Solid growth in North America

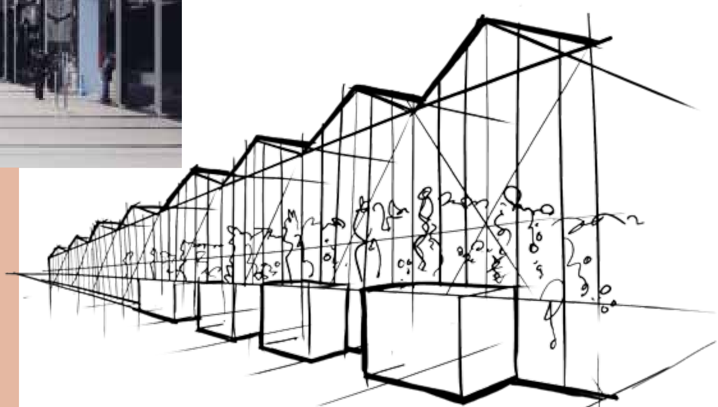
In North America sales continued to show positive developments with a double digit increase. Improved logistics and factory efficiency also had a positive impact on the performance in North America whereas, similar to most regions, the demand for technical insulation on the market was impacted by the current high degree of volatility in the energy industry, as the low oil-price has dampened investment levels.

With factories in both Canada and the United States, we are in a strong position to meet growing demand for stone wool insulation products in North America. The overall activity level within construction is

Project
ExpoForum, St. Petersburg, Russia

Material
Rockfon ceilings

Architect
Evgeniy Gerasimov and Partners



forecasted to rise in the year to come as recovery in the building sector picks up pace. In the United States, we are seeing increased focus on fire safety and energy performance, allowing us to differentiate from other insulation products.

Recent political developments in the United States may stimulate construction activity, but at present this is unclear. The growing penetration of stone wool insulation in general in this market, means that North America is expected to deliver double digit growth for ROCKWOOL Group in the years to come.

Asia-Pacific

Continuous focus and attention to winning in the region.

Sales in Asia showed a small growth compared to last year, despite growth being constrained by the region's heavy exposure to the difficult industrial and technical insulation market. In 2016, we were able to develop our market footprint and operational performance on the Chinese and Indian markets. Compared to 2015, sales prices in 2016 remained relatively stable. Going forward we can expect to grow at pace with the market in this region, due to the significant potential of our stone wool insulation products.

The outlook for the entire Asia-Pacific region is positive, as underlying trends and macro-conditions are driving a growing market and increasing demand for stone wool insulation. Important trends include urbanisation, rising personal incomes and a growing middle class, alongside increased focus on environmental issues and global warming. These all help to grow demand for new housing and building renovation. The outlook for construction activity in China in particular is very positive, although there is a risk of overheating or a construction bubble.
On the back of improved performance in 2016, in China and India in particular, we expect further organic growth in the region, based on increased construction activity.

We plan to develop our presence in Asia, having refocussed our regional activities in 2015. Despite being a relatively small player in Asia Pacific, organic growth and increased regulatory and legislative focus on fire safety are likely to drive further opportunities in this market. In the years to come, we expect a tightening of compliance requirements and building codes which will drive increased demand for high-quality insulation materials such as stone wool in Asia Pacific.

Project
Cogeco Amphitheatre, Trois-Rivières Quebec, Canada

Material
ROCKWOOL insulation

Architects en consortium
Paul Laurendeau
François Beauchesne

24%

24% of total sales in the Group are from North America, Asia and others

ROCKWOOL Technical Insulation delivers for world's largest solar power complex

Rapid development is leading to swiftly rising energy demand across Africa. And sustainability objectives mean that many countries are prioritising renewable development in order to meet this demand.

The government of Morocco aims to generate 42% of its electricity from renewables by 2020 and 52% by 2030. Through the Morocco Solar Plan (MSP) it aims to install 2,000 MW of solar capacity by 2020, contributing around 14% of the energy mix in the country's electricity supply.

In 2016, ROCKWOOL Technical Insulation won the tender for the Noor Ouarzazate II and III plants, part of the world's largest solar power complex, in the Moroccan desert. When complete, these plants will provide electricity to more than 1 million people, lowering carbon emissions by an estimated 760,000 tonnes per year.

Ensuring that solar energy is not lost through poor insulation is key to the success of solar plants. To deliver this, ROCKWOOL Technical Insulation is providing several thousand square metres of wire mats, pipe sections and slab insulation, which will be used in tank roofs and walls, as well as pipe work. The first deliveries have already taken place and continue into 2017.

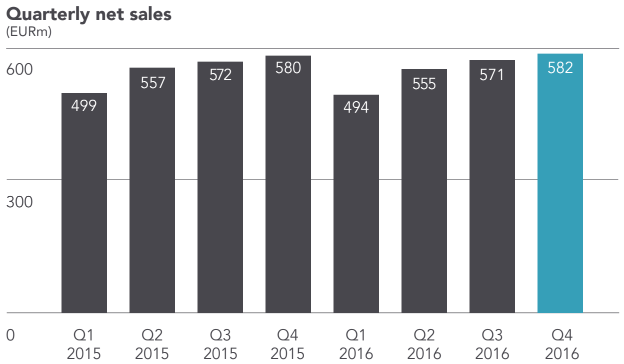
Project
NOOR II, Ouarzazate, Marocco
Material
ROCKWOOL technical insulation
Developers
ACWA

Financial performance

The Group managed to show strong profitability and reached an EBIT margin of 10.4%. Cash generation improved significantly.

Net sales 2016 compared to 2015

	Growth	EURm
Net sales 2015		2,208
Organic growth	1.9%	43
Currency translation adjustment	-2.2%	-49
Net sales 2016	-0.3%	2,202



+2%

Group Sales +2% in local currencies

Global sales development

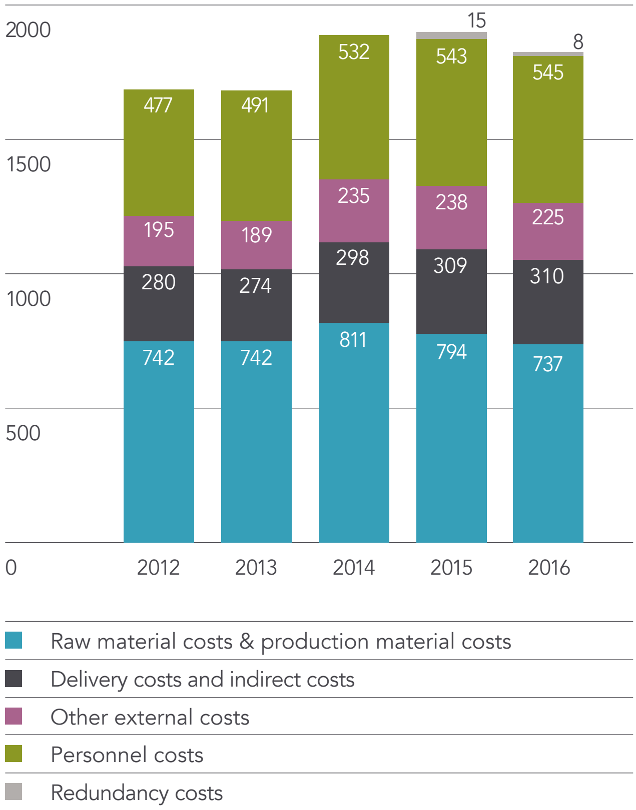
Net sales ended at level with last year and totalled EUR 2,202 million, which is in line with the expectation. Net sales measured in local currencies increased 1.9% and came mainly from the System segment (5.5% in local currencies) while the Insulation segment increased 0.7% in local currencies. Exchange rate fluctuations impacted negatively primarily due to devaluation of the Russian Rouble and the British Pound during the year, most notably in the Insulation business.

During the year, the Group improved sales and pricing capabilities, through the Business Transformation Programme. Net sales were positively impacted by increased volume which also benefitted the capacity utilisation, improved product mix and improvement in sales prices mainly from North America.

Group profitability

EBITDA was up 21% and totalled EUR 389 million, which is an improvement in the EBITDA margin of 3.1pp to 17.7%.
Late in December 2016 a part of our land site in Roermond, the Netherlands was sold with a gain of EUR 3.7 million for the year, which was an unexpected one-off gain. Adjusted for redundancy costs in 2016 and 2015, the EBITDA margin improved 2.7 pp to 18.0%. The increase is mainly driven by cost savings in logistics and production amongst other stemming from improved productivity in the US factory, lower raw material costs from procurement benefits and deflation; and

Cost split
(EURm)



Flawless execution of the Business Transformation Programme increased profitability

lower personnel costs. The lower average number of employees compensated most of the salary inflation. Fixed costs have been well under control during the year, where focus has been on driving efficiency and investment in new competencies. This resulted amongst other things in setting up a new business service centre in Poznan in Poland, which went live end of 2016 with financial back-office functions for Scandinavia and the Netherlands. In 2017 we will expand the services to cover all of Europe.

We have achieved the goals ahead of time under the Business Transformation Programme both financially and organisationally – exceeding expectations laid out in the Annual Report from last year. Going forward the Business Transformation Programme is running as an integrated way of doing business. In 2016 EUR 8.0 million redundancy costs related to the progamme was included compared to EUR 15.4 million last year. In total EUR 23.4 million was spent which is slightly lower than the expected EUR 25 million.

EBIT improved significantly and totalled EUR 229.4 million resulting in an EBIT margin of 10.4%.

Depreciations for the year amounted to EUR 160 million, a decrease of EUR 5 million mainly due to large investment being fully written off and lower depreciation on strategic spare parts.

EBIT development

	Growth	EURm	EBIT margin
EBIT last year adjusted		171.7	7.8
Increased earnings from operations	41.4%	71.0	
Currency translation adjustment	-3.1%	-5.3	
EBIT excl. redundancy costs**	38.3%	237.4	10.8
Redundancy costs**		-8.0	
EBIT this year		229.4	10.4

**related to the Business Transformation Programme

Net financial costs amounted to EUR 7 million including EUR 3 million net exchange rate loss, which is an increase in costs of EUR 3 million compared to last year. During the year the level of borrowings and interest costs remained low as the Group became cash positive.

Tax for the year amounted to EUR 58 million compared to EUR 43 million last year. The effective tax rate decreased to 26% from 32% last year mainly due to the significant write-downs included last year.

Profit after tax in the parent company amounted to EUR 109 million, an increase of EUR 92 million primarily due to a significant write-down of the costs price on shares in subsidiaries in 2015.

Cash flow and investments
At the end of the year the Group became net cash positive, amounting to EUR 119 million, an improvement of EUR 207 million compared to the year before. By year-end, the Group had unused committed credit facilities of EUR 498 million.

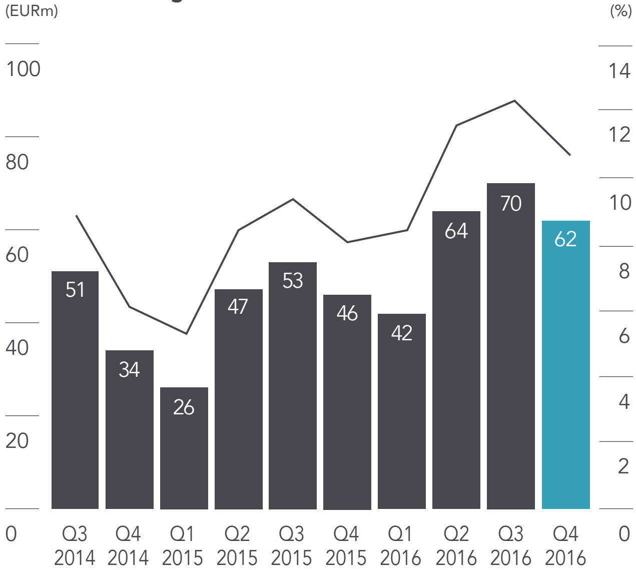
Cash flow from operating activities was EUR 326 million for 2016 against EUR 297 million for 2015 – an increase of EUR 29 million or 10%. The increase is mainly attributable to the high operating profit and a stable net working capital.

The Group's funds tied up in working capital by year-end came to EUR 175 million against EUR 162 million in 2015. The increase is mainly stemming from exchange rate development as the level in local currencies was stable. Receivables from sales were slightly higher due to higher sales in December compared to last year. The inventory ended slightly higher than last year as planned to secure a sufficient level of certain products. These increases were set off by an increase in trade creditors.

Net working capital as a percentage of net sales was 7.9% at year-end 2016 against 7.3% the year before mainly due to the increase in inventory and receivables.

Investments excluding proceeds reached EUR 101 million in 2016 which is a decrease of EUR 70 million compared to last year. Late December we received in total EUR 12 million from sale of land in North America and the Netherlands and investment grants. The investment amount is lower than expected primarily due to the sale of land. The largest individual investments in 2016 relate to the factory re-engineering project in Poland and the new Rockfon production facility in US. With focus on improving the utilisation of our non-current assets the level of capacity investment was one of the lowest in the last 5 years.

EBIT & EBIT margin



Excluding redundancy costs from the Business Transformation Programme in 2016 and 2015 and write-downs in Asia in 2015

EBIT
EBIT margin

+3.0pp
Adjusted EBIT margin up compared to last year

Strong cash flow resulting in a cash positive situation ready for future growth

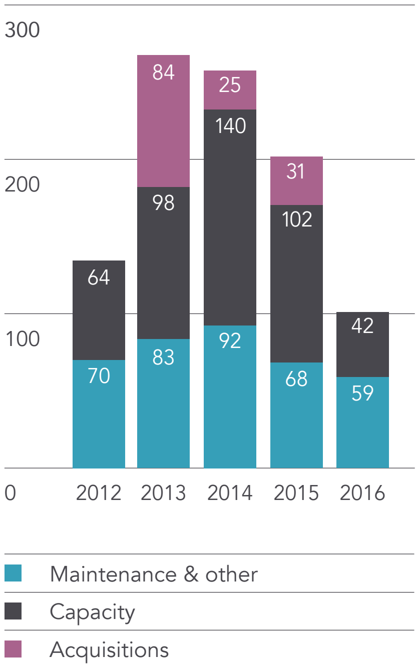
16%
Return On Invested Capital

Free cash flow came to EUR 237 million against EUR 97 million for 2015 – an increase of EUR 140 million. The free cash flow for 2016 was spent to reduce the net interest bearing debt to positive cash of EUR 119 million.

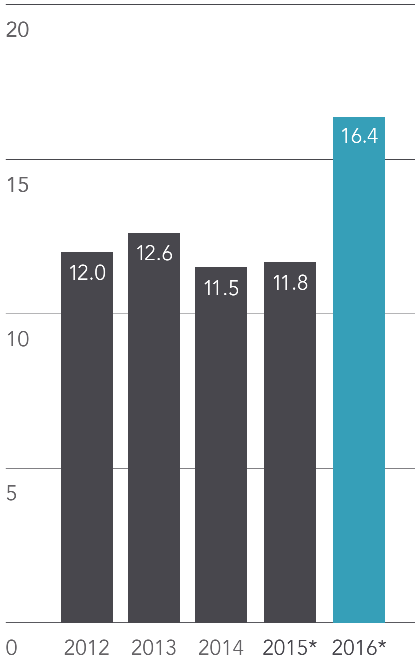
Invested capital
Return on invested capital improved significantly in 2016. Adjusted return on invested capital was 16.4% compared to 11.6% in 2015 showing an improved performance mainly from improved profitability.

Invested capital amounted to EUR 1,433 million against EUR 1,467 million last year. The decrease is primarily due to a decrease in tangible assets.

Investments
(EURm)



Return on invested capital
(%)



* Excluding redundancy costs related to the Business Transformation Programme in 2016 and 2015 and write-downs in Asia in 2015

At the end of 2016, total assets were EUR 1,999 million, at level with 2015.

Equity
Equity of the Group came to EUR 1,536 million as at 31 December 2016 compared to EUR 1,367 million last year, corresponding to an equity ratio of 77% compared to 68% the year before. Equity was mainly affected by the profit for the year, dividend, exchange rate adjustments and an increase in the UK pension liability due to change in actuarial assumptions.

Risk Management

Managing risk is a natural part of doing business in the Group

Systems and processes
The Board of Directors continuously evaluates that the Group's risk exposure is consistent with the chosen risk profile and that appropriate awareness and management processes are present.

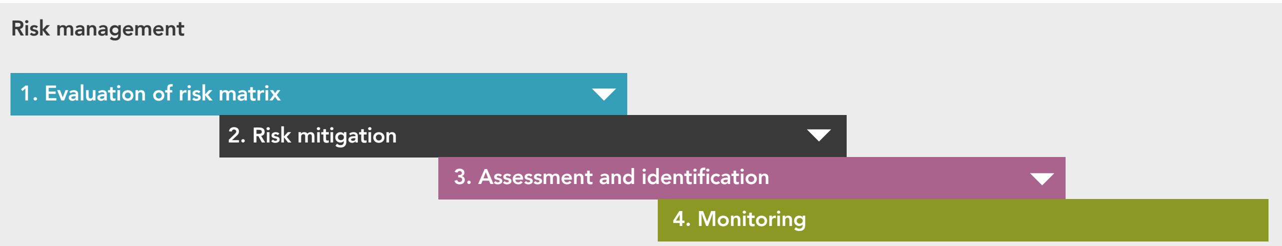
Risk management is part of the CFO function but reports directly to the Board of Directors. All managing directors of our subsidiaries and Group functions heads must ensure that a yearly risk review within their areas of responsibility is conducted; that risks are scored for severity and likelihood, and quantified in terms such as predicted financial impact. Appropriate mitigation actions for identified risks are proposed by the company or Group function and studiously evaluated to ensure effective risk management at Group level. These are integrated into the quarterly business reviews between the CEO/CFO and the responsible ROCKWOOL Group Senior Vice Presidents.

In 2016, we formed an Enterprise Risk Management committee consisting of members from both the business and Group functions. The committee is responsible for reviewing and updating the internal risk management framework and for implementing the related processes. Twice a year the committee meets to prepare the update of risks to the Group Management and the Board of Directors.

Strategic Risks
Public energy efficiency programmes
The insulation markets in several countries are stimulated through various incentive schemes in order to promote energy efficient buildings. In 2016, the risk associated with a large scale withdrawal of these incentive systems was not significantly higher than previously. However, the Group still awaits the enactment of a new incentive scheme in one of the larger EU markets. In the EU, new targets were set for energy and climate protection to 2030; we estimate that these goals will maintain incentives at the status quo level.

Mitigation
Through our international network of public affairs officers, we support the advancement of reliable legislation aimed at reducing energy demands in both buildings and industry.

Risk assessment process



Risk categories covered are:

Strategic risks that relate to issues such as governance, geopolitical developments, market dynamics and major technological developments

Operational risks within sales and marketing, manufacturing, the supply chain, HR, IT and physical assets

Compliance risks associated with code of conduct, legal affairs and regulatory matters

Financial risks concerning accounting and reporting, foreign exchange, tax, interest rates, credit and liquidity (see also note 26)

Collectively, they work toward increasing awareness and adoption of insulation as an effective action in order to help tackle global energy challenges. As part of this, we support relevant authorities in increasing renovation rates and developing policies, tools and systems needed to drive further retrofitting of existing buildings.

Nationalisation of assets and lack of local currency convertibility
In a number of countries where we operate production facilities, democratic convention and the rule of law are less well established than in our traditional core markets.

Mitigation
In none of the countries where we have evaluated the risk of nationalisation, do our local assets represent more than 10% of total ROCKWOOL Group assets. New investments into risk countries will be assessed with a particular focus on these aspects. Currently, the highest percentage of assets in a single country is Russia where we operate four stone wool facilities.

Operational Risk

Raw material sensitivity
The stone wool production process relies on substantial amounts of energy to melt volcanic rock and recycled materials. In most factories this is done via a coke-fired cupola oven. The price of coke – which has fluctuated highly over the years – is thus an essential element of the costs and profitability of the Group. During the second half of 2016, the price rose significantly.

Mitigation
To limit this risk factor, we focus on researching alternative energy sources for the cupola oven, as well as developing new melting technology using energy sources other than coke. Furthermore, our Group Procurement function has put focus on securing optimal contracts which reflects our important position within this market.

Violation of intellectual property rights
Patents and proprietary technology are essential to the ROCKWOOL Group in order to support the business and to safeguard our freedom to operate. Patent strategies are formulated to secure our innovative work as well as to support the business strategies and protection of know-how by controlling access to our physical facilities as well as our IT systems forms part of the work.

4

Each quarter the CEO/CFO reviews each business area with the respective SVP

Mitigation
We file patents to protect investments in research and development that give us a competitive advantage. To counter balance the risk of having our freedom to operate reduced, we oppose blocking patents or we license technology.

A new system to strengthen the protection of communications, documents and professional know-how, was implemented in 2016. Our new green field factory in the US has piloted this system and similar programmes for existing factories will follow.

Neighbourhood
In some of our sites the cities have spread and are building up around our factories. There is a risk of tenants not wanting a factory in their backyard.

Growing urbanisation close to our production facilities, alongside stricter regulations on noise pollution, require initiatives aimed at managing logistics, odour and smoke in these areas.

Mitigation
We are constantly reviewing our sites and factories to ensure that there is limited impact to the surrounding community.

IT
Business is increasingly dependent on centralised and cloud-based information systems. We focus on the following risks:

- Single-point of failure components in business critical platforms
- Highly specialised IT skillsets, where availability of people is scarce
- Risk of loss or theft of information which could damage confidentiality, business or reputation
- Risk of attacks due to malicious software, hacking or advanced threats

Mitigation
The mitigating actions include, but are not confined to:

- Multiple redundancies in relation to critical components
- Internal or external backups for people with critical knowledge
- Disaster recovery procedures, backups and data encryption
- Software and hardware protection and limitation of end-user rights

Business integrity
We want to work with all of our stakeholders in a responsible manner. Our business ethics manual covers topics such as bribery, fraud, fair competition and money laundering, and we are dedicated to best practice through a wide variety of activities. Our stakeholder management includes a strong emphasis on environmental responsibility, encouraging and stimulating our diverse workforce and management groups, and giving priority to the protecting of our people by implementing rules and programmes for robust operational safety.

The ROCKWOOL Group operates a whistle-blower arrangement whereby employees and third parties can report suspicion or actual violations of the business ethics manual including competition law. An Integrity Committee consisting of top management monitors compliance with the business ethics manual. The Integrity Committee also decides on individual cases. Integrity issues are reported to Audit Committee and ROCKWOOL International A/S Board of Directors.

Mitigation
In order to monitor and mitigate risk a number of Group initiatives have been launched. Internal procedures and manuals are designed to ensure compliance and mitigate risks. E-learning in competition law and business ethics is rolled out on a regular basis to all relevant employees. This also includes face-to-face debriefing sessions enabling discussions and questions to be raised. Relevant employee groups are participating in targeted training sessions such as sales and procurement staff.

Environmental emissions and mitigation
There is a trend in several markets towards more stringent environmental regulations. This includes the production process, as well as the products and materials used in our industry. We closely monitor the likelihood of new regulations and standards so as to be able to accommodate new conditions in our markets and maintain our competitive edge. Politically influenced production costs imposed on, for instance, raw materials or emissions, pose a risk – especially with regard to the cost of energy and CO_2 emissions.

The ROCKWOOL Group production facilities are of significant size and are, as with other heavy industries, subject

Project
Philharmonie de Paris, France
Material
ROCKWOOL insulation
Architect
Jean Nouvel

to strict environmental supervision by local authorities and stakeholders. This is especially the case in densely populated areas.

Mitigation
When new factories are constructed, these will normally be located in industrial zones or well apart from major residential areas. However, for a number of our older plants, increasing urbanisation has brought residential areas closer.

The Group invests in cleaner technologies to address potential nuisance and to ensure – as a minimum – that we comply with local regulations. We also operate open door policies where we engage in dialogue with local stakeholders to define neighbourhood challenges and solutions to environmental issues.

The Group supports sound environmental policies and we are working actively to encourage legislators to establish programmes that will not counteract the competitiveness of stone wool insulation or encourage producers to allocate production facilities outside the CO_2 taxation area. We continue to address this challenge by inter alia concentrating our effort on developing new highly energy efficient process technologies with a lower CO_2 impact.

The ROCKWOOL Group was awarded Carbon Leakage for 2015-2019, meaning that we receive a significant amount of free allowances in addition to the free allowances granted on the basis of a benchmark system and are therefore not economically affected by the EU Emissions Trading System (EU ETS) during this period.

Financial risks
As a global business the ROCKWOOL Group is exposed to a number of financial risks relating to currency and interest rate fluctuations, liquidity and credit risks.

Please refer to note 26 for further information on these risks.

Corporate Governance

Corporate governance at the ROCKWOOL Group regulates the interplay between shareholders, the Board of Directors and Group Management aiming at securing optimal operational performance while at the same time securing an appropriate level of accountability and transparency of our business practices.

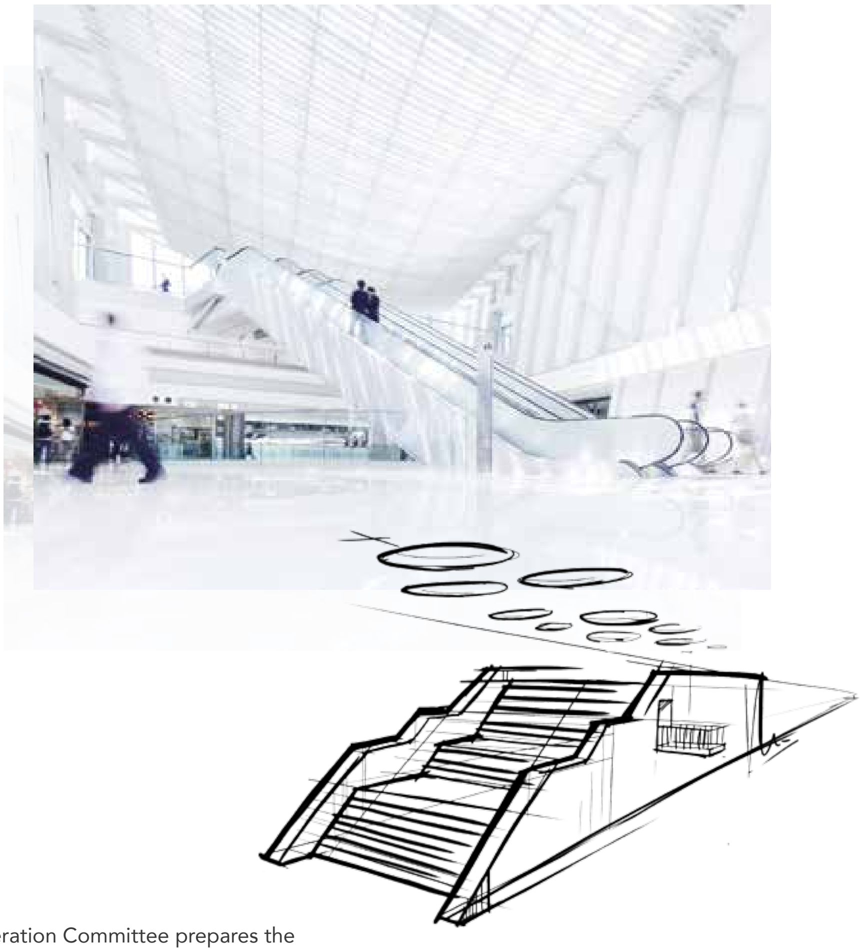
Organisation
The supervision and management of the ROCKWOOL Group is divided between the Annual General Meeting (AGM) of shareholders, the Board of Directors (with well-defined committees), and Group Management.

The **Annual General Meeting** is the supreme body of the corporate governance structure and elects the Board of Directors as well as independent auditors. The company is not aware of shareholder agreements containing pre-emption rights or restrictions on voting rights. There is an agreement between members of the founding Kähler family to meet regularly to discuss their interests in the company, including items at AGMs, but there is no requirement for them to vote jointly.

The Board of Directors outlines the overall purpose and strategy of the company and ensures that the business development is on track toward agreed short and long-term goals. Members of the Board of Directors are non-executive members in accordance with the Danish Companies Act.

Group Management
The CEO is, together with his Group Management team, responsible for the day-to-day management, the execution of the strategy and timely reporting to the Board of Directors. The team currently

consists of nine executives of which the CEO and CFO are the Registered Directors with the Danish Business Authority.



The Board of Directors

The Board of Directors today consists of nine members. Six are elected by shareholders at AGMs for a period of one year and may be re-elected. Of these, four members, including the chairman, are deemed independent according to the Danish Recommendations on Corporate Governance. Three members are elected by employees, for a period of four years, pursuant to the Danish Companies Act.

Self-evaluation of the board

Three substructures have been established by the Board of Directors

The Chairmanship

The Board of Directors has established a structure consisting of the Chairman and two Deputy Chairs. They meet prior to board meetings to prepare. The Chairmanship furthermore undertakes a number of the functions recommended for a nomination committee.

Audit Committee

The Board of Directors has appointed an Audit Committee consisting of three members. The majority of the members of the Audit Committee are independent. The Audit Committee monitors accounting and audit policies plus conditions which, if determined by the Board of Directors or the Audit Committee, should be subject to thorough evaluation. Further, the Audit Committee evaluates internal control and risk systems.

Remuneration Committee

The Board of Directors has appointed a Remuneration Committee consisting of three of its members. The majority of the members of the Remuneration Committee are independent. With the overall goal of being able to attract and retain high-performing top executives, the Remuneration Committee prepares the Remuneration Policy and Incentive Guideline which is approved by the shareholders at the AGM.

The Remuneration Committee annually evaluates and brings forward recommendations for the remuneration of the Board of Directors, again subject to approval by the shareholders at the AGM. The Remuneration Committee is authorised by the Board of Directors to approve remuneration for senior executives.

Internal control

Control environment

The ROCKWOOL Group considers strong internal control to be an essential management tool. The control environment in the ROCKWOOL Group is based on clear guidelines, clear split of responsibilities and a constant effort to strengthen the control environment with due consideration of materiality and risk.
The entire Group structure is designed as a simple structure based on the Group's commercial activities with a clear split of management responsibilities.

All Group policies are approved by Group Management and assigned to one Group Management member who has the responsibility to ensure implementation and compliance of the policy. Policies and manuals have been adopted within all essential areas of operation, legal compliance and financial reporting

Control activities
Minimum requirements of internal controls have been laid down in our Group Standards on the basis of the risks identified. The control activities include procedures for authorisation, approval, reconciliation and separation of functions. The control system includes both manual and automated controls.

The local management teams are responsible for ensuring that the control environment in each local entity is sufficient to meet local and Group requirements.

Information and communication
The ROCKWOOL Group has established standardised information and reporting systems to identify, collect and communicate relevant information, reports etc. on an ongoing basis and on all levels to facilitate an effective reliable work flow. In addition, an in-depth business review is performed each quarter with participation of Group management.

The Group's position on risk management and changes in the reporting requirements is regularly communicated on financial meetings for the local finance directors, through the intranet and dialogue.

Monitoring
The internal control and risk management systems in relation to the presentation of financial statements are monitored at various levels e.g. monthly reports to Group Management on segments and markets and of regular control visits to the local entities.

In addition, an Integrity Committee was established in 2016 consisting of the CEO, CFO, a member of Group Management and the Group General Counsel, and is responsible for monitoring integrity compliance and launching appropriate new initiatives to constantly improve compliance. The Integrity Committee furthermore reports on integrity issues to the Audit Committee.

Corporate Governance recommendations
As a Danish listed company, the company is guided by the recommendations issued by the Danish Committee on Corporate Governance. The company is generally in compliance with such recommendations but has, in four cases, chosen to differ as described below. The variations are generally due to company-specific views on the requirements to optimise value for its shareholders.

The ROCKWOOL Group publishes its statutory report on Corporate Governance for the financial year 2016 cf. the Danish Financial Statements Act section 107b on the company's website, including a detailed description of the Board of Directors' consideration in respect of all the recommendations. The statutory report on Corporate Governance can be found at www.rockwool.com/corporate-governance-2016

Project
Lyceum Schravenlant, Schiedam, the Netherlands

Material
Rockfon ceilings

Architect
LIAG architects

Overview
Enriching modern living
Sustainability
Performance
Corporate Governance

3.1.2

Recommendation
The Committee **recommends** that the selection and nomination of candidates for the Board of Directors be carried out through a thoroughly transparent process approved by the overall Board of Directors.

Explanation
The Board of Directors has authorised the chairmanship to nominate qualified candidates to the Board of Directors. The Board of Directors will then evaluate the candidates before it recommends them for election at the Annual General Meeting.

3.3.2

Recommendation
The Committee **recommends** that the management report includes the following information about the number of shares, options, warrants and similar in the company, and other group companies, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year

Explanation
The company considers the portfolio, and changes in the portfolio during the financial year, of shares, options warrants and similar in the company of each member of the Board of Directors to be a private matter and it is the company's judgment that disclosure of such information will not add additional value for shareholders and other stakeholders.

3.4.6

Recommendation
The Committee **recommends** that the Board of Directors establish a nomination committee chaired by the chairman of the Board of Directors.

Explanation
The Board of Directors has not established a nomination committee. Instead the chairmanship performs the duties recommended concerning the candidates for the Board of Directors.

The Board of Directors selects candidates to the positions as CEO and other Registered Directors on the basis of their qualifications.

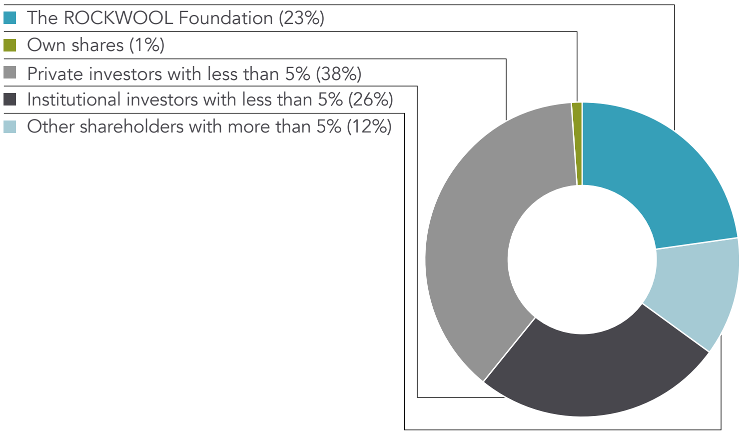
4.2.3

Recommendation
The Committee **recommends** that the total remuneration granted to each member of the Board of Directors and the management by the company and other companies in the Group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.

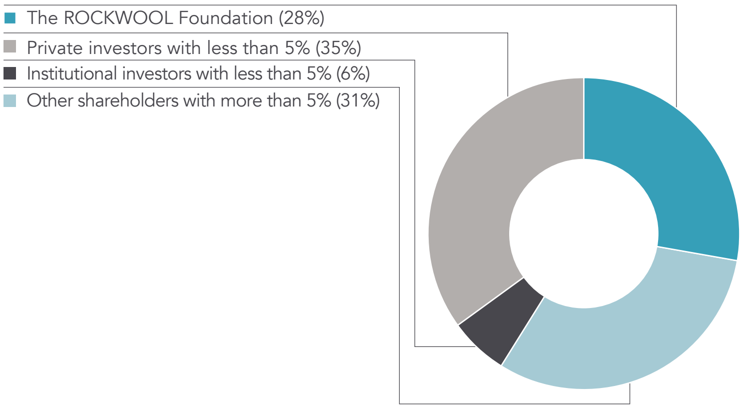
Explanation
The remuneration of the members of the Board of Directors and committees is available on the company's website.

The remuneration of each member of the Group Management is seen to be a private matter and it is the company's judgment that disclosure of the remuneration paid to each individual member of the Group Management will not add additional value for shareholders and other stakeholders.

Ownership per shareholder category (%)



Votes per shareholder category (%)



Share price development 2016

Shareholder information

The ROCKWOOL shares

ROCKWOOL International A/S is listed at Nasdaq Copenhagen. The Company's shares are listed on Nasdaq Copenhagen in two classes – ROCKWOOL A and ROCKWOOL B. Each A share carries 10 votes, while each B share carries one vote.

Both the A and B shares are included in the NASDAQ OMX Large Cap. In addition to NASDAQ Copenhagen the company's shares are traded at a number of other equity exchanges, e.g. Bats and Turquoise and CHI-X.

In 2016, the ROCKWOOL B share price increased by 29%. The ROCKWOOL A share followed the same pattern and increased by 26%.

Trading of shares

The Company's share price improved, so by end of 2016 the two shares had increased in price on average by 28 % compared to end of 2015, whereas the bench market index 'STOXX® Europe 600 Construction & Materials' only increased by 9%. For comparison, the Danish OMX C20 CAP index decreased by 2% during 2016.

The official share price at 30 December 2016 was DKK 1,247 (B-share) and 1,192 (A-share) ending the year with a combined market capitalisation of DKK 26,793 million (including own shares).

Dividend

It is ROCKWOOL International A/S's policy to pay out a stable dividend that is at least 1/3 of the net profit after tax. The intention is that the net debt should be maximum one time the EBITDA, with due regard to the company's long term financing requirements.

At the Annual General Meeting on 5 April 2017, the Board of Directors will propose a dividend of DKK 18.80 per share for the financial year 2016 (2015: DKK 11.50). Dividend is paid out in DKK. The dividend payment is three banking days after the Annual General Meeting.

Ownership

The company had 17,146 registered shareholders on 31 December 2016. By end 2016, 17.3% of the shares were owned by shareholder deposits located outside Denmark.

Share data at a glance

Share class	A	B
Stock exchange	NASDAQ Copenhagen	NASDAQ Copenhagen
Index	OMX Large Cap	OMX Large Cap
Sector	Building materials	Building materials
ISIN code	DK0010219070	DK0010219153
Short code	ROCK A	ROCK B
Nominal size	DKK10	DKK10
Number of shares	11,231,627	10,743,296
Voting rights per share	10	1
Share price year-end	DKK 1,192.33	DKK 1,247.37
Proposed dividend per share	DKK 18.80	DKK 18.80
Payout ratio	33%	33%

In terms of voting capital, 7.3% was located outside Denmark. See below for an overview of ownership.

The Group can hold own shares. At the Annual General Meeting a frame for purchase of own shares is decided. Based on this decision, the Board of Directors can decide to purchase owns shares.

Investor Relations activities
As a listed company ROCKWOOL International A/S has a defined policy for its activities relating to the ROCKWOOL shares. The aim is to:

– Ensure that the capital market has an accurate picture of the earnings potential of ROCKWOOL shares by communicating relevant, correct, balanced, and timely information;

– Ensure that the company complies with all relevant rules and regulations as laid out in the Nasdaq Copenhagen Rules for issuers of shares, as well as applicable Danish legislation for publicly listed companies;

– Ensure fair and transparent rules for the trading of ROCKWOOL shares by the company itself and by persons considered to be ‘insiders’;

– Communicate the ROCKWOOL Group values so the capital market perception is of an honest, accessible, reliable, and responsible company;

– Maintain broad coverage by both domestic and foreign equity analysts;

– Work towards a diversified shareholder base in terms of both investment horizon and geographical location;

– Committed to being knowledgeable, responsive, and proactive in our investor communication maintaining a fair balance between expectations and performance.

Shareholders can communicate with and receive information from ROCKWOOL International A/S through various channels:

– The shareholder portal where you can view your shareholdings; register or change whether you wish to receive the invitation to the General Meeting electronically or by letter; order admission cards to the Annual General Meeting; unsubscribe or re-subscribe to the printed version of our shareholder magazine;

– The Annual General Meeting;

– Shareholder magazine;

– Financial communications such as investor audio casts, presentations, and stock exchange releases;

Our website provides general information on the ROCKWOOL Group, the performance of the ROCKWOOL Group shares, news from the company, financial calendar and much more. A free service allows subscribers to receive instant e-mail alerts when the company publishes new information.

Announcements to Nasdaq Copenhagen stock exchange in 2016, can be found at: www.rockwool.com/stock-exchange

The Investor relations team can be contacted at: investor@rockwool.com

For a list of shareholders holding more than 5% of the share capital or the votes, please refer to note 29.

Financial Calendar 2017
24 February
Annual Report for 2016

5 April
Annual General Meeting

18 May
Report on the first quarter of 2017

23 August
Report on the first half-year of 2017

15 November
Report on the first 3 quarters of 2017

We adopt a "quiet period", where financial communication is halted 30 days prior to the publication of the interim reports, as well as before the full year results.

Banks following the ROCKWOOL shares
ABG Sundal Collier
HSBC
Berenberg Bank
Jyske Bank
Carnegie Bank A/S
Nordea
Danske Bank
SEB
Exane BNP Paribas
Sydbank
Handelsbanken

Analysts' recommendation, consensus and contact details for the analysts can be found at the investor website:
www.rockwool.com/analyst

Annual General Meeting
The upcoming Annual General Meeting will take place on Wednesday 5 April 2017 and is hosted in Roskilde, Denmark. The meeting can be followed live on our website or viewed after the meeting has taken place.

The agenda will be distributed 3-5 weeks prior to the meeting to shareholders who have registered their choice of either electronic or printed communication at our shareholder portal. The agenda will be published on our website.
The agenda will include:

1. The Board of Directors' report on the company's activities during the past financial year;

2. Presentation of the Annual Report 2016 with the auditors' report;

3. Adoption of the Annual Report and discharge of liability for Group Management and the Board of Directors;

4. Approval of Board of Directors' remuneration;

5. Allocation of profits or cover of losses according to the adopted accounts;

6. Election of members to the Board of Directors;

7. Appointment of auditors;

8. Proposals, if any, by the Board of Directors or the shareholders.

Shares must be registered by name in order to vote. Shareholders can submit proposals to the Board of Directors for the agenda 6 weeks prior to the general meeting.

Board of Directors

Lars Elmekilde Hansen

Born in 1960, nationality: Danish

Elected by employees

Senior Project Manager, ROCKWOOL International A/S.

Other positions related to the company:
Member of the Board of the ROCKWOOL Foundation.

Andreas Ronken

Born in 1967, nationality: German

CEO of Alfred Ritter GmbH &Co.KG.

Other positions:

Member of Advisory Board of Otto Cosmetic GmbH, Groß Rohrheim, Germany

Connie Enghus Theisen

Born in 1960, nationality: Danish

Elected by employees

Group Sustainability Manager, ROCKWOOL International A/S

Søren Kähler
Second Deputy Chairman

Born in 1950, nationality: Danish.

Other positions related to the company:
Member of the Chairmanship, Remuneration Committee, Audit Committee, Board of the ROCKWOOL Foundation, and the Kähler Family Meeting.

Positions in other Danish companies:
Chairman of the Board of A/S Saltbækvig.

Other positions:
Member of the Board of the Foundation Sagnlandet Lejre.

Bjørn Høi Jensen
Chairman

Born in 1961, nationality: Danish

CEO of Zeno ApS.

Other positions related to the company:
Member of the Chairmanship and Chairman of the Remuneration Committee.

Positions in other Danish companies:
Deputy Chairman of the Board of Erhvervsinvest Management A/S.

Other positions:
Chairman of the Board of CEPOS. Member of the Board of the Bevica Foundation.

Lars Frederiksen

Born in 1958, nationality: Danish

Other positions related to the company:
Member of the Audit Committee. In accordance with legislation for audit committees in Denmark, Lars Frederiksen is the member of the Audit Committee who is independent and possesses the required insight and experience in financial, accounting and audit aspects of a company listed on the stock exchange.

Positions in other Danish companies:
Chairman of the Board of Matas A/S. Member of the Boards of Falck A/S, Widex A/S, Hedorf Foundation, and Augustinus Industri A/S.

Other positions:
Chairman of the Board of the Committee for Good Corporate Governance, Denmark. Member of the Supervisory Board of PAI Partners SA, France. Member of the Board of Tate & Lyle, the United Kingdom.

Dorte Hanne Page Larsen

Born in 1955, nationality: Danish

Elected by employees

Senior Transport Coordinator, ROCKWOOL International A/S.

Thomas Kähler

Born in 1970, nationality: Danish

Senior Vice President, Head of Systems Division, ROCKWOOL International A/S.

Other positions related to the company:
Member of Group Management and Senior Vice President, Head of Systems Division. Member of the Kähler Family Meeting.

Carsten Bjerg
First Deputy Chairman

Born in 1959, nationality: Danish

Other positions related to the company:
Member of the Chairmanship, Chairman of the Audit Committee and member of the Remuneration Committee.

Positions in other Danish companies:
Chairman of the Board of PCH Engineering A/S, Ellegaard A/S and Guldager A/S. Vice Chairman of the Board of Højgaard Holding A/S.

Member of the Boards of Vestas Wind Systems A/S, MT Højgaard A/S, K. Nissen International A/S, and Agromater A/S.

Group Management

Bernard Plancade

Senior Vice President, Group Operations & Technology

Member of Group Management: 2015

Born in 1962, nationality: French

Group Operations and Technology was established in 2016 to create a platform with the goal of optimising our operations from sourcing to production to product delivery. In the year to come we will remain focused on ensuring we have the right products available in each market while continuing to drive innovation to support the Group's growth.

Volker Christmann

Senior Vice President, Head of Insulation Central Europe

Member of Group Management: 2015

Born in 1957, nationality: German

We have been facing some challenges in the Central and Western European insulation markets during the last years due to the weak development of the single markets. In spite of that we strengthened our position, especially in the German market. All target groups have consistently confirmed that we have the right product mix and value propositions, and we see that stone wool is increasingly becoming the preferred insulation material.

Thomas Kähler

Senior Vice President, Head of Systems Division

Member of Group Management: 2015

Born in 1970, nationality: Danish

Member of the Board of Directors and the Kähler Family Meeting

Our Systems business performed well in 2016 as our customers are becoming increasingly aware of the benefits of our non-insulation product offerings. The Systems business including Rockfon, Rockpanel, Grodan and Lapinus all offer unique solutions that improve quality of life while addressing some of the major challenges facing society today.

Mirella Vitale

Senior Vice President, Marketing, Communications and Public Affairs

Member of Group Management: 2016

Born in 1970, nationality: Italian

During 2016, marketing, communication and public affairs were combined at Group-level. The result is a stronger Group function that can better service the global businesses. An important element of this shift involved clearly defining a purpose that spoke to the entire Group. Our products represent a great opportunity to improve modern living while at the same time tackling some of the world's biggest challenges.

Jens Birgersson

President and Chief Executive Officer (CEO)

Member of the Registered Directors (in Danish: Direktionen).

Member of Group Management: 2015

Born in 1967, nationality: Swedish

This past year we moved full speed ahead in implementing the Business Transformation Programme which has yielded positive results ahead of schedule. Our strong profitability improvement in 2016 was mainly driven by cost savings in logistics and production, lower raw material and personnel costs as well as improved pricing and better volume and product mix.

Henrik Frank Nielsen

Senior Vice President, Head of Insulation North East Europe

Member of Group Management: 2007

Born in 1961, nationality: Danish

2016 was an exciting year in the Northern and Eastern European markets. A new production line in our Cigacice factory in Poland was inaugurated allowing us to meet growing demand for stone wool insulation in the region and we realised the benefits of the new production line in the Doense factory, Denmark, opened in 2015. The past year also demonstrated that despite difficult market circumstances in Russia, we maintained our strong position in this important market.

Camilla Grönholm

Senior Vice President, Group Human Resources

Member of Group Management: 2012

Born in 1964, nationality: Finnish

A company is only as strong as its employees. In that sense, we are privileged to have a team of talented, dedicated employees working together to reach new heights. In 2017, I look forward to expanding our efforts within learning and development focusing on how to capitalise on “win - win” opportunities where the employees’ passion, strength and the business needs align.

Gilles Maria

Senior Vice President, Head of Insulation South West Europe and Insulation Asia

Member of Group Management: 2007

Born in 1958, nationality: French

The insulation needs and demands in South West Europe and Asia are quite different but both offer promising business developments now and in the years to come. In Asia, the insulation demand is expected to continue to grow supported by increasing urbanis ation and industrialisation in the region. In South West Europe we see an opportunity to grow hand-in-hand with increased renovation rates as existing, older buildings become more energy efficient.

Kim Junge Andersen

Senior Vice President, Chief Financial Officer (CFO)

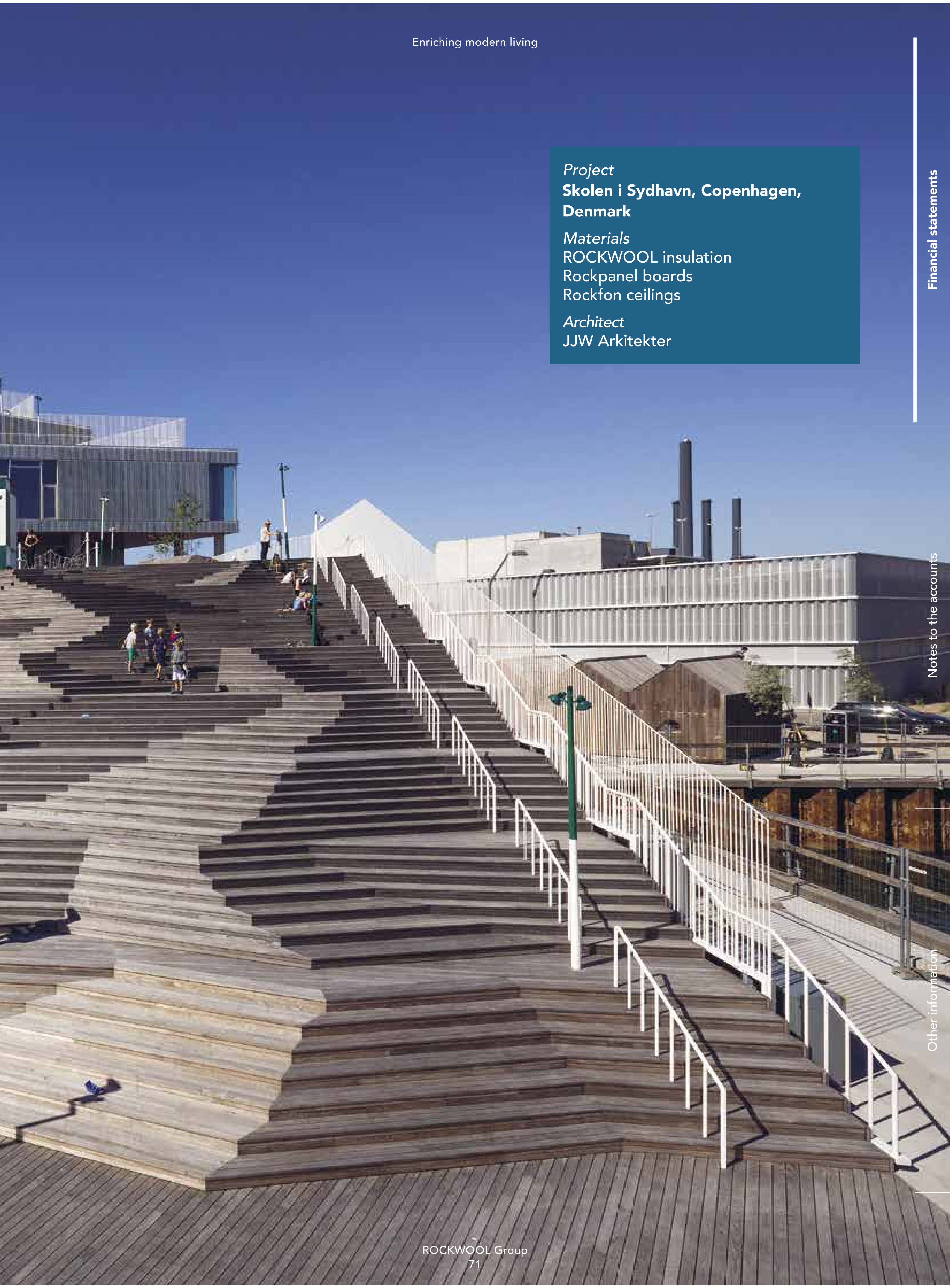
Member of the Registered Directors (in Danish: Direktionen).

Member of Group Management: 2016

Born in 1962, nationality: Danish

During this year of transformation, one of the key initiatives has been establishing a competence centre to manage financial and IT processes based in Poznan, Poland. The business service centre will offer high-quality services for the Group and allow us and our partners to benefit from the synergies of standardised processes.

Financial statements



Project
Skolen i Sydhavn, Copenhagen, Denmark

Materials
ROCKWOOL insulation
Rockpanel boards
Rockfon ceilings

Architect
JJW Arkitekter

Income statement

1 January – 31 December

		Group		Parent Company	
EURm	Note	2016	2015	2016	2015
Net sales	1	2,201.8	2,207.9	76.0	74.4
Other operating income	2	12.7	12.7	123.5	114.4
Operating income		**2,214.5**	**2,220.6**	**199.5**	**188.8**
Raw material costs and production material costs		736.8	793.9	56.9	47.1
Delivery costs and indirect costs		310.1	308.4	9.5	9.3
Other external costs		225.1	238.3	60.3	57.2
Personnel costs	3	553.3	558.3	38.8	38.6
Hereof redundancy costs from Business Transformation Programme	4	8.0	15.4	0.7	2.4
Operating costs		**1,825.3**	**1,898.9**	**165.5**	**152.2**
EBITDA		**389.2**	**321.7**	**34.0**	**36.6**
EBITDA ex. redundancy costs from Business Transformation Programme		397.2	337.1	34.7	39.0
Depreciation, amortisation and write-downs	5	159.8	186.8	13.7	14.5
Hereof write-down of assets in Asia	4	-	21.4	-	-
EBIT		**229.4**	**134.9**	**20.3**	**22.1**
EBIT ex. redundancy costs and write-downs from Business Transformation Programme		237.4	171.7	21.0	24.5
Income from investments in subsidiaries	6	-	-	78.8	-5.6
Income from investments in associated companies	29	2.0	2.3	3.0	1.9
Financial income	7	3.6	20.6	17.2	35.8
Financial expenses	8	10.4	24.4	5.2	20.0
Profit before tax		**224.6**	**133.4**	**114.1**	**34.2**
Tax on profit for the year	9	58.2	42.7	4.9	17.4
Profit for the year		**166.4**	**90.7**	**109.2**	**16.8**
Attributable to:					
Non-controlling interests		0.2	-0.5		
Shareholders of ROCKWOOL International A/S		166.2	91.2		
		166.4	**90.7**		
Dividend per share of DKK 10				DKK 18.8	DKK 11.5
Earnings per share of DKK 10 (EUR 1.3)	10	7.68	4.22		
Earnings per share of DKK 10 (EUR 1.3), diluted	10	7.64	4.20		

Statement of comprehensive income

1 January – 31 December

		Group		Parent Company	
EURm	Note	2016	2015	2016	2015
Profit for the year		**166.4**	**90.7**	**109.2**	**16.8**
Items that will not be reclassified to the income statement:					
Actuarial gains and losses of pension obligations	19	-15.3	-1.0	-	-
Tax on other comprehensive income		1.1	-0.2	-	-
Items that may be subsequently reclassified to the income statement:					
Exchange rate adjustments of foreign subsidiaries		35.2	12.2	4.1	-2.5
Hedging instruments, value adjustments		1.1	0.7	-	-
Tax on other comprehensive income		2.0	-2.4	1.5	-
Total other comprehensive income		**24.1**	**9.3**	**5.6**	**-2.5**
Comprehensive income for the year		**190.5**	**100.0**	**114.8**	**14.3**
Attributable to:					
Non-controlling interests		0.2	-1.1		
Shareholders of ROCKWOOL International A/S		190.3	101.1		
		190.5	**100.0**		

Balance sheet – Assets

As at 31 December

		Group		Parent Company	
EURm	Note	2016	2015	2016	2015
Goodwill	11, 30	88.1	85.9	-	-
Software	11	14.4	18.8	13.9	18.3
Customer relationships	11	19.2	22.3	-	-
Other intangible assets	11	27.7	31.2	23.3	27.8
Total intangible assets		149.4	158.2	37.2	46.1
Buildings and sites	12	581.9	564.9	15.5	14.2
Plant and machinery	12	521.7	538.1	-	-
Other operating equipment	12	20.1	20.2	2.6	4.2
Prepayments and tangible assets under construction	12	32.9	69.4	-	-
Total tangible assets		1,156.6	1,192.6	18.1	18.4
Shares in subsidiaries	13, 28	-	-	853.7	842.3
Shares in associated companies	13, 28	50.4	49.8	5.1	4.2
Loans to subsidiaries	13, 28, 29	-	-	340.7	436.4
Long term deposits and debtors		3.0	3.5	-	-
Deferred tax assets	18, 30	49.2	42.2	-	-
Total financial assets		102.6	95.5	1,199.5	1,282.9
Non-current assets		**1,408.6**	**1,446.3**	**1,254.8**	**1,347.4**
Inventories	15	176.0	168.4	2.4	3.5
Work in progress		-	-	4.0	0.8
Trade receivables	16	238.1	226.3	-	-
Receivables from subsidiaries and associated companies	28, 29	1.4	2.0	122.9	211.4
Other receivables		33.3	39.9	20.2	15.1
Prepayments		17.3	10.9	6.6	2.5
Income tax receivable	22	4.3	23.5	1.5	-
Cash	25	120.3	87.5	55.3	-
Current assets		**590.7**	**558.5**	**212.9**	**233.3**
Total assets		**1,999.3**	**2,004.8**	**1,467.7**	**1,580.7**

Balance sheet – Equity and liabilities

As at 31 December

		Group		Parent Company	
EURm	**Note**	**2016**	**2015**	**2016**	**2015**
Share capital	14, 17	29.5	29.5	29.5	29.5
Foreign currency translation		-103.5	-138.7	3.6	-0.5
Proposed dividend		55.6	33.9	55.6	33.9
Reserve for development costs		-	-	3.6	-
Retained earnings		1,549.8	1,442.1	1,065.8	1,003.9
Hedging		0.7	-2.4	-	-
Equity attributable to shareholders in the parent company		**1,532.1**	**1,364.4**	**1,158.1**	**1,066.8**
Non-controlling interests		3.8	2.6	-	-
Total equity		**1,535.9**	**1,367.0**	**1,158.1**	**1,066.8**
Deferred tax liabilities	18	44.5	47.7	12.9	17.7
Pension obligations	19	67.5	54.3	-	-
Provisions for other liabilities and charges	20	14.2	12.6	0.3	0.4
Bank loans and other loans	21	1.6	4.4	-	-
Non-current liabilities		**127.8**	**119.0**	**13.2**	**18.1**
Short-term portion of long-term debt	21	1.5	0.1	-	-
Bank debt	21, 25	1.2	175.7	-	155.1
Trade payables	21	162.8	149.0	10.5	14.3
Payables to subsidiaries and associated companies	21, 29	-	-	262.3	296.8
Provisions for other liabilities and charges	20	14.0	20.0	-	1.6
Income tax payable	22	23.7	27.2	-	8.3
Other payables	21	132.4	146.8	23.6	19.7
Current liabilities		**335.6**	**518.8**	**296.4**	**495.8**
Total liabilities		**463.4**	**637.8**	**309.6**	**513.9**
Total equity and liabilities		**1,999.3**	**2,004.8**	**1,467.7**	**1,580.7**

Cash flow statement

Accounting policies

The cash flow statement is presented using the indirect method on the basis of EBIT. The cash flow statement shows cash flows for the year, as well as cash and cash equivalents at the beginning and at the end of the financial year. Cash flows from operating activities are calculated as operating profit before financial items adjusted for non-cash operating items and working capital changes. Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises and other asset investments. Cash flows from financing activities comprise the raising of loans, instalments on loans, payment of dividends and increases of the share capital.

Cash available include cash and bonds less short-term bank debt.

		Group		Parent Company	
EURm	**Note**	**2016**	**2015**	**2016**	2015
EBIT		229.4	134.9	20.3	22.1
Adjustments for depreciation, amortisation and write-downs	5	159.8	186.8	13.7	14.5
Other adjustments	23	-7.0	7.8	82.7	115.7
Change in net working capital	24	-0.7	12.2	42.8	-14.9
Cash flow from operations before financial items and tax		**381.5**	**341.7**	**159.5**	**137.4**
Finance income etc. received		6.6	22.4	27.3	35.8
Finance costs etc. paid		-7.1	-22.1	-15.3	-20.0
Taxes paid		-55.0	-44.7	-18.8	-4.7
Cash flow from operating activities		**326.0**	**297.3**	**152.7**	**148.5**
Payments for tangible assets		-96.0	-167.9	-2.0	-3.5
Proceeds from sale of tangible assets		9.4	-	-	-
Proceeds from investment grants		2.6	0.8	-	-
Payments for intangible assets		-4.2	-3.3	-3.8	-13.7
Acquisition of new activities, net of cash acquired		-	-30.7	-	-
Additions of subsidiaries and associated companies		-0.9	-	-46.7	-30.6
Proceeds from sale of subsidiaries and associated companies		-	0.4	-	-
Dividend and capital decrease in subsidiaries and associated companies		-	-	-	30.7
Cash flow from investing activities		**-89.1**	**-200.7**	**-52.5**	**-17.1**
Cash flow from operating and investing activities (free cash flow)		**236.9**	**96.6**	**100.2**	**131.4**
Dividend paid		-33.4	-32.6	-33.4	-32.6
Dividend paid to non-controlling interests		-0.3	-	-	-
Payments for own shares		-0.2	-10.0	-0.2	-10.0
Proceeds from sale of own shares		9.3	4.8	9.3	4.8
Transactions with non-controlling interests		1.4	-	-	-
Change in non-current debtors		0.5	2.5	133.4	-6.7
Instalments of non-current debt		-1.4	-1.5	-	-28.3
Increase in non-current debt		-	1.4	-	-
Cash flow from financing activities		**-24.1**	**-35.4**	**109.1**	**-72.8**
Changes in cash available		**212.8**	**61.2**	**209.3**	**58.6**
Cash available 1/1		-88.2	-139.7	-155.1	-213.7
Exchange rate adjustments		-5.5	-9.7	1.1	0
Cash available 31/12	**25**	**119.1**	**-88.2**	**55.3**	**-155.1**
Unutilised, committed credit facilities 31/12		**497.7**	**350.8**	**497.7**	**350.8**

Individual items in the cash flow statement cannot be directly deduced from the consolidated balance sheet.

Statement of changes in equity

Accounting policies

Dividend is included as a liability at the time of adoption by the Annual General Meeting. Dividend that is expected to be paid for the year is shown separately in the equity.

Sale and purchase of, as well as dividends on own shares are recognised under retained earnings in the equity.

The reserve for foreign currency translation consists of exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into EUR.

Hedging adjustments comprise changes in the fair value of hedging transactions that qualify for recognition as cash flow hedges and where the hedged transaction has not yet been realised.

Non-controlling interests
Non-controlling interests are recognised at the minority's share of the net assets. On acquisition of non-controlling interests acquired net assets are not re-measured at fair value. The difference between the costs and the non-controlling interests' share of the total carrying amount including goodwill is transferred from the minority interests' share of the equity to the equity belonging to the shareholders of ROCKWOOL International A/S.

Reserve for development costs
In compliance with the Danish Financial Statements act from 1 January 2016 an amount equal to the years capitalised development projects is reserved in equity of the Parent Company. The reserved amount must be dissolved in line with the depreciation of the corresponding development project. The dissolved amount is moved to retained earnings.

Group

Attributable to shareholders of ROCKWOOL International A/S

EURm	Share capital	Foreign currency translation	Proposed dividend	Retained earnings	Hedging	Equity before minority interests	Non-controlling interests	Total equity
Equity 1/1 2016	**29.5**	**-138.7**	**33.9**	**1,442.1**	**-2.4**	**1,364.4**	**2.6**	**1,367.0**
Profit for the year	-	-	55.6	110.6	-	166.2	0.2	166.4
Other comprehensive income	-	35.2	-	-14.2	3.1	24.1	-	24.1
Comprehensive income for the year	-	35.2	55.6	96.4	3.1	190.3	0.2	190.5
Sale and purchase of own shares	-	-	-	9.1	-	9.1	-	9.1
Expensed value of options issued	-	-	-	1.7	-	1.7	-	1.7
Transactions non-controlling interests	-	-	-	-	-	-	1.3	1.3
Dividend paid to the shareholders	-	-	-33.9	0.5	-	-33.4	-0.3	-33.7
Equity 31/12 2016	**29.5**	**-103.5**	**55.6**	**1,549.8**	**0.7**	**1,532.1**	**3.8**	**1,535.9**
Equity 1/1 2015	**29.5**	**-149.2**	**33.4**	**1,388.7**	**-3.0**	**1,299.4**	**3.7**	**1,303.1**
Profit for the year	-	-	33.9	57.3	-	91.2	-0.5	90.7
Other comprehensive income	-	10.5	-	-1.2	0.6	9.9	-0.6	9.3
Comprehensive income for the year	-	10.5	33.9	56.1	0.6	101.1	-1.1	100.0
Sale and purchase of own shares	-	-	-	-5.2	-	-5.2	-	-5.2
Expensed value of options issued	-	-	-	1.7	-	1.7	-	1.7
Dividend paid to the shareholders	-	-	-33.4	0.8	-	-32.6	-	-32.6
Equity 31/12 2015	**29.5**	**-138.7**	**33.9**	**1,442.1**	**-2.4**	**1,364.4**	**2.6**	**1,367.0**

Comments

It is ROCKWOOL International A/S' policy to pay out a stable dividend that is at least 1/3 of the net profit after tax. In 2016 a dividend of DKK 11.50 (EUR 1.54) per share was decided.

At the Annual General Meeting on 5 April 2017, the Board of Directors will propose a dividend of DKK 18.80 (EUR 2.53) per share for the financial year 2016.

Management assesses the Group's capital requirements on an ongoing basis. At the end of 2016 the equity ratio was 76.8% (2015: 68.2%). The Group aims at having an equity ratio above 60%.

Statement of changes in equity

Parent Company

EURm	Share capital	Foreign currency translation	Proposed dividend	Reserve for development costs	Retained earnings	Total equity
Equity 1/1 2016	**29.5**	**-0.5**	**33.9**	**-**	**1,003.9**	**1,066.8**
Profit for the year	-	-	55.6	3.6	50.0	109.2
Other comprehensive income	-	4.1	-	-	1.5	5.6
Comprehensive income for the year	-	4.1	55.6	3.6	51.5	114.8
Sale and purchase of own shares	-	-	-	-	9.1	9.1
Expensed value of options issued	-	-	-	-	0.8	0.8
Dividend paid to the shareholders	-	-	-33.9	-	0.5	-33.4
Equity 31/12 2016	**29.5**	**3.6**	**55.6**	**3.6**	**1,065.8**	**1,158.1**
Equity 1/1 2015	**29.5**	**2.0**	**33.4**	**-**	**1,024.5**	**1,089.4**
Profit for the year	-	-	33.9	-	-17.1	16.8
Other comprehensive income	-	-2.5	-	-	-	-2.5
Comprehensive income for the year	-	-2.5	33.9	-	-17.1	14.3
Sale and purchase of own shares	-	-	-	-	-5.2	-5.2
Expensed value of options issued	-	-	-	-	0.9	0.9
Dividend paid to the shareholders	-	-	-33.4	-	0.8	-32.6
Equity 31/12 2015	**29.5**	**-0.5**	**33.9**	**-**	**1,003.9**	**1,066.8**

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1. Segmented accounts

Accounting policies

Group Management has determined the business segments for the purpose of assessing business performance and allocating resources. Primarily segments are based on products and thermal performance, as Systems segment is primarily defined as non-thermal insulation products.

Segmental data is stated for business areas and geographical areas. The split by business areas is in accordance with the Group's internal reporting. The segmental data is presented according to the same principle as the consolidated financial statements. The segmental EBIT includes net sales and expenditure including non-recurring expenditure operationally related to the segment. Net interest costs are not allocated to the segments as this type of activity is driven centrally in the Group.

Business segments

Group	Insulation segment		Systems segment		Eliminations		The ROCKWOOL Group	
EURm	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Income statement								
External net sales	1,633.9	1,664.7	567.9	543.2	-	-	2,201.8	2,207.9
Internal net sales	254.6	253.0	-	-	-254.6	-253.0	-	-
EBIT, segment profit	148.9	64.3	80.5	70.6	-	-	229.4	134.9
EBIT margin	*7.9%*	*3.4%*	*14.2%*	*13.0%*			*10.4%*	*6.1%*
Adjusted EBIT, segment profit*	156.8	99.1	80.6	72.6	-	-	237.4	171.7
*Adjusted EBIT margin**	*8.3%*	*5.2%*	*14.2%*	*13.4%*			*10.8%*	*7.8%*
Non-current asset investments	71.5	169.7	24.7	4.1	-	-	96.2	173.8

* Excl. redundancy costs from the Business Transformation Programme in 2016 and 2015 and write-downs in Asia in 2015.

Comments

The ROCKWOOL Group operates in two business segments based on products: Insulation segment and Systems segment. The information is based on the management structure and internal management reporting to Group Management and constitutes the reportable segments.

Headquarters costs are allocated to the business segments based on allocation keys used in the internal management reporting. These allocation keys are reassessed annually based on planned activity in the segments. Intangible and tangible assets and related amortisation/depreciation are not fully allocated to business segments as all stone wool production is done in the Insulation segment. Financial income and expenses, and income taxes are managed at Group level and are not allocated to business segments.

Internal net sales from the Insulation segment to the Systems segment are at arms' length prices.

The Insulation segment includes among others interior building insulation, facade insulation, roof insulation and industrial and technical insulation. The Systems segment includes acoustic ceilings, cladding boards, engineered fibres, noise and vibration control, and horticultural substrates.

Of the redundancy costs related to the Business Transformation Programme amounting to EUR 8.0 million (2015: EUR 15.4 million) - EUR 7.9 million (2015: EUR 13.4 million) is related to the Insulation segment and EUR 0.1 million (2015: 2.0 million) to the Systems segment. The write-down of assets in China and India from last year is all related to the Insulation Segment.

Notes

1. Segmented accounts (continued)

Geographical segments Group	Intangible and tangible assets		Net sales	
EURm	**2016**	**2015**	**2016**	**2015**
Western Europe	500.7	550.1	1,292.2	1,288.8
Eastern Europe and Russia	355.9	338.8	377.2	400.5
North America, Asia and others	449.4	461.9	532.4	518.6
Total	**1,306.0**	**1,350.8**	**2,201.8**	**2,207.9**

Comments

The net sales information above is based on the location of the customers while the information regarding the assets distribution is based on the physical placement of the assets. The domestic sale in Denmark is in the range of 3-4% of the Group's net sales both this year and last year.

The domestic intangible and tangible assets in Denmark amount to EUR 139.5 million (2015: EUR 156.3 million).

No customers exceed 10% of the Group's net sales neither this year nor last year.

In both Germany and France net sales amounts to between 10-15% of the Group's total net sales. In no other country do the net sales exceed 10% of the Group's total net sales.

2. Other operating income

	Group		**Parent Company**	
EURm	**2016**	**2015**	**2016**	**2015**
Royalties and other income	8.7	12.4	123.5	114.4
Net profit on sale of assets	4.0	0.3	-	-
Total	**12.7**	**12.7**	**123.5**	**114.4**

Notes

3. Personnel costs

Accounting policies

An equity-based share option programme has been established, which is offered to Management and senior managers. The share option programme is not part of the ordinary remuneration, as the Board of Directors of ROCKWOOL International A/S will, from time to time, decide whether share options are to be offered.

On issuing of share options, the value of the allotted options is estimated in compliance with the formula of Black & Scholes at the time of allotment and is expensed under staff costs over the expected life of the option. The amount charged is set off against equity.

The effect of expired options is adjusted continuously over the income statement and set off against equity, respectively.

Apart from share options ROCKWOOL issues Restricted Stock Units (RSU). They are subject to a vesting period of no less than three years after which they are transferred to the participants or settled in cash, subject to continued employment.

A minor part of the share options and restricted stock units are given as phantom shares and are adjusted to fair value through the income statement.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Wages and salaries	450.1	442.8	33.9	31.7
Redundancy costs from Business Transformation Programme	8.0	15.4	0.7	2.4
Expensed value of options/RSU's issued	2.7	1.7	0.8	0.8
Pension contributions	22.4	28.3	3.3	3.4
Other social security costs	70.1	70.1	0.1	0.3
Total	**553.3**	**558.3**	**38.8**	**38.6**
Average number of employees	10,516	10,844	303	312
The above items include to Board of Directors and Group Management:				
Remuneration to Group Management	5.1	4.4	5.1	4.4
Pension contribution	0.8	0.3	0.8	0.3
Value of options/RSU's issued	0.8	0.8	0.8	0.8
Board of Directors' remuneration	0.7	0.7	0.7	0.7
Total	**7.4**	**6.2**	**7.4**	**6.2**
Hereof remuneration to Registered Directors	1.9	1.7	1.9	1.7
Hereof value of options/RSU's issued to Registered Directors	0.4	0.5	0.4	0.5
Hereof pension to Registered Directors	0.6	0.1	0.6	0.1
Total to Registered Directors	**2.9**	**2.3**	**2.9**	**2.3**

Comments

No redundancy agreement is included in the remuneration in 2016, while the redundancy agreement for one change in Group Management is included in 2015.

Notes

3. Personnel costs (continued)

2016

Year	Agreements	Number of share options/ RSU's	Price (DKK)	Exercise period
2011	53	36,885	642-644-646	01.09.2014 - 31.08.2017*
2012	33	41,370	515	01.09.2015 - 31.08.2020
2013	43	78,550	900	23.09.2016 - 22.09.2021
2015	59	104,350	769	20.03.2018 - 19.03.2023
2016 Restricted Stock Units (RSU)	62	13,784	-	08.04.2019 - 07.04.2022
	250	**274,939**		

* Share options can be exercised by employees in the Group at the lower value in the beginning of the period and at the higher value at the end of the period.

Of the number of shares 25,226 belongs to Registered Directors and 249,713 to senior managers.

2015

Year	Agreements	Number of share options	Price (DKK)	Exercise period
2009	37	35,745	421	01.11.2013 - 31.10.2016
2011	90	66,140	642-644-646	01.09.2014 - 31.08.2017*
2012	60	73,350	515	01.09.2015 - 31.08.2020
2013	58	98,900	900	23.09.2016 - 22.09.2021
2015	60	105,100	769	20.03.2018 - 19.03.2023
	305	**379,235**		

* Share options can be exercised by employees in the Group at the lower value in the beginning of the period and at the higher value at the end of the period.

Of the number of shares 39,900 belongs to Registered Directors and 339,335 to senior managers.

Comments

Group Management and senior managers receive share options and Restricted Stock Units to retain them in the ROCKWOOL Group. The share option and RSU schemes for retaining executives fulfil the criteria provided for in the Corporate Governance recommendations.

The Board of Directors members do not receive share options/RSU's.

The share options and RSU's are exercisable 3 years after the issue date and will expire between 6 to 8 years after the issue date. The exercise price is based on the market price of the ROCKWOOL International A/S share at the date of grant and in 2011 corrected for the estimated future dividend and interest costs.

Notes

3. Personnel costs (continued)

Share options and RSU's	2016 Number of shares	2016 Average price (EUR)	2015 Number of shares	2015 Average price (EUR)
Options outstanding 1/1	379,235	93.7	347,100	87.4
Issued during the year	13,784	138.2	107,000	103.1
Exercised during the year	117,330	78.6	65,415	74.6
Cancelled during the year	750	103.3	9,450	96.6
Options/RSU's outstanding 31/12	**274,939**	**102.9**	**379,235**	**93.7**

No share options have expired in 2016 or in 2015.

Comments

RSU's issued during 2016, were at the time they were issued, valued at EUR 1.9 million (2015: Share options valued at EUR 1.9 million).

The average share price for the exercised share options in 2016 was EUR 157.0 (2015: EUR 129.8).

The market value of the share options and RSU's has been calculated using the Black & Scholes option pricing model with assumptions as shown below, where the volatility is based on a 3 year historical average of volatility of the ROCKWOOL International A/S B-share:

	2016	2015
Expected life of the options/RSU in years (average)	3	3
Expected volatility	26.0%	22.7%
Expected dividend per share	1.12%	1.47%
Risk-free interest rate	-0.2%	0.15%
ROCKWOOL B share price at the date of grant (EUR)	138.2	103.2

4. "Hereof redundancy costs from Business Transformation Programme in 2016 and 2015 and write-downs in Asia in 2015"

Comments

As a consequence of the Business Transformation Programme launched in September 2015 redundancy costs of a significant level has been recognised in both 2016 and 2015. As this is seen as an exceptional event the figures have been disclosed separately.

In 2015 the ambition level was lowered and combined with a more selective approach in terms of targeted segments and countries in Asia. As a consequence, reassessment of the Group's Asian assets was carried out which resulted in write-downs of assets in China and India in 2015.

The write-downs of assets made in China and India are disclosed in the "hereof" line as they are part of the Business Transformation Programme aiming at establishing a more focused business.

Notes

5. Depreciation, amortisation and write-downs

Accounting policies

When there is an indication of a reduction in the profitability of an asset, an impairment test is performed for the assets in question and write-downs are made if necessary. For goodwill annual impairment tests are made. The recoverable amounts of the assets and cash-generating units (CGU's) have been determined based on value-in-use calculations. When testing for impairment, the value is written down to the estimated recoverable amount, if lower. Other assets are tested for impairment when there are indications of change in the structural profitability.

Uncertainties, estimates and assumptions

When preparing impairment tests, estimates are used to calculate the future value. Significant estimates are made when assessing long-term growth rates and profitability. In addition an assessment is made of the reasonable discount rate. Changes in the growth rate in the budget period or discount rate may result in significantly different values. The assessments are made based on budgets, business plans and projections for 5 years and take into account previous experience and represent Management's best estimate of future developments.

Key parameters are growth in sales, margin, future investments, working capital, discount rate and future growth expectations.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Amortisation of intangible assets	15.5	17.0	11.8	13.4
Write-down of intangible assets	-	4.3	-	-
Depreciation of tangible assets	144.3	148.0	1.9	1.1
Write-down of tangible assets	-	23.2	-	-
Reversal of previous write-down of tangible assets	-	-5.7	-	-
Total	**159.8**	**186.8**	**13.7**	**14.5**

Impairment test of goodwill

EURm

2016

CGUs	Net book value, Goodwill	Discount rate	Growth rate (budget period)	Headroom
Chicago Metallic Corporation	60.9	9.1%	6-10%	Large
HECK Wall Systems	11.4	8.1%	4-5%	3.4
CSR	8.3	10.5%	3-10%	Large
Other	7.5	8.1-9.7%	0-6%	Large
Total	**88.1**			

2015

CGUs	Net book value, Goodwill	Discount rate	Growth rate (budget period)	Headroom
Chicago Metallic Corporation	58.6	9.8%	6-10%	Large
HECK Wall Systems	11.4	8.1%	1-3%	6.6
CSR	8.3	10.7%	4-13%	Large
Other	7.6	8.2-9.7%	0-3%	Large
Total	**85.9**			

Notes

5. Depreciation, amortisation and write-downs (continued)

Comments

Management has performed the yearly impairment test of the carrying amount of goodwill. In addition impairment test of other assets has also been made, where indication of reduction of value was found. In the impairment test, the carrying amount of the assets is compared to the discounted value of the future cash flows. The assessment of future cash flows is typically based on 5-year management reviewed budgets and business plans, where the last year is used as a normalised terminal year. Net sales, raw material prices, future investments, pre-tax discount rate and future growth assumptions constitute the most material parameters in the calculation.

The average growth rate in the terminal period has been set to 0.5% similar to last year.

Growth in sales is estimated to be between 2%-13% depending on the businesses. The high growth rates are used in countries where we historically have seen steep increases after a slow period. Gross margins are based on average values the last 3 years and adjusted over the budget period for efficiency improvements and expected raw material inflation based on past actual price movements and future market conditions. Future investment is derived from the historic investment level to secure a smooth operation of the factories and the capacity utilisation is based on the current situation including investment plans. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

2016

The impairment tests for 2016 have not shown a need for impairment write-down nor reversals of the write-downs recognised previous years.

Sensitivity analysis

As part of the preparation of impairment tests, sensitivity analyses are prepared on the basis of relevant risk factors and scenarios that management can determine within reasonable reliability. Sensitivity analyses are prepared by altering the estimates with a range of probable outcomes. The sensitivities have been assessed as follows, all other things being equal; an increase in the discount rate of 1%, a decrease in the growth rate of 0.5% p.a. and an increase of input costs of 1% p.a.

The impairment test of the goodwill in HECK Wall Systems shows only small headroom. If the discount rate was to increase 1%, there would be a need for write-down amounting to EUR 1.7 million.

Furthermore if the growth rate in the budget period was to decrease by 0.5% p.a. a write-down of EUR 1.6 million would be needed. The business is monitored closely to see if the performance is in line with the plan. Otherwise corrective actions will be made to secure improved profitability.

The performance of the factories that was written down in 2015 is following the expected development, and therefore no adjustments are made.

We consider chosen scenarios as the most realistic why none of the impairment tests have given rise to adjustment of the value.

2015

Due to difficult market conditions combined with a more selective approach in terms of targeted segments and countries, the impairment test of the businesses in China and India resulted in a write-down of EUR 21.4 million of which EUR 2.2 million is related to goodwill in CSR Ltd. in China, EUR 1.5 million to other intangible assets and EUR 17.7 million to buildings, plant and machinery in the Asian Insulation segment. In addition, the Group has evaluated the value in use for some businesses in Western Europe and Asia in the Insulation segment and a write down of EUR 6.1 million is recognised, while the test in other parts of Western Europe resulted in a reversal of EUR 5.7 million in the Insulation segment.

Notes

6. Income from investments in subsidiaries

Accounting policies

Dividends on capital investments in subsidiaries and associated enterprises are recognised as income in the parent company's income statement in the financial year in which the dividends are declared.

	Parent Company	
EURm	**2016**	**2015**
Dividends received from subsidiaries	80.5	78.8
Purchase and sale of shares in subsidiaries	-	18.3
Write-down of shares and loans in subsidiaries	-1.7	-102.7
Total	**78.8**	**-5.6**

Comments

In the parent company an impairment test of subsidiaries has been made, which has led to a net write-down of EUR 1.7 million (2015: EUR 102.7 million).

7. Financial income

Accounting policies

Financial income includes interest, financial expenditure on finance lease, fair value adjustments and realised and unrealised foreign exchange net gains.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Interest income	1.7	4.3	1.2	2.9
Interest income from subsidiaries	-	-	8.3	10.2
Foreign exchange gains	1.9	16.3	7.7	22.7
Total	**3.6**	**20.6**	**17.2**	**35.8**
Hereof:				
Financial income on financial assets at amortised cost	1.4	3.8	2.7	2.9

Notes

8. Financial expenses

Accounting policies

Financial expenses include interest, financial expenditure on finance lease, fair value adjustments and realised and unrealised foreign exchange net losses.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Interest expenses etc.	5.4	8.5	3.4	4.3
Interest expenses to subsidiaries	-	-	0.9	1.7
Foreign exchange losses	5.0	15.9	0.9	14.0
Total	**10.4**	**24.4**	**5.2**	**20.0**
Hereof:				
Financial expenses on financial liabilities at amortised cost	3.6	6.8	3.4	4.3

9. Tax on profit for the year

Accounting policies

The parent company is taxed jointly with all Danish subsidiaries. Income subject to joint taxation is fully distributed. Tax on the profit for the year, which includes current tax on the profit for the year as well as changes to deferred tax, is recognised in the income statement.

In the course of conducting business globally, transfer pricing disputes etc. with tax authorities may occur, and Management judgement is applied to assess the possible outcome of such disputes. The most probable outcome is used as the measurement method, and Management believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

Tax on changes in other comprehensive income is recognised directly under other comprehensive income.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Current tax for the year	55.7	47.2	8.2	8.9
Change in deferred tax	-5.3	-8.3	-1.8	-3.2
Adjustment to valuation of tax assets	5.4	-7.1	-	-
Withholding taxes	2.0	4.4	-0.8	4.4
Adjustment in current and deferred tax in previous years	0.4	6.5	-0.7	7.3
Total	**58.2**	**42.7**	**4.9**	**17.4**

Notes

9. Tax on profit for the year (continued)

Reconciliation of effective tax rate	Group	
	2016	2015
Danish tax rate	22.0%	23.5%
Deviation in non-Danish subsidiaries' tax compared to Danish tax percentage	3.8%	3.4%
Prior year adjustment	0.2%	4.9%
Withholding tax adjustment	0.9%	3.3%
Permanent differences	-0.1%	2.0%
Adjustment to valuation of tax assets	2.4%	-5.3%
Initial recognition of tax grant	-2.7%	-
Other deviations	-0.6%	0.2%
Effective tax percentage	**25.9%**	**32.0%**

10. Earnings per share

	Group	
EURm	2016	2015
Profit for the year excluding minority interests	166.2	91.2
Average number of shares ('000)	21,975	21,975
Average number of own shares ('000)	334	376
Average number of shares outstanding ('000)	**21,641**	**21,599**
Dilution effect of share options ('000)	114	95
Diluted average number of outstanding shares ('000)	**21,755**	**21,694**
Earnings per share	7.68	4.22
Earnings per share, diluted	7.64	4.20

Notes

11. Intangible assets

Accounting policies

The costs of research activities are carried as expenditure in the year in which they are incurred. The costs of development projects which are clearly defined and identifiable, and of which the potential technical and commercial exploitation is demonstrated, are capitalised to the extent that they are expected to generate future revenue. Other development costs are recognised on an ongoing basis in the income statement under operating costs.

Intangible assets, apart from goodwill, are stated at cost less accumulated amortisation and write-downs.

Amortisation of the following intangible assets is made on a straight-line basis over the expected future lifetime of the assets, which is:

Development projects: 2-10 years

Patents: up to 20 years

Software: 2-4 years

Trademarks: up to 20 years

Customer relationships: 10-15 years

Goodwill arisen from acquisition of enterprises and activities are stated at cost. The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. Identification of cash-generating units is based on the management structure and internal financial control.

Acquired CO_2 rights are capitalised under intangible assets. Granted CO_2 rights are not capitalised.

Goodwill is tested annually for impairment and the book value of other assets is reviewed on indications of impairment. When testing for impairment, the value is written down to the estimated net sales price or the useful value, if greater. Other assets are tested for impairment when there are indications of change in the structural profitability.

A prior period correction has been made between deferred tax assets and goodwill in the balance sheet - please refer to note 30.

From 1 January 2016 an amount equal to the years capitalised development costs is to be reserved in equity of the parent company. Please refer to the Statement of changes in equity on page 77-78.

Notes

11. Intangible assets (continued)

Uncertainties, estimates and assumptions

The expected lifetime for intangible and tangible assets is determined based on past experience and expectations for future use of the assets. Reassessments of the expected future lifetime are also made in connection with changes in production structures.

Please also refer to note 5 regarding impairment tests.

EURm	Group					Parent Company		
2016	Goodwill	Software	Customer relationships	Other	Total	Software	Other	Total
Cost:								
Accumulated 1/1	110.6	71.9	29.9	56.6	269.0	66.3	43.5	109.8
Exchange rate adjustments	2.2	0.2	0.1	-0.1	2.4	0.2	0.2	0.4
Additions for the year	-	3.8	-	0.3	4.1	3.6	0.2	3.8
Disposals for the year	-	-6.3	-	-	-6.3	-6.1	-1.0	-7.1
Accumulated 31/12	**112.8**	**69.6**	**30.0**	**56.8**	**269.2**	**64.0**	**42.9**	**106.9**
The above costs include:								
Intangible assets under construction	-	4.7	-	-	4.7	4.7	-	4.7
Amortisation and write-downs:								
Accumulated 1/1	24.7	53.1	7.6	25.4	110.8	48.0	15.7	63.7
Exchange rate adjustments	0.0	0.0	-0.1	-0.2	-0.3	0.2	0.1	0.3
Amortisation for the year	-	8.3	3.3	3.9	15.5	8.0	3.8	11.8
Disposals for the year	-	-6.2	-	-	-6.2	-6.1	-	-6.1
Accumulated 31/12	**24.7**	**55.2**	**10.8**	**29.1**	**119.8**	**50.1**	**19.6**	**69.7**
Net book value 31/12	**88.1**	**14.4**	**19.2**	**27.7**	**149.4**	**13.9**	**23.3**	**37.2**

During the year R&D costs amounting to EUR 32.0 million (2015: EUR 31.4 million) have been expensed.

Notes

11. Intangible assets (continued)

EURm	Group					Parent Company		
2015	**Goodwill**	**Software**	**Customer relationships**	**Other**	**Total**	**Software**	**Other**	**Total**
Cost:								
Accumulated 1/1	86.9	68.0	43.5	40.0	238.4	63.0	33.6	96.6
Adjustments to opening balance*	18.7	-	-	-	18.7	-	-	-
Adjusted accumulated 1/1*	105.6	68.0	43.5	40.0	257.1	63.0	33.6	96.6
Exchange rate adjustments	5.0	0.1	-0.5	2.1	6.7	-0.1	0.0	-0.1
Additions for the year	-	9.9	-	-	9.9	6.5	9.9	16.4
Reclassification between asset types	-	-5.7	-13.1	16.1	-2.7	-2.7	-	-2.7
Disposals for the year	-	-0.4	-	-1.6	-2.0	-0.4	-	-0.4
Accumulated 31/12*	**110.6**	**71.9**	**29.9**	**56.6**	**269.0**	**66.3**	**43.5**	**109.8**
The above costs include:								
Intangible assets under construction	0	3.5	0	0	3.5	3.5	0	3.5
Amortisation and write-downs:								
Accumulated 1/1	21.3	45.6	7.8	13.0	87.7	39.2	11.6	50.8
Exchange rate adjustments	0.6	0.2	-0.3	1.4	1.9	-0.1	0.0	-0.1
Amortisation for the year	-	9.4	3.2	4.4	17.0	9.3	4.1	13.4
Write-downs for the year	2.8	-	1.5	-	4.3	-	-	-
Reclassification between asset types	-	-2.0	-4.6	6.6	-	-	-	-
Disposals for the year	-	-0.1	-	-	-0.1	-0.4	-	-0.4
Accumulated 31/12	**24.7**	**53.1**	**7.6**	**25.4**	**110.8**	**48.0**	**15.7**	**63.7**
Net book value 31/12*	**85.9**	**18.8**	**22.3**	**31.2**	**158.2**	**18.3**	**27.8**	**46.1**

The Group has reassessed the classification of intangible assets which has led to some reclassification with no effect on the net book value for intangible and tangible assets as a total.

*A prior period correction has been made between deferred tax assets and goodwill in the balance sheet - please refer to note 30.

Comments

Goodwill is allocated to the Insulation segment at an amount of EUR 27.1 million (2015: EUR 27.0 million) and to the Systems segment at an amount of EUR 60.8 million (2015: EUR 40.2 million).

Goodwill has been impairment tested in 2016 and 2015 for the identified cash generating units, which for 2016 has not led to any write-downs (2015: EUR 0.6 million) in the Insulation segment.

For 2015 an additional write-down amounting to EUR 2.2 million was recognised due to the distribution of the write-down based on the Chinese impairment test.

The impairment test of goodwill is based on current and future results for the segments to where the results are allocated. Most of the goodwill in the Group is related to the acquisition of HECK Wall Systems in 2014, Chicago Metallic in 2013 and CSR in 2010 and this part of the Group is performing according to plan.
For a description of impairment test on intangible assets please refer to note 5.

The net book value of other intangible assets includes development projects amounting to EUR 5.2 million (2015: EUR 6.4 million) and brands amounting to EUR 5.7 million (2015: EUR 6.6 million).

Notes

12. Tangible assets

Accounting policies

Tangible assets are stated at cost less accumulated depreciation and impairment losses.

The cost of technical plant and machinery manufactured by the Group comprises the acquisition cost, expenditure directly related to the acquisition, engineering hours, including indirect production costs and borrowing costs.

Financial leased assets are recognised in the balance sheet at market value at the date of acquisition, and are written off at depreciation rates equivalent to those for the same category of owned assets.

Depreciation is carried out on a straight-line basis, based on current assessment of their useful lives and scrap value. The expected lifetimes are:

Buildings: 20-40 years

Technical plant and machinery: 5-15 years

Operating equipment and fixture and fittings: 3-10 years

On sale or scrapping of assets, any losses or gains are included under other operating income for the year.

Investment grants are recognised as income in step with the depreciation against the equivalent tangible assets. Investment grants not yet recognised as income are set off against the assets to which the grant is related.

Uncertainties, estimates and assumptions

The expected lifetime for tangible assets is determined based on past experience and expectations for future use of the assets.

Reassessments of the expected future lifetime are also made in connection with changes in production structures.

When there is an indication of a reduction in the profitability of an asset an impairment test is performed for the assets in question and write-downs are made if necessary.

The recoverable amounts of the assets and cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as they are based on budgets, business plans and projections for 5 years and take into account previous experience and represent Management's best estimate of future developments.

Key parameters are growth in sales margin, future investments working capital, discount rate and future growth expectations. Please refer to note 5.

Notes

12. Tangible assets (continued)

EURm	Group					
2016	Buildings and sites	Plant and machinery	Other operating equipment	Prepayments and tangible assets under construction	Investment grants	Total
Cost:						
Accumulated 1/1	935.2	1,915.5	85.2	69.4	-80.1	2,925.2
Exchange rate adjustments	17.9	14.0	1.7	0.2	2.1	35.9
Additions for the year	1.0	3.8	1.2	88.7	-2.6	92.1
Transfer of assets under construction	32.8	85.4	6.9	-125.1	-	-
Disposals for the year	-10.6	-20.9	-10.1	-0.3	0.3	-41.6
Accumulated 31/12	**976.3**	**1,997.8**	**84.9**	**32.9**	**-80.3**	**3,011.6**
Depreciation and write-downs:						
Accumulated 1/1	360.7	1,372.1	65.0	-	-65.2	1,732.6
Exchange rate adjustments	1.7	4.0	1.2	-	1.7	8.6
Depreciation for the year	25.2	112.5	8.4	-	-1.8	144.3
Disposals for the year	-4.5	-16.4	-9.8	-	0.2	-30.5
Accumulated 31/12	**383.1**	**1,472.2**	**64.8**	**-**	**-65.1**	**1,855.0**
Net book value 31/12	**593.2**	**525.6**	**20.1**	**32.9**	**-15.2**	**1,156.6**
Investment grants	**-11.3**	**-3.9**	**-**	**-**	**15.2**	**-**
Net book value after investment grants 31/12	**581.9**	**521.7**	**20.1**	**32.9**	**-**	**1,156.6**

Notes

12. Tangible assets (continued)

EURm	Group					
2015	Buildings and sites	Plant and machinery	Other operating equipment	Prepayments and tangible assets under construction	Investment grants	Total
Cost:						
Accumulated 1/1	891.4	1,844.6	84.3	84.7	-64.5	2,840.5
Exchange rate adjustments	-10.5	-10.9	-0.9	14.3	-0.7	-8.7
Additions for the year	2.0	13.3	0.4	149.0	-0.8	163.9
Transfer of assets under construction	61.1	112.1	7.9	-178.4	-	2.7
Disposals for the year	-8.8	-43.6	-6.5	-0.2	-14.1	-73.2
Accumulated 31/12	**935.2**	**1,915.5**	**85.2**	**69.4**	**-80.1**	**2,925.2**
Depreciation and write-downs:						
Accumulated 1/1	340.8	1,296.4	64.6	-	-47.2	1,654.6
Exchange rate adjustments	-4.4	-10.8	-0.6	-	-0.5	-16.3
Depreciation for the year	26.9	117.1	7.5	-	-3.5	148.0
Write-downs for the year	5.9	17.3	-	-	-	23.2
Reversal of previous write-downs for the year	-	-5.7	-	-	-	-5.7
Disposals for the year	-8.5	-42.2	-6.5	-	-14.0	-71.2
Accumulated 31/12	**360.7**	**1,372.1**	**65.0**	**-**	**-65.2**	**1,732.6**
Net book value 31/12	**574.5**	**543.4**	**20.2**	**69.4**	**-14.9**	**1,192.6**
Investment grants	**-9.6**	**-5.3**	**-**	**-**	**14.9**	**-**
Net book value after investment grants 31/12	**564.9**	**538.1**	**20.2**	**69.4**	**-**	**1,192.6**

Comments

Of the total net book value of buildings and sites, EUR 94.6 million (2015: EUR 98.3 million) represent sites not subject to depreciation. Costs for building and machinery acquired as finance lease at EUR 6.2 million (2015: EUR 6.2 million) represent a net book value of EUR 0.0 million (2015: EUR 0.2 million).

Accumulated capitalised interests amounting to EUR 5.8 million (2015: EUR 5.8 million) are included in the cost of tangible assets. There is no additional capitalised interest this year.

For the recognised investment grants the conditions are fulfilled or are expected to be fulfilled. Some of the received investment grants are subject to repayment obligations provided that the attached conditions are not fulfilled within a number of years.

The Group's investment grants are for the main part received in Poland, Spain, the UK, Germany and the US. The investment grants are in most cases linked to expansion of the Group including the amount of investment in tangible assets and the creation of jobs - and is given as cash or loans. Only limited contingent liabilities exist.For a description of impairment tests on tangible assets please see note 5.

Contractual obligations for the purchase of tangible assets amounts to EUR 17.3 million (2015: EUR 15.7 million).

The parent company has investment obligations of EUR 13.8 million (2015: EUR 13.7 million).

Notes

12. Tangible assets (continued)

EURm	Parent Company		
2016	**Buildings and sites**	**Other operating equipment**	**Total**
Cost:			
Accumulated 1/1	27.9	11.9	39.8
Exchange rate adjustments	0.1	0.0	0.1
Additions for the year	2.0	-	2.0
Disposals for the year	-	-2.8	-2.8
Accumulated 31/12	**30.0**	**9.1**	**39.1**
Depreciation and write-downs:			
Accumulated 1/1	13.7	7.7	21.4
Exchange rate adjustments	0.2	0.0	0.2
Depreciation for the year	0.6	1.3	1.9
Disposals for the year	-	-2.5	-2.5
Accumulated 31/12	**14.5**	**6.5**	**21.0**
Net book value 31/12	**15.5**	**2.6**	**18.1**
2015			
Cost:			
Accumulated 1/1	27.5	8.8	36.3
Exchange rate adjustments	0.0	0.0	0.0
Additions for the year	0.4	0.4	0.8
Transfers from assets under construction	-	2.7	2.7
Disposals for the year	-	-	-
Accumulated 31/12	**27.9**	**11.9**	**39.8**
Depreciation and write-downs:			
Accumulated 1/1	13.2	7.1	20.3
Exchange rate adjustments	0.0	0.0	0.0
Depreciation for the year	0.5	0.6	1.1
Disposals for the year	-	-	-
Accumulated 31/12	**13.7**	**7.7**	**21.4**
Net book value 31/12	**14.2**	**4.2**	**18.4**

Notes

13. Financial assets

Accounting policies

The parent company's shares in subsidiaries and associated enterprises are measured at cost less write-downs as a result of permanent decreases in the earning capacity of the enterprises in question.

Investments in associates are measured in the balance sheet of the Group at equity value in accordance with the Group's accounting principles applied after proportional elimination of intra group profit and losses.

The relative share of the associated enterprises' profit after tax is recognised in the Group income statement.

EURm	Group	Parent Company			
2016	**Shares in associated companies**	**Shares in subsidiaries**	**Loans to subsidiaries**	**Shares in associated companies**	**Total**
Cost:					
Accumulated 1/1	8.2	1,143.2	491.3	4.2	1,638.7
Exchange rate adjustments	0.0	4.3	1.9	0.0	6.2
Additions for the year	0.9	45.8	34.3	0.9	81.0
Reductions/disposals for the year	-	-	-167.6	-	-167.6
Accumulated 31/12	**9.1**	**1,193.3**	**359.9**	**5.1**	**1,558.3**
Adjustments:					
Accumulated 1/1	41.6	-300.9	-54.9	-	-355.8
Exchange rate adjustments	1.0	-1.2	-0.1	-	-1.3
Profit for the year after tax	1.9	-	-	-	-
Write-down for the year	-	-37.5	-	-	-37.5
Reversal write-downs previous years	-	-	35.8	-	35.8
Dividend	-3.2	-	-	-	-
Accumulated 31/12	**41.3**	**-339.6**	**-19.2**	**-**	**-358.8**
Net book value 31/12	**50.4**	**853.7**	**340.7**	**5.1**	**1,199.5**
2015					
Cost:					
Accumulated 1/1	8.6	1,160.0	485.7	4.6	1,650.3
Exchange rate adjustments	0.0	-2.4	-1.2	0.0	-3.6
Additions for the year	-	30.6	48.9	-	79.5
Reductions/disposals for the year	-0.4	-45.0	-42.1	-0.4	-87.5
Accumulated 31/12	**8.2**	**1,143.2**	**491.3**	**4.2**	**1,638.7**
Adjustments:					
Accumulated 1/1	36.1	-248.7	-5.0	-	-253.7
Exchange rate adjustments	5.3	0.6	0.0	-	0.6
Profit for the year after tax	2.3	-	-	-	-
Write-down for the year	-	-52.8	-49.9	-	-102.7
Dividend	-2.1	-	-	-	-
Accumulated 31/12	**41.6**	**-300.9**	**-54.9**	**-**	**-355.8**
Net book value 31/12	**49.8**	**842.3**	**436.4**	**4.2**	**1,282.9**

Notes

13. Financial assets (continued)

Comments

Shares in associated companies consist of 20% ownership in RESO SA in France and 43.5% ownership in Flumroc AG in Switzerland. Shares in associated companies increased in 2016 as ownership in Flumroc AG increased from 42.3% to 43.5% due to purchase of shares. Shares in associated companies were reduced in 2015 as shares in Transys were sold in October 2015.

In 'Loans to subsidiaries' an amount of EUR 153.2 million (2015: EUR 183.5 million) is recognised as an addition to the share investment. Reference is made to the list of Group companies on page 117.

In the parent company impairment tests have been made of the value of the shares in subsidiaries and the loans to subsidiaries.

In connection with the raising of loans and credit facilities, the parent company has accepted restrictions of its rights of disposal of the shares in subsidiaries representing a book value of EUR 238.8 million (2015: EUR 238.2 million).

14. Own shares (A and B shares)

Accounting policies

ROCKWOOL International A/S has a reserve of own shares recognised in retained earnings. The shares are bought back to meet obligations under the company's equity-based share option programme.

	Group					
	2016			2015		
	Number of shares	Average purchase/ sales price	% of share capital	Number of shares	Average purchase/ sales price	% of share capital
Own shares 1/1	391,835		1.7	359,522		1.6
Purchase	1,200	138.8	0.0	97,578	102.8	0.4
Adjustment	150	56.5	0.0	150	56.4	0.0
Sale	117,330	78.6	0.4	65,415	74.6	0.3
Own shares 31/12	**275,855**		**1.3**	**391,835**		**1.7**

Own shares are acquired and sold in connection with hedging of the Group's share options programme etc. Own shares are purchased based on authorisation from the General Assembly.

Notes

15. Inventories

Accounting policies

Inventories are valued at the lowest value of historical cost calculated as a weighted average or the net realisation value.

The cost of finished goods and work in progress include the direct costs of production materials and wages, as well as indirect production costs.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Inventory before write-downs	184.6	177.8	2.4	3.5
Write-downs 1/1	-9.4	-8.2	-	-
Change in the year	0.8	-1.2	-	-
Write-downs 31/12	-8.6	-9.4	-	-
Inventories 31/12	**176.0**	**168.4**	**2.4**	**3.5**

Specification of inventories	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Raw materials and consumables	82.9	80.4	2.4	3.5
Work in progress	8.2	8.1	-	-
Finished goods	84.9	79.9	-	-
Inventories 31/12	**176.0**	**168.4**	**2.4**	**3.5**

Comments

Raw materials and consumables include the net amount of the spare part inventory of EUR 19.7 million (2015: EUR 21.2 million.

The net amount consists of a cost price of EUR 66.8 million (2015: EUR 51.1 million) and a write-down of EUR 47.1 million (2015: EUR 29.9 million).

Notes

16. Trade receivables

Accounting policies

Receivables are measured after deduction for write-downs to meet losses on the basis of an individual assessment.

	Group			
EURm	2016		2015	
Trade receivables before write-downs (maximum credit risk)		252.0		241.5
Write-downs 1/1	-15.2		-16.8	
Exchange rate adjustments	0.1		-0.2	
Movements during the year	-0.6		-0.2	
Realised losses during the year	1.8		2.0	
Write-downs 31/12		-13.9		-15.2
Trade receivables 31/12		**238.1**		**226.3**

Trade receivables (gross) can be specified as follows:	Group	
EURm	2016	2015
Not due	210.8	203.2
Overdue by:		
1-60 days	27.5	24.3
60-360 days	4.6	5.9
Older	9.1	8.1
Trade receivables before write-downs	**252.0**	**241.5**

Primarily trade receivables overdue more than 90 days are written down.

Notes

17. Share capital

EURm	Parent Company 2016	Parent Company 2015
A shares - 11,231,627 shares of DKK 10 each (EUR 1.3)	15.0	15.0
B shares - 10,743,296 shares of DKK 10 each (EUR 1.3)	14.5	14.5
Total	**29.5**	**29.5**

Comments

Each A share of a nominal value of DKK 10 (EUR 1.3) carries 10 votes, and each B share of a nominal value of DKK 10 (EUR 1.3) carries 1 vote. The total share capital has been unchanged for the last 17 years.

18. Specification of tax assets and deferred tax

Accounting policies

Provisions for deferred tax are calculated on all temporary differences between accounting and taxable values, calculated using the balance-sheet liability method.

Deferred tax provisions are also made to cover the re-taxation of losses in jointly taxed foreign companies previously included in the Danish joint taxation.

Deferred tax assets are recognised when it is probable that the assets will reduce tax payments in coming years and they are assessed at the expected net realisable value.

Deferred tax is stated according to current tax regulations. Changes in deferred tax as a consequence of changes in tax rates are recognised in the income statement.

A prior period correction has been made between deferred income tax and goodwill in the balance sheet - please refer to note 30.

Uncertainties, estimates and assumptions

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining provision for uncertain tax positions or the recognition of a deferred tax asset.

A tax asset is recognised if it is assessed that the asset can be utilised in a foreseeable future based on sufficient future profits are available to absorb the temporary differences including the Group's future tax planning.

Specific on losses carried forward the expectations are viewed for the coming 3-5 years.

Notes

18. Specification of tax assets and deferred tax (continued)

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Deferred taxes, net 1/1*	5.5	19.2	17.7	21.0
Change in deferred tax recognised in profit and loss	-8.8	-15.4	-3.8	-3.2
Exchange rate adjustments	2.3	-0.9	0.1	-0.1
Deferred tax for the year recognised in other comprehensive income for the year	-3.7	2.6	-1.1	-
Deferred tax, net 31/12*	**-4.7**	**5.5**	**12.9**	**17.7**
Deferred tax is recognised in the balance sheet as follows:				
Deferred tax assets*	49.2	42.2	-	-
Deferred tax liabilities	44.5	47.7	12.9	17.7
Deferred tax, net 31/12*	**-4.7**	**5.5**	**12.9**	**17.7**
Deferred tax relates to:				
Non-current assets	19.7	29.8	3.7	4.3
Current assets	-6.6	-7.2	1.0	0.4
Non-current liabilities*	-20.2	-11.9	-1.7	-0.1
Current liabilities	-4.3	-4.2	-	-
Tax loss carried forward	-3.2	-14.1	-	-
Re-taxable amounts	9.9	13.1	9.9	13.1
Deferred tax, net 31/12*	**-4.7**	**5.5**	**12.9**	**17.7**

The tax assets expire as follows:

	Group			
EURm	**2016**		**2015**	
	Recognised assets	Unrecognised assets	Recognised assets	Unrecognised assets
Within 1 year of balance sheet date	0.0	1.7	0.7	2.1
Within 1-5 years of balance sheet date	1.3	14.0	2.9	12.0
After 5 years of balance sheet date	0.7	7.0	0.7	6.1
Do not expire*	47.2	23.3	37.9	19.3
Total*	**49.2**	**46.0**	**42.2**	**39.5**

*A prior period correction has been made between deferred tax assets and goodwill in the balance sheet - please refer to note 30.

Comments

Tax assets not recognised amount to EUR 46.0 million (2015: EUR 39.5 million). The tax assets have not been recognised as they have arisen in subsidiaries that have been loss-making for some time and there is no evidence of recoverability in the near future.

Deferred tax assets and liabilities are offset in the consolidated balance sheet if the Group has a legally enforceable right to set off and the deferred tax assets and liabilities relate to the same legal tax entity/consolidation. Of the total deferred tax assets recognised, EUR 3.2 million (2015: EUR 14.1 million) relate to tax loss carry forwards. The valuation of tax assets related to losses carried forward is done on a yearly basis and is based on expected positive taxable income within the next 3-5 years.

Notes

19. Pension obligations

Accounting policies

Pension payments concerning defined contribution plans are recognised on an ongoing basis in the income statement.

Defined benefit plans are stated at the net present value at the balance sheet date and included in the consolidated financial statements. Adjustments of the plans are carried out on a regular basis in accordance with underlying actuarial assessments. Actuarial gains or losses for defined benefit plans are recognised in full in the period in which they occur in other comprehensive income. The actuarial assessment is carried out every year.

For certain defined benefit plans the related assets are placed in pension funds not included in the consolidated financial statements. The payments to the pension funds are based on the usual actuarial assessments and are recognised in the income statement after maturity. Provided that the actuarial assessments of pension obligations show noticeable excess solvency or insolvency in relation to the pension fund's assets, the difference is entered to the balance sheet and the future payments are adjusted accordingly. With regard to these schemes, the actuarial assessment is also carried out every year.

Uncertainties, estimates and assumptions

The present value of defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes to these assumptions will impact the carrying amount of pension obligations. The discount rate and other key assumptions are based in part on the current market conditions.

	Group	
EURm	**2016**	**2015**
Defined contribution plans		
Pension costs for the year, total	**19.9**	**20.7**
Defined benefit plans		
Pension costs	1.8	6.8
Interest costs	4.6	4.9
Interest income	-3.2	-3.6
Curtailments/settlements	-0.7	-0.5
Pension costs for the year, total	**2.5**	**7.6**

Net value of pension plans	Group				
EURm	**2016**	**2015**	**2014**	**2013**	**2012**
Present value of pension liabilities	159.7	150.5	134.0	106.5	103.6
Fair value of plan assets	-92.2	-96.2	-93.6	-79.0	-73.6
Net value of pension plans 31/12	**67.5**	**54.3**	**40.4**	**27.5**	**30.0**

Notes

19. Pension obligations (continued)

Comments

A number of the Group's employees and former employees participate in pension schemes. The pension schemes are primarily defined contribution plans. However, defined benefit plans are used for Belgium and for past services only in the UK and for small groups of employees in Norway, Switzerland and Germany.

Under a defined benefit plan the Group carries the risk associated with the future development in e.g. interest rates, inflation, salaries, mortality and disability.

Defined benefit plans typically guarantee the employees a retirement benefit based on the final salary at retirement.

The pension benefit plans in the UK and Belgium have assets placed in independent pension funds. A number of plans in Germany, Poland, Italy, France and Norway are unfunded. For these plans the retirement benefit obligations amount to approximately 29% (2015: 28%) of the total gross liability.

Except for the UK plan, the mentioned defined benefit plans are not subject to regulatory requirements regarding minimum funding.

The granted pension payments of the mentioned defined benefit plans are based upon the salary of the participating employees during the period of employment. The Group's contributions are derived from the split of the pension premium between the employee and employer.

The actuarial assessment of the pension obligation is based on assumptions specific to each country. The latest actuarial calculation is prepared by authorised experts. The valuation of the assets is based on the composition and the expectations to the economic development. The assumptions used are weighted averages:

	Group	
	2016	**2015**
Increase in salaries and wages	1.9 %	2.1%
Discount rate	2.3 %	3.4%
Remaining life expectancy at the time of retirement (years)	29.9	26.2

Development in the present value of the defined benefit obligation	**Group**	
EURm	**2016**	**2015**
Balance 1/1	150.5	134.0
Exchange rate adjustments	-15.6	5.8
Pension costs	1.8	6.8
Interest costs	4.6	4.9
Settlements	-0.6	-0.5
Actuarial gains/losses from changes in demographic assumptions	-2.8	-
Actuarial gains/losses from changes in financial assumptions	31.0	-2.0
Actuarial gains/losses from changes in experience	-2.4	1.0
Benefits paid	-6.7	-6.9
Business combinations	-	7.4
Other adjustments	-0.1	-
Total 31/12	**159.7**	**150.5**

Notes

19. Pension obligations (continued)

Sensitivity analysis
A sensitivity analysis for significant assumptions as at 31 December 2016 is shown below:

	Group					
Assumptions	Discount rate		Salary increase		Life expectancy	
	-0.5%	+0.5%	-1.0%	+1.0%	-1 year	+1 year
EURm						
2016 - Impact on obligation	14.7	-14.3	-0.7	0.8	-3.8	4.0
2015 - Impact on obligation	13.7	-12.0	-0.8	0.9	-3.5	3.5

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions.

The following payments are expected contributions to the defined benefit plan obligation:

	Group	
EURm	2016	2015
0-1 year	2.2	2.2
1-5 years	9.7	9.8
Falling due after 5 years	12.5	15.8
Total	**24.4**	**27.8**

The expected duration of the defined benefit plan obligation is 20 years (2015: 20 years) as at year end.

Development in the fair value of the plan assets:	Group	
EURm	2016	2015
Balance 1/1	96.2	93.6
Exchange rate adjustments	-13.5	5.4
Interest income	3.2	3.6
Return on plan assets	10.4	-2.0
Employer's contribution	0.9	1.0
Benefits paid	-5.0	-5.4
Total 31/12	**92.2**	**96.2**

Plan assets in major categories held as a percentage of total plan assets	Group	
	2016	2015
Assets quoted in active markets:		
Equities in European markets	47 %	49 %
Bonds in European markets	50 %	49 %
Assets unquoted:		
Cash	-	-
Other	3 %	2 %

Notes

20. Provisions for other liabilities and charges

Accounting policies

Liabilities are recognised if they are certain or probable at the balance sheet date, and if the size of the liability can be measured on a reliable basis. The liability is calculated as the amount expected to be paid.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Provision for employees 1/1	8.6	25.5	0.4	0.4
Exchange rate adjustments	0.1	0.0	-	-
Additions for the year	1.0	2.7	-	-
Used during the year	-1.2	-8.4	-0.1	-
Reversed during the year	-0.2	-11.2	-	-
Total 31/12	**8.3**	**8.6**	**0.3**	**0.4**
Provisions for claims and legal proceedings 1/1	4.9	3.9	-	-
Exchange rate adjustments	0.0	0.0	-	-
Additions for the year	2.9	3.5	-	-
Used during the year	-1.6	-1.7	-	-
Reversed during the year	-1.9	-0.8	-	-
Total 31/12	**4.3**	**4.9**	**-**	**-**
Other provisions 1/1	19.1	9.9	1.6	-
Exchange rate adjustments	0.0	0.0	-	-
Additions for the year	11.0	15.4	-	2.4
Used during the year	-9.8	-4.4	-1.6	-0.8
Reversed during the year	-4.7	-1.8	-	-
Total 31/12	**15.6**	**19.1**	**-**	**1.6**
Total provisions	**28.2**	**32.6**	**0.3**	**2.0**
Specification of provisions:				
Non-current liabilities	14.2	12.6	0.3	0.4
Current liabilities	14.0	20.0	-	1.6
Total provisions	**28.2**	**32.6**	**0.3**	**2.0**

Comments

Provisions relate primarily to jubilee obligations and retirement benefits, restructuring and ongoing disputes, lawsuits etc.

As at 31 December 2016 other provisions include a provision of EUR 7.3 million (2015: EUR 13.7 million) for restructuring measures. This provision is expected to be utilised within 1 year.

Notes

21. Bank loans and other financial liabilities

Accounting policies

Interest-bearing debt is valued at amortised cost measured on the basis of the effective interest rate at the time of borrowing.

The proceeds from the loan are compiled less transaction costs.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Redemption				
Redemption within 1 year	**297.9**	**471.6**	**296.4**	**485.9**
Redemption between 1 and 3 years	1.2	2.9	-	-
Redemption between 3 and 5 years	0.3	1.3	-	-
Falling due after 5 years	0.1	0.2	-	-
Total non-current	**1.6**	**4.4**	**-**	**-**
Interest reassessment time				
Reassessed less than 12 months	1.0	3.7	-	-
Reassessed after more than 12 months or is fixed-interest	0.6	0.7	-	-
Total	**1.6**	**4.4**	**-**	**-**
Yield				
Non-interest bearing	0.6	0.7	-	-
Below 4%	1.0	3.7	-	-
Total	**1.6**	**4.4**	**-**	**-**

None of the debt in neither 2016 nor 2015 comprises capitalized finance lease commitments.

Notes

22. Income tax receivable and payable

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Balance 1/1	3.7	-11.6	8.3	-3.2
Exchange rate adjustments	0.2	-0.4	0.0	0.0
Current tax for the year	55.7	47.2	8.1	8.9
Payments during the year	-53.0	-38.0	-18.8	-4.7
Adjustment in respect of prior years	12.1	6.5	1.3	7.3
Current tax for the year recognised in other comprehensive income	0.7	-	-0.4	-
Total 31/12	**19.4**	**3.7**	**-1.5**	**8.3**
Income tax is recognised as follows:				
Income tax receivable	4.3	23.5	1.5	-
Income tax payable	23.7	27.2	-	8.3
Total 31/12	**19.4**	**3.7**	**-1.5**	**8.3**

23. Adjustments

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Provisions	-4.6	5.8	-1.7	1.6
Expensed value of options issued	1.6	1.7	0.8	0.8
Gain/loss on sale of intangible and tangible assets	-4.0	0.3	-	-
Income from subsidiaries and associated companies	-	-	83.6	113.3
Total adjustments	**-7.0**	**7.8**	**82.7**	**115.7**

24. Change in net working capital

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Change in inventories	-3.7	8.3	-2.1	2.1
Change in trade receivables	-10.6	-7.6	-	-
Change in other receivables	3.5	-1.4	83.9	-85.2
Change in trade payables	20.4	-6.7	-3.8	-1.1
Change in other debt	-10.3	19.6	-35.2	69.3
Change in net working capital	**-0.7**	**12.2**	**42.8**	**-14.9**

Notes

25. Cash available

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Cash	120.3	87.5	55.3	-
Bank debts	1.2	175.7	-	155.1
Cash available 31/12	**119.1**	**-88.2**	**55.3**	**-155.1**

26. Financial risks and instruments

Accounting policies

Derivative financial instruments are initially recognised in the balance sheet at cost price and are subsequently measured at fair value. Derivative financial instruments are recognised in other receivables and other debt.

Changes to the fair value of derivative financial instruments, which meet the conditions for hedging the fair value of a recognised asset or liability, are recognised in the income statement together with any changes in the fair value of the hedged asset or liability.

Changes to the fair value of derivative financial instruments, which meet the conditions for hedging future cash flow, are recognised in other comprehensive income provided the hedge has been effective. The accumulated value adjustment related to these hedge transactions is transferred from other comprehensive income when the position is realised, and is included in the value of the hedged position e.g. the adjustment follows the cash flow.

For derivative financial instruments, which do not qualify as hedging instruments, changes to the fair value are recognised on an ongoing basis in the income statement as financial income or financial expenses.

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Financial instruments for hedging of future cash flows	0.6	0.3	-	-
Fair value hedges	1.7	-	1.7	-
Financial assets at fair value	**2.3**	**0.3**	**1.7**	**-**
Trade receivables	238.1	226.3	-	-
Other receivables and receivables from subsidiaries and associated companies	34.7	41.9	483.9	662.9
Cash	120.3	87.5	55.3	-
Receivables at amortised costs	**393.1**	**355.7**	**539.2**	**662.9**
Financial instruments for hedging of future cash flows	0.2	1.0	-	-
Financial liabilities at fair value	**0.2**	**1.0**	**-**	**-**
Bank loans incl. short term	3.1	4.5	-	-
Bank debt	1.2	175.7	-	155.1
Trade payables	162.8	149.0	10.5	14.3
Other payables	132.4	146.8	285.9	316.5
Financial liabilities at amortised costs	**299.5**	**476.0**	**296.4**	**485.9**

The carrying value of the Group's and the parent company's financial assets and liabilities measured at amortised costs are assessed to be a reasonable approximation of fair value.

Notes

26. Financial risks and instruments (continued)

Other receivables and receivables from subsidiaries and associated companies fall due as follows:

	Group		Parent Company	
EURm	2016	2015	2016	2015
< 1 year	34.7	41.9	143.1	226.5
1–3 years	-	-	31.9	-
4–5 years	-	-	10.1	-
> 5 years	-	-	298.7	436.4
Total	**34.7**	**41.9**	**483.8**	**662.9**

Comments

As a consequence of the ROCKWOOL Group's extensive international activities the Group's income statement and equity are subject to a number of financial risks. The Group manages these risks in the following categories:

– Exchange-rate risk
– Interest-rate risk
– Liquidity risk
– Credit risk

The Group's policy is to identify and hedge significant financial risks on an ongoing basis. This is the responsibility of the individual companies in which financial risks might arise. The parent company continuously monitors the Group's financial risks in accordance with a framework determined by Group Management.

Exchange-rate risk
As a consequence of the Group's structure, net sales and expenditure in foreign currency are to a significant degree set off against each other, so that the Group is not exposed to major exchange-rate risks.

Commercial exchange-rate risks in the companies which cannot be set off are hedged on a continuous basis, to the extent that they may significantly affect the results of the individual company in a negative direction, using currency loans, currency deposits and/or financial derivatives. Exchange-rate risks are hedged in the individual companies.

The Group's net sales and expenditures will be subject to exchange-rate fluctuations on translation into Euro; however, the risk is assessed to be limited.

A sensitivity analysis is made for the Group's result and equity based on the underlying currency transactions. The financial instruments included in the sensitivity analysis are cash, debtors, creditors, non-current and current liabilities and financial investments without taking hedging into consideration. The result of the sensitivity analysis cannot be directly transferred to the fluctuations on translating the financial result and equity of subsidiaries into EUR.

The Group's result is most exposed to USD, RUB and CAD. A movement of 5%, other things equal, in USD would change the result of around EUR 4-6 million (2015: EUR 6-9 million). A 10% movement, other things equal, in RUB would give a change in the result of around EUR 3-4 million (2015: EUR 4-6 million), and a 10% movement, other things equal, in CAD would give a change in the result of around EUR 3-5 million (2015: EUR 3-5 million).

The Group's equity is most exposed to RUB. A 10% movement, other things equal, would result in a change in the equity of around EUR 13-19 million (2015: EUR 9-14 million). The exposure to CAD and USD are limited. A 10% movement in CAD, other things equal, would result in a change in the equity of around EUR 6-9 million (2015: EUR 6-9 million), while a 10% movement in USD, other things equal, would result in a change in the equity of around EUR 4-6 million (2015: EUR 3-5 million).

The impact on the net sales of the difference between average rate and year-end rate amounts to EUR 36.3 million (2015: EUR -32.1 million) for the 4 largest currencies, which is a change of 1.6% (2015: -1.5%).

Parent company:
The Group's policy is not to hedge exchange rate risks in long-term investments in subsidiaries.

When relevant, external investment loans and Group loans are, as a general rule, established in the local currency of the company involved, while cash at bank and in hand are placed in the local currency.

In the few countries with ineffective financial markets loans can be raised and surplus liquidity placed in DKK, EUR or USD, subject to the approval of the parent company's finance function.

Notes

26. Financial risks and instruments (continued)

Most Group loans that are not established in DKK or EUR are hedged in the parent company via forward agreements, currency loans and cash pools or via the SWAP market.

Interest-rate risk
The Group's interest-rate risk primarily comprises interest-bearing debt since the Group does not currently have significant interest-bearing assets of longer duration. The Group's policy is that necessary financing of investments should primarily be affected by raising 5 to 7 year loans at fixed or variable interest rates.

Drawings on credit facilities at variable interest rates generally match the funds, and all Group loans are symmetrical in terms of interest rates. As a consequence, changes in interest rates will not have a significant effect on the result of the Group.

Liquidity risk
The current surplus and deficit liquidity in the Group's companies is set off, to the extent that this is profitable, via the parent company acting as intra-Group bank and via cash pool systems. When considered appropriate, underlying cash pool systems are established in foreign companies.

To the extent that the financial reserves are of an appropriate size, the parent company also acts as lender to the companies in the Group.

Parent company:
In order to ensure financial reserves of an acceptable size, investment loans can be raised on a continuous basis to partly cover new investments and to refinance existing loans. The parent company has guaranteed for some credit facilities and loans. Please refer to note 13 for further specification of the loans.

The parent company has issued ownership clauses and/or deed of postponements in connection with intercompany loans. Please refer to note 28.

The parent company ensures on an ongoing basis that flexible, unutilised committed credit facilities of an adequate size are established with major solid banks. The Group's financial reserves also consist of cash at bank and in hand, and unused overdraft facilities.

Credit risk
As a consequence of the considerable customer spread in terms of geographical location and numbers the credit risk is fundamentally limited. To a minor degree, when considered necessary, insurance or bank guarantees are used to hedge outstanding debtors.

As a consequence of the international diversification of the Group's activities there are business relations with a number of different banks in Europe, North America and Asia. In order to minimise the credit risk on placement of funds and on entering into agreements on derived financial instruments, only major sound financial institutions are used.

No customer exceeds 10% of the Group's net sales neither this year nor last year.

Categories of financial instruments
Financial assets and liabilities at fair value are related to foreign exchange rate forward contracts, foreign exchange rate swaps or interest rate swaps all of which have been valued using a valuation technique with market observable inputs (level 2). The Group is using no other valuation technique. The Group enters into derivative financial instruments with financial institutions.

Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot rates. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk.

27. Auditors fee

Fees to auditors elected at the Annual General Meeting consist of:

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Statutory audit	1.1	1.2	0.2	0.3
Other opinions	0.1	0.1	0.0	0.0
Tax consultancy	0.2	0.0	0.0	0.0
Other services	0.8	0.2	0.5	0.1
Total	**2.2**	**1.5**	**0.7**	**0.4**

Notes

28. Commitments and contingent liabilities

Accounting policies

Lease commitments concerning finance lease are assessed at the current value of the remaining lease instalments, including any possible guaranteed residual value based on the internal interest rate of each lease agreement.

Provisions for legal proceedings are recognised if they are certain or probable at the balance sheet date, and if the size of the liability can be measured on a reliable basis. Legal proceedings for which no reliable estimate can be made are disclosed as contingent liabilities.

Operational lease commitments expire within the following periods as from the balance sheet date:

	Group		Parent Company	
EURm	**2016**	**2015**	**2016**	**2015**
Within 1 year	18.0	17.7	0.3	0.3
Between 1 and 5 years	18.6	21.2	0.1	0.1
After 5 years	0.7	0.0	-	-
Total	**37.3**	**38.9**	**0.4**	**0.4**

Comments

For the Group, commitments comprise EUR 0.5 million (2015: EUR 0.5 million). Contingent liabilities amount to EUR 4.4 million (2015: EUR 1.9 million). Contractual obligations for purchase of tangible assets are mentioned in note 12.

The Group is engaged in a few legal proceedings. It is expected that the outcome of these legal proceedings will not impact the Group's financial position in excess of what has been provided for in the balance sheet as at 31 December 2016 (as well as at 31 December 2015). The parent company has no contingent liabilities either this year or last year.

Lease costs for the Group amounting to EUR 20.9 million (2015: EUR 20.7 million) are included in the income statement. The lease costs for the parent company amount to EUR 0.3 million (2015: EUR 0.3 million).

For certain loans and receivables provided by the parent company amounting to EUR 290.9 million (2015: EUR 461.4 million) deeds of postponement have been given. In connection with the raising of loans and credit facilities, the parent company has accepted restrictions of its rights of disposal of the shares in subsidiaries representing a book value of EUR 238.8 million (2015: EUR 238.2 million).

Notes

29. Related parties

Shareholders holding more than 5% of the share capital or the votes
ROCKWOOL International A/S has registered the following shareholders holding more than 5% of the share capital or the votes:

	2016		2015	
	Share capital	Votes	Share capital	Votes
ROCKWOOL Foundation, DK-1360 Copenhagen K	23%	28%	23%	28%
15. Juni Fonden, DK-2970 Hoersholm	6%	10%	6%	10%
Gustav Kähler, DK-2930 Klampenborg	4%	6%	6%	9%
Dorrit Eegholm Kähler, DK-2830 Virum	4%	6%	4%	6%
Tom Kähler, DK-3540 Lynge	3%	5%	3%	5%

The income statement and balance sheet include the following transactions with other companies in the Group:

	Group		Parent Company	
EURm	2016	2015	2016	2015
Transactions with subsidiaries:				
Income from the engineering business			11.8	18.1
Royalty and services			81.8	75.7
Dividend from subsidiaries			80.5	78.8
Interest from subsidiaries			8.3	10.2
Interest to subsidiaries			0.9	1.7
Taxes received (+) / paid (-)			-5.1	0.6
Loans to subsidiaries			340.7	436.4
Receivables from subsidiaries			121.6	209.4
Payables to subsidiaries			262.3	296.8
Transactions with associated companies:				
Dividend from associated companies	3.2	1.8	2.9	1.9
Receivable from associated companies	1.4	2.0	1.3	2.0

Comments

The Group's related parties comprise the Company's shareholder the ROCKWOOL Foundation, the Company's Board of Directors and Management and associated companies. Apart from dividends no transactions were carried out with the shareholders during the year. For transactions with the Board of Directors and Group Management please refer to note 3.

Parent company:
The parent company's related parties also include the subsidiaries and associated companies listed as Group companies on page 117. Transactions with these companies include consultancy work - including support on establishing and expanding production capacity, use of know-how and brands, use of central IT and procurement resources etc. - and financing. The parent company has like last year entered into an agreement with Zeno ApS, owned by Bjørn Høi Hansen, according to which the parent company will procure certain secretarial services to be given to Bjørn Høi Hansen in his position as Chairman of the ROCKWOOL International A/S Board of Directors (less than EUR 0.1 million).

As a management company, the parent company is jointly taxed with other Danish group entities and is jointly and severally liable for payment of corporate income taxes as well as for payments of withholding taxes on dividend, interests, royalties etc.

Notes

30. General accounting policies applied

The Annual Report for ROCKWOOL International A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

The fiscal year for the Group is 1 January – 31 December 2016.

The accounting policies are unchanged compared to last year. Some comparable figures have been adjusted, primarily in geographical segments, goodwill and deferred tax assets.

Adjustment of comparable figures
While preparing the consolidated financial statements of the Group for the period ending 31 December 2016 Management identified a prior period accounting error which must be accounted for retrospectively in the financial statements in accordance with IFRS3 and IAS8. Consequently, comparative amounts presented in the current period's financial statements affected by the accounting error have been adjusted. Current period amounts are therefore unaffected.

The prior period accounting error is related to deferred tax assets in the closing balance of the PPA of CMC as of 31 December 2013 which has been overstated with an amount of EUR 18.7 million.

The amount has been corrected in each period between deferred tax asset and goodwill in the balance sheet and in invested capital including ROIC, and has no effect on the Group's income statement or equity in any of the periods.

Impact in EUR in the 2015 comparison period is listed in the table below:

	2015		
EURm	**Previous amount**	**Error adjustment**	**Adjusted amount**
Goodwill	67.2	18.7	85.9
Deferred tax asset	60.9	-18.7	42.2

New and changed standards and interpretations
The following EU adopted IFRS standards and interpretations with relevance for the Group were implemented with effect from 1 January 2016:

- Annual improvements to IFRSs (2012–2014)
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 16 and IAS 38: Revenue based depreciation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendment to IAS 1: Improved disclosures
- Amendment to IAS 27: Equity method allowed in parent company

The changed standards and interpretations have not impacted the recognition and measurement and have only led to additional information.

New and changed standards and interpretations not yet entered in to force
EU adopted standards and amendments issued by IASB with effective date after 31 December 2016 and therefore not implemented, comprise:

- IFRS 9: Financial instruments (effective date 1 January 2018)
- IFRS 15: Revenue from contracts with customers (effective date 1 January 2018)

The effect of the implementation of these new standards is still being assessed and it is expected that there will be no significant impact on the consolidated financial statements besides further specifications in the notes and reclassifications.

IASB has issued IFRS 16 “Leasing”, with effective date January 1, 2019. It currently awaits EU endorsement. All leases must be recognized in the balance sheet with a corresponding lease liability, except for short-term assets and minor assets. Leased assets are amortised over the lease term, and payments are allocated between instalments on the lease obligation and interest expense, classified as financial items.

ROCKWOOL has preliminarily assessed the impact of IFRS 16 on the balance sheet. Recognition of leases will affect a number of financial ratios such as EBITDA margin, return on equity and solvency ratio. The change will have a minor impact on net profit as IFRS 16 requires the lease payments to be split between a depreciation charge included in operating costs and an interest expense on lease liabilities included in finance costs.

Furthermore IASB has issued amendments to IAS 12 "Income taxes on Recognition of deferred tax assets for unrealised losses" and IAS 7 "Statement of cash flows on disclosure initiative" with effective date January 1, 2017. They currently await EU endorsement. The changes are minor and are not expected to have a significant impact on the consolidated financial statement.

Notes

30. General accounting policies applied (continued)

Group Accounts
The consolidated financial statements comprise ROCKWOOL International A/S and the enterprises in which this company and its subsidiaries hold the majority of the voting rights.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements, determined according to the Group's accounting policies, and with elimination of dividends, internal revenue and expenditure items, internal profits as well as intercompany balances and intercompany shareholdings.

Besides shares, capital investments in subsidiaries include long-term loans to subsidiaries if such loans constitute an addition to the shareholding.

Translation of foreign currency
The Annual Report has been presented in Euro (EUR) which is the group's presentation currency. The functional currency for the parent company is DKK. Each company in the Group determines its own functional currency.

Transactions in foreign currency are translated using the exchange rate at the transaction date or a hedged rate. Monetary items in foreign currency are translated using the exchange rates at the balance sheet date. Accounts of foreign subsidiaries are translated using the exchange rates at the balance sheet date for balance sheet items, and average exchange rates for items of the income statement.

All exchange rate adjustments are recognised in the income statement under financial items, apart from the exchange rate differences arising on:

- Conversion of equity in subsidiaries at the beginning of the financial year using the exchange rates at the balance sheet date
- Conversion of the profit for the year from average exchange rates to exchange rates at the balance sheet date
- Conversion of long-term intercompany balances that constitute an addition to the holding of shares in subsidiaries
- Conversion of the forward hedging of capital investments in subsidiaries
- Conversion of capital investments in associated and other companies
- Profit and loss on effective derivative financial instruments used to hedge expected future transactions.

These value adjustments are recognised directly under other comprehensive income.

Net sales
Net sales are recognised in the income statement provided that delivery and risk transition has taken place before year-end. Net sales are calculated excluding VAT, duties and sales discounts. Royalty and licence fees are recognised when earned according to the terms of the agreements.

There are not identified any special areas in the accounting principles applied for the Group where Management has made judgements when applying policies.

In connection with the practical application of the accounting policies described, management must carry out estimates and set out assumptions concerning future events affecting assets and liabilities as well as contingent assets and liabilities. Management bases its estimates on historical experience and a number of other assumptions deemed reasonable under the given circumstances.

Definitions of key figures and ratios

EBITDA
Profit before depreciation, write-downs, amortisations, financial items and tax

EBIT
Profit before financial items and tax

EBITDA margin (%)

$$\frac{\text{EBITDA}}{\text{Net sales}} \times 100$$

EBIT margin (%)

$$\frac{\text{EBIT}}{\text{Net sales}} \times 100$$

Earnings per share of DKK 10 (EUR 1.3)

$$\frac{\text{Profit for the year after minority interests}}{\text{Average number of outstanding shares}}$$

Diluted earnings per share of DKK 10 (EUR 1.3)

$$\frac{\text{Profit for the year after minority interests}}{\text{Diluted average number of outstanding shares}}$$

Cash flow per share of DKK 10 (EUR 1.3)

$$\frac{\text{Cash flows from operating activities}}{\text{Average number of outstanding shares}}$$

Dividend per share of DKK 10 (EUR 1.3)

$$\frac{\text{Dividend percentage} \times \text{nominal value of the share}}{100}$$

Book value per share of DKK 10 (EUR 1.3)

$$\frac{\text{Equity end of the year after minority interests}}{\text{Number of shares at the end of the year}}$$

Return on invested capital (ROIC)

$$\frac{\text{EBIT}}{\text{Average invested capital including goodwill}} \times 100$$

Return on equity (%)

$$\frac{\text{Profit for the year after minority interests}}{\text{Average equity excluding minority interests}} \times 100$$

Equity ratio (%)

$$\frac{\text{Equity end of the year}}{\text{Total equity and liabilities at the end of the year}} \times 100$$

Financial gearing

$$\frac{\text{Net interest-bearing debt}}{\text{Equity end of the year}} \times 100$$

Pay-out ratio (%)

$$\frac{\text{Dividend for the year}}{\text{Profit for the year after minority interests}} \times 100$$

Market cap
Number of outstanding shares x share price

RATIOS
The ratios have been calculated in accordance with “Anbefalinger & Nøgletal 2015” (Recommendations & Ratios 2015) issued by the Danish Society of Financial Analysts. The ratios mentioned in the five-year summary are calculated as described in the notes.

EXCHANGE RATE
Average DKK/EUR

2016	7.45
2015	7.46
2014	7.46
2013	7.46
2012	7.44

Financial statements

Notes to the accounts

Other information

Group companies

	Country	% Shares owned
Parent company		
ROCKWOOL International A/S	Denmark	
Subsidiaries		
Insulation		
ROCKWOOL Handelsgesellschaft m.b.H.	Austria	100
ROCKWOOL B.V.B.A.	Belgium	100
Etablissements Charles Wille et cie SA	Belgium	100
ROCKWOOL Bulgaria Ltd.	Bulgaria	100
ROXUL Inc.	Canada	100
ROCKWOOL Building Materials (Tianjin) Co. Ltd.	China	100
ROCKWOOL Firesafe Insulation (Guangzhou) Co. Ltd.	China	94.84
ROCKWOOL Firesafe Insulation (Shanghai) Co. Ltd.	China	100
ROCKWOOL Adriatic d.o.o.	Croatia	100
ROCKWOOL a.s.	Czech Republic	100
ROCKWOOL A/S	Denmark	100
ROXUL ROCKWOOL Technical Insulation Middle East FZE	UAE	100
ROCKWOOL EE OÜ	Estonia	100
ROCKWOOL Finland OY	Finland	100
ROCKWOOL France S.A.S	France	100
Deutsche ROCKWOOL Mineralwoll GmbH & Co. OHG	Germany	100
HECK Wall Systems GmbH	Germany	100
ROCKWOOL Mineralwolle GmbH Flechtingen	Germany	100
ROCKWOOL Limited	Great Britain	100
ROCKWOOL Building Materials Ltd.	Hong Kong	100
ROCKWOOL Hungary Kft.	Hungary	100
ROXUL ROCKWOOL Insulation India Ltd.	India	100
ROXUL ROCKWOOL Technical Insulation India Pvt. Ltd.	India	100
ROCKWOOL Italia S.p.A.	Italy	100
SIA ROCKWOOL	Latvia	100
ROCKWOOL UAB	Lithuania	100
ROCKWOOL Malaysia Sdn. Bhd.	Malaysia	94.84
ROCKWOOL Insulation Sdn. Bhd.	Malaysia	100
Breda Confectie B.V.	the Netherlands	100
ROCKWOOL B.V.	the Netherlands	100
A/S ROCKWOOL	Norway	100
ROCKWOOL Polska Sp. z o.o.	Poland	100

	Country	% Shares owned
Subsidiaries		
Insulation		
FAST Sp. z o.o.	Poland	100
ROCKWOOL Romania s.r.l.	Romania	100
LCC ROCKWOOL	Russia	100
LLC ROCKWOOL North	Russia	100
LLC ROCKWOOL Ural	Russia	100
LLC ROCKWOOL Volga	Russia	100
ROCKWOOL Building Materials (Singapore) Pte Ltd.	Singapore	100
ROCKWOOL Slovensko s.r.o.	Slovakia	100
ROCKWOOL Peninsular S.A.	Spain	100
ROCKWOOL AB	Sweden	100
ROCKWOOL GmbH	Switzerland	100
ROCKWOOL Limited	Thailand	94.84
ROCKWOOL Insaat ve Yelitim Sistemleri San. Ve Tic. Ltd. Sti.	Turkey	100
LLC ROCKWOOL Ukraine	Ukraine	100
ROXUL USA Inc.	USA	100
Systems		
Chicago Metallic (Shenzhen) Co., Ltd.	China	100
Chicago Metallic Continental (Deutschland) GmbH	Germany	100
ROCKWOOL Rockfon GmbH	Germany	100
Chicago Metallic (Asia Pacific) Ltd.	Hong Kong	100
Chicago Metallic (Malaysia) Sdn. Bhd.	Malaysia	100
Consmat Metallic Pte. Ltd.	Singapore	100
Grodan MED S.A.	Spain	100
Other subsidiaries		
ROCKWOOL Beteiligungs GmbH	Germany	100
Rockwool.com GmbH	Germany	100
ROCKWOOL Benelux Holding B.V.	the Netherlands	100
BuildDesk Polska Sp. z o.o.	Poland	100
ROCKWOOL Global Service Center Sp. Z.o.o.	Poland	100
ROCKWOOL Trading Sdn. Bhd.	Malaysia	100
CMC Productos Perlitas s de rl de cv	Mexico	100
CMC Productos Perlitas s de rl de cv	Mexico	100
Associated companies		
RESO SA	France	20
Flumroc AG	Switzerland	43.5

Management's report

The Board of Directors and the Registered Directors have today considered and approved the Annual Report of ROCKWOOL International A/S for the financial year that ended 31 December 2016.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion the accounting principles used are appropriate and the Group's internal controls relevant to the preparation and presentation of the Annual Report are adequate.

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 2016.

In our opinion the Management's review includes a true and fair presentation about the development in the parent company's and the Group's operations and financial matters, the results for the year and the Group's and the parent company's financial position and the position as a whole for the entities included in the consolidated financial statements, as well as a description of the more significant risks and uncertainties faced by the Group and the parent company. We recommend that the Annual Report be approved at the Annual General Meeting.

Hedehusene, 24 February 2017

Registered Directors

Jens Birgersson

Kim Junge Andersen

Board of Directors

Bjørn Høi Jensen

Carsten Bjerg

Søren Kähler

Lars Frederiksen

Thomas Kähler

Andreas Ronken

Lars Elmekilde Hansen

Dorte Hanne Page Larsen

Connie Enghus Theisen

Independent auditor's report

To the Shareholders of ROCKWOOL International 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
ROCKWOOL International A/S' Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January to 31 December 2016 (page 70 - 121) comprise income statement and 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
Impairment of intangible and tangible assets Intangible and tangible assets might be impaired due to for example increased competition in local markets, changes in global economic situation and changes in the strategy of the Group. We focused on this area as the determination of whether or not an impairment charge for intangible and tangible assets was necessary involves significant estimates and judgments made by Management, including especially: – estimation of future cash flows and the key assumptions underlying Management's expectations; – discount rates applied in discounting future cash flows; and – long-term growth rates Reference is made to note 5, 11 and 12 to the Consolidated Financial Statements.	Our audit procedures included assessing the Group's impairment model. In addition, we obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgments made by Management in preparing these. Special focus was given to the key drivers of the future cash flows, including growth in net revenues, cost inflation, efficiency improvements, capital expenditure and working capital, as well as the discount rates and long-term growth rates applied. We tested the reliability of Management's estimates by comparing budgeted figures to actual figures for the past years and evaluated the discount rates and long-term growth rates applied. Furthermore, where possible, we compared to independently determined acceptable ranges and externally derived data. Moreover, we examined sensitivity analyses performed over changes in discount rates, revenue growth and efficiency improvements.

Independent auditor's report

To the Shareholders of ROCKWOOL International A/S (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Uncertain tax positions and valuation of deferred tax assets The Group operates in many territories and is, consequently, subject to local laws, cross-border transfer pricing legislation and investment promotional tax benefits which complicates the tax matters of the Group as a whole. Where utilisation of tax losses and tax amortisation balances are uncertain a write-down is recorded based on Management's judgment. Where the amount of tax payable or receivable is uncertain, a provision for uncertain tax positions is recorded based on Management's judgment. We focused on valuation of deferred tax assets as it involves significant estimates and judgments made by Management in terms of utilisation of tax losses and tax amortisation balances. Moreover, we focused on the tax accounting area as the completeness and valuation of tax balances are made difficult by a complex multinational tax structure as well as tax arising from acquisition accounting. Reference is made to note 9, 18 and 22 to the Consolidated Financial Statements.	As part of our audit, we discussed tax planning with Management and had focus on Management's controls to monitor the risks. We discussed with Management on issues relating to valuation of deferred tax assets as well as tax disputes and uncertain tax positions. In addition, we used our own local and international tax specialists, evaluated the adequacy of Management's key assumptions and read correspondence with tax authorities to assess the valuation of tax assets and liabilities. We also tested relevant controls surrounding the tax accounting area.

Statement on Management's Review
Management is responsible for Management's Review (page 1 - 69 and 122 - 125).

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

Independent auditor's report

To the Shareholders of ROCKWOOL International A/S (continued)

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.

Hellerup, 24 February 2017
PricewaterhouseCoopers, Statsautoriseret
Revisionspartnerselskab,
CVR no.: 33 77 12 31

Lars Baungaard
State Authorised Public Accountant

Torben Jensen
State Authorised Public Accountant

Other information

Project
Lyceum Schravenlant, Schiedam, the Netherlands

Material
Rockfon ceilings

Architect
LIAG architects

Quarterly follow-up
(part of Management review)

EURm	2016 1st qtr.	2016 2nd qtr.	2016 3rd qtr.	2016 4th qtr.	2015 1st qtr.	2015 2nd qtr.	2015 3rd qtr.	2015 4th qtr.
Income statement								
Net sales	494.3	554.6	570.6	582.3	499.3	557.1	571.6	579.9
Operating income	496.1	556.8	572.1	589.5	501.8	558.2	577.0	583.6
Operating costs	413.1	449.0	467.6	495.6	435.6	468.8	484.9	509.6
EBITDA	83.0	107.8	104.5	93.9	66.2	89.4	92.1	74.0
*EBITDA ex. redundancy costs**	*84.0*	*108.6*	*106.9*	*97.7*	*66.2*	*89.4*	*92.1*	*89.4*
Depreciation, amortisation and write-downs	41.6	44.8	37.3	36.1	40.1	42.8	60.2	43.7
EBIT	41.4	63.0	67.2	57.8	26.1	46.6	31.9	30.3
*EBIT ex. redundancy costs and write-downs**	*42.4*	*63.8*	*69.6*	*61.6*	*26.1*	*46.6*	*53.3*	*45.7*
Income from investments in associated companies	0.2	0.6	0.6	0.6	0.3	0.1	0.0	1.9
Financial items	-2.0	-3.0	-2.5	0.7	-1.8	-1.7	-0.3	0.0
Profit before tax	39.6	60.6	65.3	59.1	24.6	45.0	31.6	32.2
Tax on profit for the period	11.3	15.7	16.0	15.2	7.0	12.8	12.6	10.3
Profit for the period	**28.3**	**44.9**	**49.3**	**43.9**	**17.6**	**32.2**	**19.0**	**21.9**
EBITDA margin	*16.8%*	*19.4%*	*18.3%*	*16.1%*	*13.3%*	*16.0%*	*16.1%*	*12.8%*
*EBITDA margin ex. redundancy costs**	*17.0%*	*19.6%*	*18.7%*	*16.8%*	*13.3%*	*16.0%*	*16.1%*	*15.4%*
EBIT margin	*8.4%*	*11.4%*	*11.8%*	*9.9%*	*5.2%*	*8.4%*	*5.6%*	*5.2%*
*EBIT margin ex. redundancy costs and write-downs**	*8.6%*	*11.5%*	*12.2%*	*10.6%*	*5.2%*	*8.4%*	*9.3%*	*7.9%*
Statement of comprehensive income								
Profit for the period	28.3	44.9	49.3	43.9	17.6	32.2	19.0	21.9
Exchange rate adjustments of foreign subsidiaries	1.6	4.9	2.1	26.6	69.2	-16.0	-51.0	10.0
Change in pension obligation	-	-	-	-15.3	-	-	-	-1.0
Hedging instruments, value adjustments	1.4	1.5	-0.3	-1.5	-3.6	3.4	1.6	-0.7
Tax on comprehensive income	-0.3	-0.4	0.2	3.6	0.9	-0.9	-0.3	-2.3
Total comprehensive income	31.0	50.9	51.3	57.3	84.1	18.7	-30.7	27.9

* from Business Transformation Programme

Global sales development
Sales in the fourth quarter reached EUR 582 million, an increase of 0.8% in local currencies. In the quarter, net sales were still negative impacted from currency effect of 0.4%-points mainly stemming from the British pound.

Sales price increases had a positive impact in the quarter following the focus on sales capabilities and pricing from the Business Transformation Programme, still with North America performing better than average.

Regional sales development
Overall Western Europe decreased sales by 0.2% in local currencies, or 1.5% in reported figures, to EUR 337 million with a slow last month in Germany and a granulate market in France where part of our business is still struggling.

Eastern Europe including Russia increased sales to EUR 104 million in Q4 2016, an increase of 2.5% in local currencies with especially Czech and Hungary performing well. In Russia, we still saw a slight decrease in the quarter but the negative currency effect has now turned positive.

Sales in North America, Asia and other countries increased with 2.3% in local currencies to EUR 141 million. The development in North America remained positive driven by strong growth in the insulation markets and Grodan horticultural markets. The positive growth in North America was partly offset by negative growth in Q4 in the Asia region, mainly from our markets in South East Asia.

Group profitability
EBIT excluding redundancy costs from the Business Transformation Programme in Q4 reached EUR 62 million against EUR 46 million in the same period last year – an increase of 35% in reported figures with no significant currency effect. In Q4 the redundancy costs related to the Business Transformation Programme amount to EUR 3.8 million.

EBIT margin adjusted for redundancy costs increased to 10.6% including a one-off gain on sale of land in the Netherlands, an increase of 2.7 pp compared to last year. The sale of land was not expected to be finalized here in 2016 and therefore not included in our expectation for Q4. The gain amounts to EUR 3.7 million.

The profitability in Q4 was positively impacted by lower costs related to raw materials and logistics, improved efficiency in the production and higher sales prices.

Quarterly follow-up
(part of Management review)

	2016				2015			
EURm	**1st qtr.**	**2nd qtr.**	**3rd qtr.**	**4th qtr.**	**1st qtr.**	**2nd qtr.**	**3rd qtr.**	**4th qtr.**
Cash flow statement								
EBIT	41.4	63.0	67.2	57.8	26.1	46.6	31.9	30.3
Adjustments for depreciation, amortisation and write-downs	41.6	44.8	37.3	36.1	40.1	42.8	60.2	43.7
Other adjustments	-1.1	-0.3	0.9	-6.5	1.3	1.0	-0.7	6.2
Change in net working capital	-53.5	-24.7	52.8	24.7	-60.6	-11.9	32.8	51.9
Cash flow from operations before financial items and tax	28.4	82.8	158.2	112.1	6.9	78.5	124.2	132.1
Cash flow from operating activities	5.7	77.6	147.1	95.6	-4.4	74.9	116.6	110.2
Cash flow from investing activities	-41.8	-28.1	-20.6	1.4	-60.1	-39.6	-64.6	-36.4
Cash flow from operating and investing activities (free cash flow)	-36.1	49.5	126.5	97.0	-64.5	35.3	52.0	73.8
Cash flow from financing activities	1.0	-29.6	0.2	4.3	-5.3	-26.4	3.3	-7.0
Change in cash available	-35.1	19.9	126.7	101.3	-69.8	8.9	55.3	66.8
Segment reporting								
Insulation segment:								
External net sales	367.6	416.8	432.2	417.3	374.9	423.7	442.4	423.7
Internal net sales	56.6	61.1	60.3	76.6	51.2	63.7	57.7	80.4
EBIT	21.8	42.2	45.3	39.6	8.7	27.3	14.0	14.3
EBIT margin	*5.1%*	*8.8%*	*9.2%*	*8.0%*	*2.0%*	*5.6%*	*2.8%*	*2.8%*
EBIT ex. redundancy costs and write-downs*	22.8	43.0	47.7	43.3	8.7	27.3	35.4	27.7
*EBIT margin ex. redundancy costs and write-downs**	*5.4%*	*9.0%*	*9.6%*	*8.8%*	*2.0%*	*5.6%*	*7.1%*	*5.5%*
Systems segment:								
External net sales	126.7	137.8	138.4	165.0	124.4	133.4	129.2	156.2
EBIT	19.6	20.8	21.9	18.2	17.4	19.3	17.9	16.0
EBIT margin	*15.5%*	*15.1%*	*15.8%*	*11.0%*	*14.0%*	*14.5%*	*13.9%*	*10.2%*
EBIT ex. redundancy costs and write-downs*	19.6	20.8	21.9	18.3	17.4	19.3	17.9	18.0
*EBIT margin ex. redundancy costs and write-downs**	*15.5%*	*15.1%*	*15.8%*	*11.1%*	*14.0%*	*14.5%*	*13.9%*	*11.5%*
Geographical split of external net sales:								
Western Europe	296.7	329.7	328.5	337.3	297.9	321.7	326.6	342.6
Eastern Europe including Russia	71.4	93.1	108.7	104.0	77.3	108.2	114.5	100.5
North America, Asia and others	126.2	131.8	133.4	141.0	124.1	127.2	130.5	136.8
Total external net sales	494.3	554.6	570.6	582.3	499.3	557.1	571.6	579.9

* from Business Transformation Programme

Business segments
External sales in Insulation segment amounted to EUR 417 million a decrease of 2.0% in local currencies. The negative development in Q4 was mainly due to weak performance in the French and German markets and decreasing sales in the market for technical insulation which primarily covers sale to the oil and gas industry.

We also saw a negative currency impact in UK due the Brexit, partly offset by the recovering of the Russian Ruble in Q4. All this was partly offset by strong performance in Netherland, US and Scandinavia.
The System segment increased sales to EUR 165 million, an increase of 8.4% in local currencies pushed by a very strong performance by the Grodan horticultural business especially in the North American markets.

EBIT in the Insulation segment excluding redundancy costs from the Business Transformation Programme increased 56% to EUR 43 million due to lower costs related to raw materials and logistics and improved efficiency in the production.

EBIT in the Systems segment excluding redundancy costs from the Business Transformation Programme increased 1.9% to EUR 18 million in Q4. Mainly Grodan horticultural business had a good fourth quarter.

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The ROCKWOOL trademark was initially registered in Denmark as a logo mark back in 1936. In 1937, it was accompanied with a word mark registration; a registration which is now extended to more than 60 countries around the world.

The ROCKWOOL trademark is one of the largest assets in the ROCKWOOL Group, and thus well protected and defended by us throughout the world.

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