# BJÖRN BORG

## ANNUAL REPORT 2016

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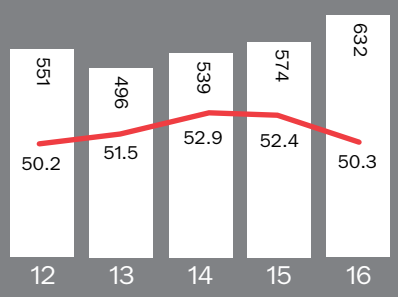
"Let's go!"

Henrik Bunge

# BJÖRN BORG IN BRIEF

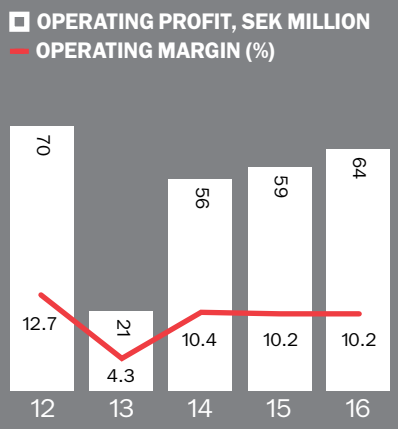



THE NUMBER OF BJÖRN BORG STORES AT YEAR-END WAS 40, 20 OF WHICH ARE GROUP-OWNED

**40**

DISTRIBUTION OF SEK 2.00 PER SHARE

**2.00**



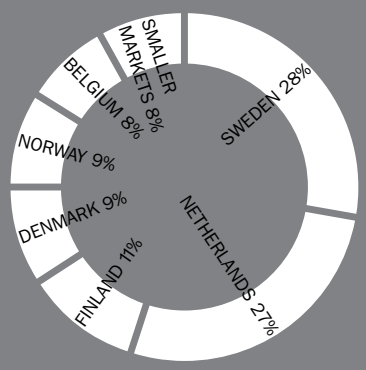

THE OPERATING MARGIN WAS 10.2 PERCENT

**10.2**

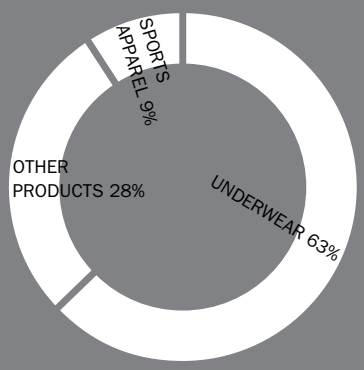
THE GROSS PROFIT MARGIN WAS 50.3 PERCENT

**50.3**

BRAND SALES BY COUNTRY




BRAND SALES BY PRODUCT AREA



## BJÖRN BORG GROUP

The Björn Borg Group owns and develops the Björn Borg brand. The focus of the business is underwear and sports apparel as well as the licensing of footwear, bags and eyewear. Björn Borg products are sold in around 20 markets, of which Sweden and the Netherlands are the largest.

The Björn Borg Group has operations at every level from branding to consumer sales in its own Björn Borg stores and e-commerce. Operations comprise brand development and services for the network of licensees and distributors as well as product development in the core underwear and sports apparel businesses. The Group is also responsible for distribution of underwear and sports apparel in Sweden, England and Finland as well as footwear in Sweden, Finland, the Baltic countries and Denmark. Through the acquisition of the Benelux distributor, the Group also handles the distribution of underwear and sports apparel in the Netherlands and Belgium as of January 2, 2017.

The Björn Borg share has been listed on Nasdaq Stockholm since 2007.

## THE YEAR IN NUMBERS

- The Group's net sales increased by 10 percent to SEK 631.6 million (574.3). Currency effects were marginal.
- The gross profit margin was 50.3 percent (52.4). Excluding currency effects, the margin was 50.7 percent.
- Operating profit amounted to SEK 64.2 million (58.6).
- Profit after tax amounted to SEK 46.9 million (41.6).
- Earnings per share before and after dilution amounted to SEK 1.88 (1.79).
- The Board of Directors has decided to propose to the Annual General Meeting a distribution of SEK 2.00 (2.00) per share, totaling SEK 50.3 million (50.3).

## BRAND SALES

For the full year brand sales increased to SEK 1,551 million (1,443), or by 7 percent. Currency effects were marginal. (See definitions on page 85.)

## THE BJÖRN BORG BRAND

Björn Borg is distinguished by creative products with the brand's typically sporty identity – products that make customers feel active and attractive. A passion for sports fashion and willingness to challenge the industry shine through in our marketing communications and product development.

The Björn Borg brand was established in the Swedish fashion market in the first half of the 1990s and today has a strong position in its established markets, particularly in the largest product group, underwear.

## MARKETS

- Björn Borg is represented in around 20 markets, of which Sweden and the Netherlands are the largest.
- Good growth in e-commerce (www.bjornborg.com); sales increased by 33 percent.
- Björn Borg acquired its former Benelux distributor in 2016. The acquisition, which closed on January 2, 2017, is an important step in accelerating the vertical integration of Björn Borg's operations and is in line with the strategy to get closer to consumers and retailers in Björn Borg's main markets.

## NEW STORES

During the year four stores were opened, one each in Sweden, Finland, Norway and the Netherlands. Five stores also closed during the year, two in Sweden and Belgium and one in Finland. At year-end there were a total of 40 (41) Björn Borg stores, 20 (21) of which are Group-owned.

# A WORD FROM THE CEO

"Do you regret setting such lofty goals in your business plan?" I was asked by a journalist after our Q3 report for 2016. "No," I responded. "Why decide to do something easy when we had an opportunity to do something hard? A successful business plan to me isn't about setting easy goals or constantly evaluating whether the goals are too difficult. I am totally sure we will get there, just as I was two and a half years ago when I announced the goals for the first time. I am also just as sure now as I was then that the road ahead won't look exactly like I predicted."

**FEEL GOOD, PERFORM BETTER**

There are a lot of individuals who together make a difference to our company. It's why our focus remains on our employees and helping them perform at their peak. We as individuals all have the ability to make hard things easy and easy things hard. One of our biggest victories in 2016 was that we again increased employee engagement by 3%, according to surveys. The are two keys to our strong engagement:

- One is a focus on fitness, where it is our belief that physical well-being is directly tied to the ability to perform at your best. Here we work with a mandatory hour of exercise, fitness testing and multisport competitions.
- The second is our conviction that personal goals are the key for every individual to perform their best. We work with personal goal setting, where everyone in the entire organization has written down the company's goals, their department's goals, their individual goals and their individual activities.

Clear goals and training have been key factors why we have made it this far and will be key factors in getting to where we want to be. I know that our team has never been more engaged, more upbeat and had a greater desire to reach our goals. I am very proud. My most important job is to ensure that everyone in the organization knows where we are headed and what we have to do to get there. This work also received attention outside the company when we won the "Healthy Business Award 2016" and when I was recently named the year's most health-minded manager at a gathering of executives.

**DRIVING SELL-THROUGH**

Our most important key indicator is sell-through – our ability to get as many consumers as possible to buy our products before they go on sale in relation to how many products are sold wholesale. I would note, though, that the trend toward a higher percentage of discounted sales continued in 2016. To grow in this market, brands and retailers face very different demands, since sales are increasingly promotion-driven, where price and product are the key. For us this means offering our own sales promotions, but also continuing to strengthen our unique brand and create an emotional tie to Björn Borg. This means that even though sell-through remains our highest priority, it has to create opportunities to maximize profitable growth.

**CONTINUE TO DEVELOP AS A SPORTS FASHION BRAND**

We continued to tweak the brand in 2016 and proved that it is possible to build a position in sports fashion while being strong in a separate category – in our case men's underwear. We remained an underwear leader in 2016 at the same time that we improved consumer awareness of our sports apparel collection. I was especially pleased with our fall 2016 campaign, "Don't run in cotton," where we launched our sports underwear collection and sold over 200,000 units. We have to continue this process, and our focus going forward is to increase awareness of our sports fashion collection. Big steps were also taken in our plan for a more integrated Björn Borg, where we in 2016 made the decision to acquire our Benelux distributor and acquired the minority owner's shares (20 percent) in Björn Borg UK Ltd. Both acquisitions were important to our efforts to get closer to consumers in our markets, but also to more quickly reach the goals in our business plan.

**BUSINESS PLAN IN THE WORKS**

In our business plan, Northern Star, we announced a sales goal of SEK 1 billion with an operating margin of 15 percent for the financial year 2019. With 2016 now in the books, I can say that we are ahead of schedule in terms of operating profit, but slightly behind with respect to sales. Sales and profit both rose by about 10 percent in 2016. Despite a temporary decrease in the fourth quarter, the gross margin for the full-year held steady at over 50 percent.


Sales growth is being driven by our own retail and e-commerce; the latter increased by 33 percent. At the wholesale level we have seen continued sales growth in Sweden, Finland and the UK, while Norway and Benelux continued to lose ground compared with the previous year. I would also note that our Benelux acquisition brings us considerably closer to our long-term goal of SEK 1 billion in sales, since we add about SEK 100 million in sales in 2017 by eliminating a middleman in our sales channel.

**PROFITABILITY**

In terms of profitability, we have to be more effective. While we raised operating profit by 10 percent in 2016, a strong dollar and higher share of sales of the sports apparel, as well as a higher percentage of our own retail sales with generally lower operating margins, mean we have to be better at doing more with less to improve profitability in the future. As previously announced, the contingent consideration we were paying for the Björn Borg brand ended in 2016, which will positively affect operating profit (SEK 22.2 million in 2016), essentially offsetting the short-term negative effects on operating profit in 2017 due to the Benelux acquisition.

**SUSTAINABLE BUSINESS MODEL AND GROWTH**

A sustainable business model is essential to me, our owners, our employees, our customers and to achieve our financial goals. This means acknowledging that we have to be better at taking responsibility by using more sustainable materials in our collections and reducing our impact on the environment. In 2016 we made great progress by using significantly more sustainable materials while also reducing shipments by air by no less than 40 percent compared with 2015.

**AMBITION**

My goal is that every year will be better than the one before it as measured by our key performance indicators: sell-through, employee engagement, sales and profitability. And just as we finished 2015 stronger than 2014 and 2014 stronger than 2013, we finished 2016 better than 2015. I am convinced that 2017, which has now begun, will also finish better than the year before.

*Let's go!*
Henrik Bunge
Head Coach

# VISION, BUSINESS CONCEPT, GOALS AND STRATEGY

## IN EVERY COUNTRY WE USE A SIMPLE FRAMEWORK, WHICH OFFERS THE KEY TO OUR FUTURE SUCCESS. WE CALL IT THE "BJÖRN BORG FRAMEWORK FOR PERFORMANCE."

The framework consists of five questions, all different but none more important than the others. The framework is also our process, a way to think, where each question always comes in the same order. To measure that we are progressing toward the goals that the questions point out, we break them down by department and individual, and we make sure that our goals are *SMART (Specific*, *Measurable*, *Attractive*, *Relevant*, *Timely)*. The questions are: *Where are we going? Where are we? What to do? How do we do things?* and *Why do we do this?*

THE FIRST QUESTION IS:

## WHERE ARE WE GOING?

To be the No 1 Sports Fashion Brand for people who want to feel active and attractive.

*SMART goals for 2019;*

- Sell-through 70%
- Employment engagement 90%
- Total sales 1 Billion SEK
- EBIT 15%

THE SECOND QUESTION IS:

## WHERE ARE WE?

For the most part our annual report is describing exactly this, i.e. our current situation. However, this is strategically broken down to each department and each individual person. For us it is crucial to always look at the "brutal facts" and understand where you are before you can move forward.

THE THIRD QUESTION IS:

## WHAT TO DO?

It is simply describing what we need to do to take us from where we are today to where we need to be tomorrow.

We have identified three cross-functional strategic themes for what we need to do.

- *Win the consumer at the Point of Sale*
  We win when our product leaves the store, therefore all functions play to win the consumer at the Point of Sale.
- *Create a winning team*
  To succeed we work as a strong and united team exploiting the full potential of all individuals – internal and external
- *Brand alignment*
  To be able to reach through and make a difference to the consumer, we need to act and be perceived as one clear brand – in all channels, all markets and in everything we do, from products to communication

THE FOURTH QUESTION DESCRIBES OUR VALUES:

## HOW DO WE DO THINGS?

We have agreed on three values that drive our behaviour at Björn Borg

- *Passion*
  Firmly positioned deep on the baseline, attentively awaiting the serve, we see the entire court. It sounds quiet, but it's loud. It appears calm, but it's alive. It's fast moving and vibrant. We see the ball coming. Our passion inspires action.
- *Multiplying*
  Here we see a seamless synergy where cooperation, acceptance, and camaraderie create an outcome stronger than the individual parts. One plus one equals more than three.
- *Winning attitude*
  We perform when it matters the most, undeterred and engaged in the face of adversity. Our attitude is clear – you mustn't be pushed, the vision pulls you.

THE FIFTH QUESTION DESCRIBES WHAT INSPIRES AND MOTIVATES US:

## WHY DO WE DO THIS?

We believe all humans carry the will to make a difference – for themselves, for someone else, or for the world. We believe that we all can be different and make things better. Together we can change the game and break what is impossible.

## FINANCIAL OBJECTIVES

The Board of Directors of Björn Borg has established a business plan for the period 2015-2019 with the following long-term financial objectives for operations:

- For the financial year 2019 the Group has the objective of achieving sales of SEK 1 billion with an operating margin of 15 percent
- An annual dividend of at least 50 percent of net profit
- The equity/assets ratio should not fall below 35 percent.

# THE BJÖRN BORG BRAND

## BRAND DEVELOPMENT

The Björn Borg trademark was registered in the late 1980s and established in the Swedish fashion market in the first half of the 1990s. Since then operations have grown strongly, including through new product areas and geographical markets.

The brand increasingly stands on its own merits, distinct from Björn Borg the person, and a growing share of consumers associate the name with the brand's products rather than Björn Borg himself. At the same time Björn Borg's legacy as a tennis player and his celebrity status off the court are the brand's roots and still provide a strong platform for international expansion.

Today the brand has a distinctive identity and strong position in established markets in its dominant product area, underwear, while newer markets are in a start-up stage. In its business plan, Björn Borg has an explicit goal to be a leader in sports fashion and has therefore decided to focus on design and production of sports apparel.

With five product areas and sales in around 20 markets – mature as well as new and with different conditions and preferences – consistent, long-term branding is essential.

A new design, branding and communication platform, together with a new tagline, was developed in 2015 and implemented in 2016. It reflects the brand's sporty identity and products that make customers feel active and attractive.

Björn Borg aims to provide the best possible service to its distributors and licensees, which commit to a specific level of investment in their markets. The aim is to create opportunities to build sales and brand awareness, while at the same time ensuring consistent branding.

Support for distributors and licensees includes branding guidelines and marketing support for ad campaigns, PR activities, media buying and Point of Sale displays – packaged for each market's needs, stage of development and budget.

## MARKETING COMMUNICATIONS

The Björn Borg brand is profiled through innovative marketing activities. The strategy is to build the brand and drive sales consistently over the long term. To achieve cost efficiencies and broad impact, the Group focuses on integrated campaigns and activities mainly in spreadable channels such as PR, events and digital media, but also trade shows, fashion shows and Point of Sale displays.

Outdoor advertising and print ads are primarily used in established markets, usually through targeted activities in urban areas. The aim going forward is to focus on bigger campaigns with broader coverage in more channels to achieve greater impact.

PR activities and events are an important component in the mix of channels used in Björn Borg's integrated campaigns. Background material and guidelines are produced centrally as part of the marketing packages distributors have access to, while detailed planning and implementation are left to each market.

Social media have continued to grow in importance to the interaction between Björn Borg and consumers. The company sees these channels as vital and cost-effective for branding and sales promotions.

Through the web shop at bjornborg.com, Björn Borg products are sold practically around the world. The website is also a key channel for international branding and to communicate with target groups.

The Björn Borg stores fill an important role as a marketing channel and to display the brand and current campaigns.

# CAMPAIGNS, COLLABORATIONS AND EVENTS 2016

During the year Björn Borg continued to position itself in sports and fashion through three main activities.

### DESIGN PARTNERSHIP WITH CRAIG GREEN

On opening night of Stockholm Fashion Week in January Björn Borg announced a design collaboration with successful British designer Craig Green. International media and opinion leaders were treated to a presentation at Wetterling Gallery in Stockholm of a futuristic sportswear collection for both women and men. The week's highpoint, it generated tremendous PR for Björn Borg in fashion heavyweights such as Vogue, iD, VMan and Sportswear International. The collection paved the way for new international distribution for Björn Borg in NYC, London, Paris, Berlin and Tokyo.

### CHANGE YOUR GAME WITH PERFORMANCE UNDERWEAR

In 2016 Björn Borg focused on establishing a new sports-focused product line, Performance Underwear. A campaign was launched in all major markets with the tagline "Don't run in Cotton." Björn Borg launched a wide-ranging campaign with key customers to maximize sell-through and awareness. Sales of over 180,000 products were generated during the year, and the campaign had a big impact in Björn Borg's major markets. Prior to launch, Björn Borg conducted thousands of consumer tests, where the product received the highest rating and was recommended by over 90 percent of testers.

### MARKETING CAPSULE COLLECTIONS

Björn Borg used flash collections as a marketing strategy in 2016 to generate PR and pave the way for new distribution. In January it released Sport Couture, a collection that paid homage to the Mars One space initiative. All pieces were numbered and sold only online. Sport Couture garnered attention from the international media and was shown on the front page of T magazine in the New York Times.

In March, on the UN's International Day for the Elimination of Racial Discrimination, Björn Borg released the Skin Collection, an underwear collection in "nudes" for all skin tones. Traditionally "nude" underwear is only available in light beige. The initiative received a lot of attention for the stand it took and won a gold medal in the Cannes Lions.

To celebrate Björn Borg's 60th birthday in June the brand also released a tennis collection all in white with the logical name the Achromatic Collection, which generated attention in international tennis and lifestyle media.



# PRODUCT DEVELOPMENT

## BRAND AND PRODUCTS

Björn Borg is a sports fashion brand offering a number of different products, including sports apparel (On & Off Court), underwear (fashion and sport), swimwear, socks and loungewear.

Björn Borg's products are distinguished by a sporty yet fashionable identity. All Björn Borg products make customers feel active and attractive. This positioning is laid down in a strong, modern design platform with accompanying seasonal directions, which are shared and followed by the internal design department and external licensees. This creates a uniform image in the eyes of customers. Tennis as sport, heritage and inspiration are central to the brand and is expressed in a modern, contemporary form. A lot of time and energy were focused during the year on establishing a uniform expression for coming collections.

## IMPORTANT EVENTS IN 2016

In fall 2016 the company launched the first Sport collection designed by the new product organization in Stockholm. Reactions have been positive from consumers, as has sell-through in stores.

The largest product area in terms of sales continues to be underwear, but the product group with the fastest growth is functional sports underwear. This has been and will remain a focus area to grow the brand in sports fashion in new and mature markets. The Performance Underwear collection was expanded and given a more distinctly Björn Borg expression during the latter part of the year.

Efforts to create a more effective range of underwear continued during the year and included a number of highlights. The Skin collection of his and her underwear in the increasingly popular microfiber segment was launched in connection with Racial Discrimination Day. What's unique about the collection is its color spectrum, which offers "nude" underwear for all skin tones. In addition, the introduction of a monthly subscription service has been hugely popular in our own channels.

Work during the year on the company's largest product group, underwear, was mainly focused during the year on addressing a fluid, price-sensitive market. In terms of clothing, the work was more multifaceted and focused on expression and fit.

In February a collaboration was launched with the British designer Craig Green, who personally interpreted Björn Borg's sports fashion. After a successful launch during Stockholm Fashion Week earlier in the year, the doors opened to leading fashion retailers around the world and the collection was positively received by consumers when it reached stores in October.

In June the company launched the Achromatic collection to celebrate Björn Borg's 60th birthday. Innovative materials and cuts were combined with modern silhouettes for On & Off Court. The collection, which also includes accessories, bags and footwear, is all in white to honor the tennis legend and his sport.

The organization was strengthened in 2016 through the recruitment of a new Design & Product Development Director with broad experience in sports fashion. The Production and Environment areas have been given greater focus and resources to assure quality in our products and production. The creation of two category manager positions has expanded the cooperation and dialogue with our markets and distributors, resulting in a more effective collection and pricing structure. The company's pattern department has grown and a number of new recruitments have been made in Design and Production to stay innovative and fashionable and ensure the perfect finish, function and fit. This is well reflected in the collections that ship in 2017.

## FOCUS GOING FORWARD

In 2016 many new doors opened for the company's sports apparel while the Björn Borg brand remained strong in underwear. After the improvements that were made during the year, Björn Borg's products are well-positioned to continue to deliver strong, timely products in both Underwear and Sportswear. Product and Marketing work closely to ensure that the products and marketing support go hand in hand. Environmental work was expanded in 2016 and will accelerate in 2017, including through a much broader, more environmentally friendly product range. By keeping an ear to the market, customers and trends, we are now creating the products of the future.

# OPERATIONS

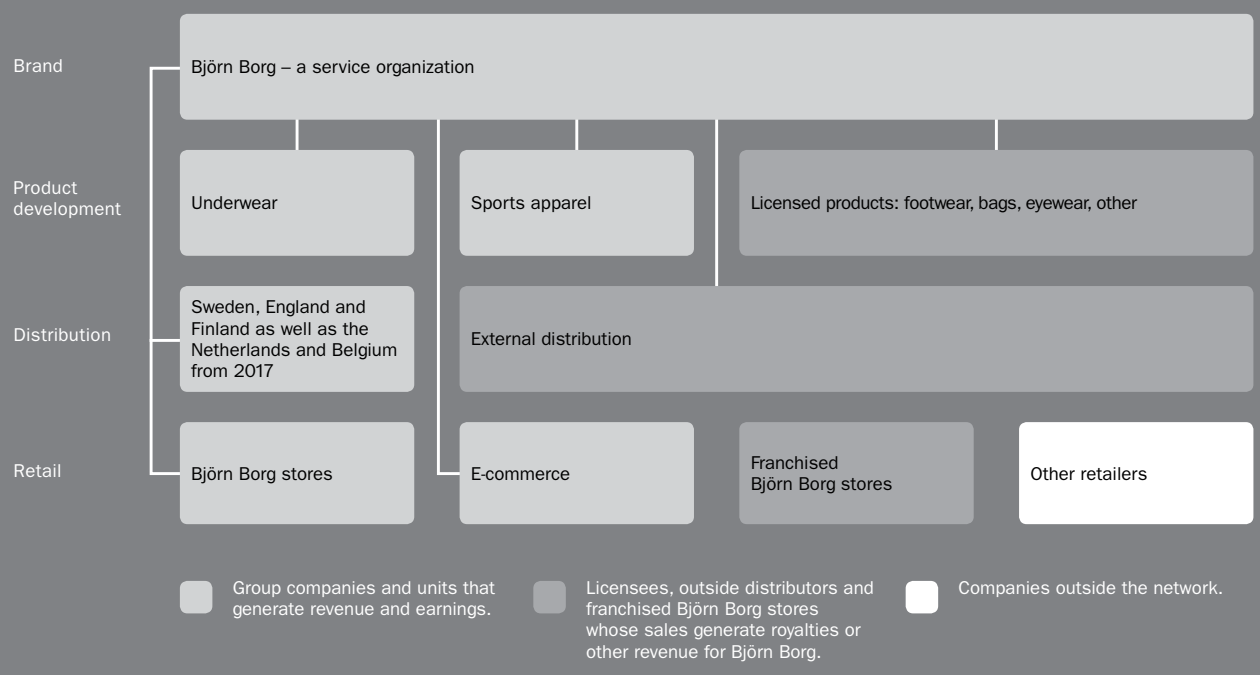
## BUSINESS MODEL

The Group's stable profitability and the successful positioning of the Björn Borg brand largely originate from the business model, which facilitates a geographical and product expansion with limited operational risk and capital investment.

Björn Borg's business model utilizes the Group's own companies as well as a network of distributors and licensees, which on the basis of a license from Björn Borg manage a product area and/or a geographical market. The network also includes Björn Borg stores operated by either the Group or external distributors or franchisees. Björn Borg owns strategically important operations at every level of the value chain, from product development to distribution and retail sales.

Through its business model with a network of its own units and independent partners, Björn Borg can be involved in the key parts of the value chain and develop the brand internationally with a compact organization and limited financial investment and risks. The business model is relatively capital efficient, since the external licensees and distributors in the network are responsible for marketing, including investments and inventory in their markets. This model, which combines in-house operations with independent partners, generates substantial consumer sales with limited risk and investment for Björn Borg.

The business model will change in 2017 due to the acquisition of the Benelux distributor as distribution in these markets is brought in-house. This will mean a higher degree of control over the sale and marketing of Björn Borg products, but at the same time an increase in tied-up capital in the form of inventory and accounts receivable.




BORG

## BRAND

Since acquiring the trademark in 2006, the Group has global rights to the Björn Borg trademark for relevant categories of products and services. By owning the trademark, the Björn Borg Group can operate from a position of strength internationally and control the brand's development. At the same time ownership provides long-term security for the entire network of licensees and distributors.

The company is responsible for the development of the Björn Borg brand as well as implementation and compliance with the brand strategy within the network. As a service organization, Björn Borg can provide its distributors with the best prospects of success in their markets. This is done through, among other things, guidelines and tools for partners in the network, including marketing activities, displays and graphic identity material, which ensures branding consistency and is efficient for the distributor.

In a network comprising the Group's own entities as well as independent companies, tight control over the brand is crucial. With the exception of production, which is handled outside the Group, Björn Borg has its own operations at every level from product development to distribution and retail sales. This depth gives the Group the best chance of ensuring the continued development and correct positioning of the Björn Borg brand.

The Group has specialists in brand management and development. Since acquiring the Björn Borg trademark in 2006, the Group has been responsible for trademark registration and protection. Björn Borg devotes significant resources to combat the sale of counterfeit products, especially in the Netherlands and Denmark and tourist destinations such as Turkey, Greece, Bulgaria and Southeast Asia.

## PRODUCT AREAS

The largest and strategically most important product areas, underwear as well as sports and functional apparel, are owned and managed by the Group. Design and product development of sports and functional apparel was moved from the Netherlands to Sweden in 2014, and since 2015 has been driven from the Swedish head office. The fall 2016 collection was the first sports and functional apparel collection developed by the Swedish product team.

Product development in other areas – footwear, bags, eyewear and other – is licensed externally.

Every product company, whether Group-owned or managed by a licensee, is responsible for design, development and sourcing of collections for every market, and for positioning products based on Björn Borg's guidelines. The collections are shown and sold to distributors in various geographical markets for resale to retailers. The product development companies also play a supporting role for distributors and retailers in the network.

All design and product development are done internally by the companies, while production is outsourced mostly to Asia – primarily China – but in recent years to Europe as well, mainly to Turkey, which means shorter lead times.

High demands are placed on quality and deliverability relative to price, and supplier performance is continuously evaluated. In production and logistics, Björn Borg is focused on increased flexibility and efficiency, two factors that have taken on greater importance in recent years in pace with the growing need for a responsive supply chain that can adapt to shifting fashions. The company also requires suppliers to comply with Björn Borg's guidelines on working conditions and the environment. For more information on Björn Borg's corporate social responsibility, see page 30 and www.bjornborg.com.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# DISTRIBUTION

Wholesale operations and product distribution to retailers is handled by external distributors with the right to market and resell Björn Borg products in one or more geographical markets, but also through the company's own distribution primarily in Sweden, Finland and England.

Björn Borg's partners in the network must be entrenched players with experience in underwear or fast-moving consumer goods rather than fashion and have an established distribution network in their local market with the resources for long-term investments. In new markets, each distributor is evaluated in terms of its opportunities, marketing capabilities and penetration during an initial two-year trial period, after which a decision is made how to further develop the market.

### OWN DISTRIBUTION

To a growing degree distribution is handled through companies within the Group. In its main areas, underwear as well as sports and functional apparel, Björn Borg is responsible for distribution in Sweden, England and Finland through its own sales organizations in these markets. The Group also handles footwear distribution in Sweden, Finland, Denmark and the Baltic countries.

Following the acquisition of the Benelux distributor, the share of own distribution will rise significantly in 2017, as the Group's companies take over the distribution of the underwear and sportswear categories in these markets, which account for a large share of the global volume.

### COOPERATION WITH EXTERNAL DISTRIBUTORS

Distributors sell and distribute the products to retailers by building the brand in their markets through their sales organizations. They are responsible for sourcing, sales support, inventory, regional marketing, media planning and training. Björn Borg provides support and guidelines in the form of joint marketing and PR campaigns, among other activities.

In their agreements, distributors commit to specific sales and investment targets in their markets. If a distributor cannot fulfill the requirements, Björn Borg normally can terminate the agreement. The challenge for distributors, in the face of tight competition, is to establish and maintain their position as a supplier to chains, department stores and independent retailers. Success requires a high level of service for retailers in the form of fast replenishment, attractive promotional materials and effective marketing activities. The ability to drive retail sales in this way is critical.

Marketing and sales feedback from distributors to Björn Borg and the licensees is important in order to continuously develop and adapt the collections and marketing activities. Several times a year Björn Borg brings together all its distributors for sales meetings, where new collections and marketing campaigns are shown and strategies and planning are discussed. The performance of each market is evaluated as well. This close cooperation within the network is important to the successful expansion of the brand.

In 2016 the agreement with the Danish distributor was renegotiated and a new agreement was signed through December 31, 2020.

# RETAIL

Björn Borg products are sold at department stores, chains and independent retailers as well as through Group-owned and franchised Björn Borg stores and factory outlets. A growing share of products is sold in Björn Borg stores and online through various websites, including the Group's web shop. This retail mix creates the right positioning in the upper mid-price segment while also generating high sales volumes.

The large network of outside retailers represents an important interface with consumers. In all, around 3,700 retailers sell Björn Borg underwear and sports apparel, including 900 in Sweden, 700 in Denmark, 620 in the Netherlands, 580 in Norway, 240 in Belgium and 400 in Finland. In smaller markets, around 850 retailers sell these products. Björn Borg products are sold through a total of around 4,500 retailers.

Fashion and sporting goods chains as well as department stores have gradually grown in importance to the sale of Björn Borg products, while independent retailers are shrinking in number. This creates a more efficient selling-in process and leads to greater exposure in areas with high customer turnover.

Underwear from Björn Borg is often displayed centrally in department stores, retail chains and fashion boutiques. From well-stocked displays, the products build brand awareness. Björn Borg provides stores with flexible Point of Sale solutions for small spaces, along with fast service and replenishment. This facilitates sales at the retail level – a strong sales argument for Björn Borg's distributors. In several major chains and department stores, Björn Borg products are displayed separately in so-called shop-in-shops with the brand's own décor.

### BJÖRN BORG STORES

Besides being a key component for sales and profitability, Björn Borg stores are important for the brand's exposure and marketing and an important channel for direct contact with the consumer.

Björn Borg continuously evaluates its retail presence to find an optimal mix of Björn Borg stores – its own and externally owned – in established and markets. The Group's own stores, together with e-commerce, are expected to continue to play a central role in Björn Borg's business model in new and more mature markets.

### E-COMMERCE

E-commerce enables Björn Borg as a brand to showcase the breadth of its product range, which makes it a directly measurable channel to spot the latest consumer trends. Two of the clearest trends in 2016 were the demand for multipacks and the growing importance of sports apparel, although underwear continued to account for a majority of sales. The web shop was redesigned in the second half of the year to better suit consumer needs. Björn Borg's own e-commerce sales were strong in 2016 (up 33 percent), and it continues to see growth opportunities.

Sales through e-tailers continue to rise both in local markets with fewer customers and in the international market through large customers such as Zalando, Amazon and ASOS. In established markets, e-commerce offers greater availability, and in new markets it is an important complement since the number of retailers is still limited.

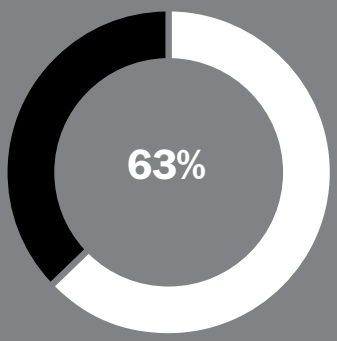
**BJÖRN BORG STORES AS OF DEC. 31, 2016**

| | Group-owned | Franchises |
|---|---|---|
| Sweden | 13 | – |
| Netherlands | – | 8 |
| Belgium | – | 5 |
| Finland | 6 | – |
| Norway | – | 7 |
| England | 1 | – |
| **Total** | **20** | **20** |

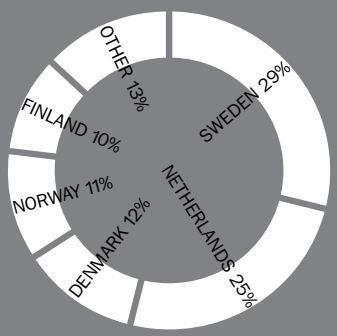
# PRODUCT AREAS

## UNDERWEAR

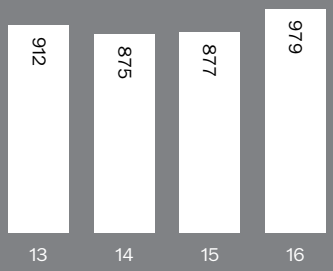
**UNDERWEAR, SHARE OF TOTAL BRAND SALES 2016**




**UNDERWEAR, BRAND SALES BY COUNTRY 2016**




**UNDERWEAR, SALES TREND 2013–2016, SEK MILLION**




Underwear is Björn Borg's largest product area, with models for men, women and children in a variety of categories and segments. This is complemented by loungewear, mainly sleepwear and socks. The range consists of trendy and fashionable products with the brand's characteristically bold prints and colors as well as collections of classic models. It also includes a functional athletic collection and several models of bras.

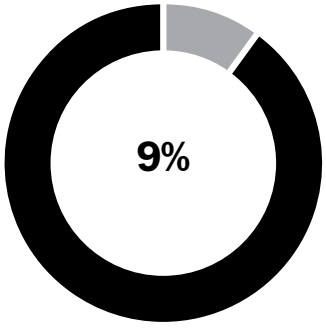
Björn Borg underwear is sold by independent retailers, apparel and sporting goods chains, department stores, Björn Borg stores and online. Product development is managed within the Björn Borg Group.

Brand sales in underwear increased in 2016 to SEK 979 million, or 63 percent of total brand sales. Among large markets, the Netherlands, Sweden, Denmark, Belgium and Finland saw growth. Norway was the only large market to report a decline.

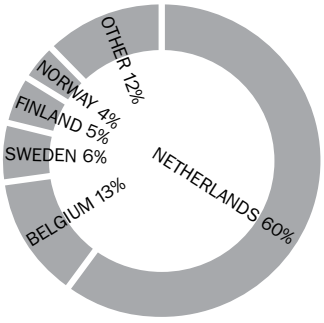

BJÖRN BORG

# SPORTS APPAREL

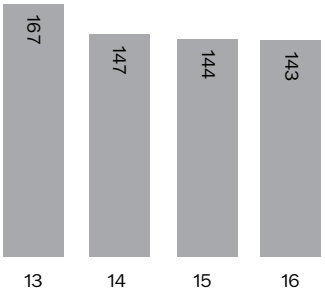
**SPORTS APPAREL, SHARE OF TOTAL BRAND SALES 2016**




**SPORTS APPAREL, BRAND SALES BY COUNTRY 2016**




**SPORTS APPAREL, SALES TREND 2013–2016, SEK MILLION**




Björn Borg offers clothing collections for both women and men, mainly functional but fashionable sports apparel in colorful designs. The product range comprises two main categories: Performance and Sportswear.

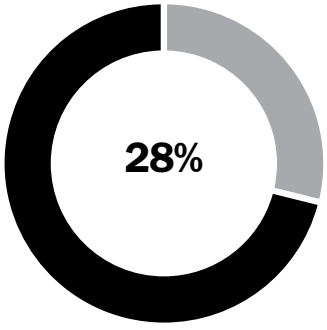
Today Björn Borg's sports apparel is sold in a total of nine markets. Retailers include sports apparel and sporting goods chains, department stores, Björn Borg stores and e-tailers.

Design and product development of sportswear and functional apparel was moved in 2014 from the Netherlands to Sweden and since 2015 has been driven from the Swedish head office.

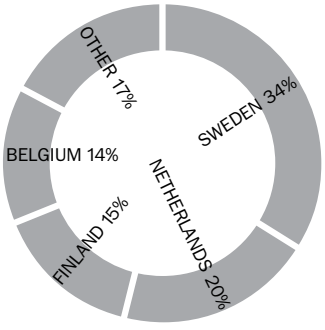

BJÖRN BORG
BJÖRN BORG

# OTHER PRODUCTS

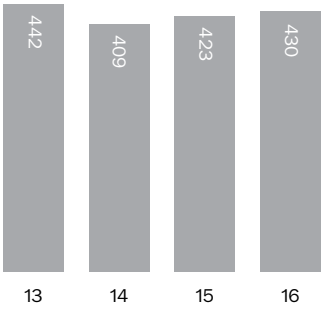
**OTHER PRODUCTS, SHARE OF TOTAL BRAND SALES 2016**




**OTHER PRODUCTS, SALES BY COUNTRY 2016**




**OTHER PRODUCTS, SALES TREND 2013–2016, SEK MILLION**




## FOOTWEAR

The footwear product area, which is managed by an external licensee, offers a range of casual and sporty designer shoes for men and women – sold by independent retailers, footwear and sporting goods chains, department stores, major e-tailers, Björn Borg stores and online at www.bjornborg.com. In recent years the licensee has expanded the business internationally to several markets. In 2016 Björn Borg shoes were sold in around twenty European markets, of which Sweden, the Netherlands, Finland and Belgium are the largest. Growth is targeted in Björn Borg's main markets in Northern Europe.

## BAGS

The bags product area falls into the fashion/trend segment and comprises gym bags, backpacks and duffle bags as well as wallets, gloves and belts. Retailers include luggage and sporting goods shops, retail chains, department stores, shop-in-shops, Björn Borg stores and e-tailers. Bags are mainly sold in Björn Borg's established markets in Northern Europe.

## EYEWEAR

Björn Borg's trendy frames are sold to opticians through the licensee's distribution organization. A line of sunglasses is sold as well through other categories of retailers such as fashion boutiques, department stores and Björn Borg stores. In 2016 Björn Borg switched licensee from EGO optiska AB to FrameWorks AB. The new licensing agreement with distribution rights for frames took effect on August 1, 2016.

## HOME

In 2016 Björn Borg reached agreement with a licensee, Sky Brands A/S, to begin manufacturing and distributing linens, towels and throws. The products will be manufactured and distributed by the licensee starting in 2017. Distribution will be through home goods retailers, department stores, e-tailers and sporting goods stores.

## OTHER PRODUCTS IN 2016

Total brand sales of other products amounted to SEK 430 million in 2016, an increase of 2 percent compared with 2015. As a whole, other products accounted for 28 percent of total brand sales.

The footwear product area reported an increase of 22 percent to SEK 336 million, or 22 percent of brand sales. Other product areas – mainly bags and eyewear – saw an aggregate sales decrease of 16 percent to SEK 94 million. Together, they accounted for 6 percent of brand sales.


BJÖRN BORG

# GEOGRAPHICAL MARKETS

## LARGE MARKETS

Björn Borg is currently represented in around 20 markets, of which Sweden, the Netherlands, Finland, Denmark, Norway and Belgium, and are the largest, in that order.

### SWEDEN

The Björn Borg trademark was registered in Sweden in 1989 and established in the Swedish apparel market in the first half of the 1990s. The first Björn Borg store was opened in Stockholm in 1994. Today Sweden accounts for 28 percent of total brand sales. Björn Borg products are sold by about 900 retailers around the country, through Björn Borg's 13 stores and two factory outlets, and online. Today Björn Borg has broad distribution in the Swedish market, where all its product groups are represented. Further expansion at the retail level is done selectively with existing and new product categories such as sports apparel and performance underwear. Brand sales rose by 7 percent in 2016 compared with the previous year.

### NETHERLANDS

The Netherlands was the Björn Borg brand's second largest market in 2016, with 27 percent of total brand sales. Operations in the country date back to 1993, when the brand quickly established a market position through growing volumes and a broad presence.

Björn Borg products are currently sold by around 620 retailers and eight Björn Borg stores. Björn Borg products from every product area are sold in the Dutch market, where brand sales increased by 10 percent during the year.

In the fourth quarter Björn Borg acquired the former Benelux distributor. The acquisition, which closed on January 2, 2017, is an important step in accelerating the vertical integration of Björn Borg's operations and is in line with the strategy to get closer to consumers and retailers in Björn Borg's main markets.

### FINLAND

The brand was established in Finland in the second half of the 1990s and has developed strongly in recent years. Today Finland accounts for about 11 percent of total brand sales and is Björn Borg's third largest market. Underwear is the dominant product area, although footwear, sports apparel and bags are sold as well. There are six Björn Borg stores in Finland, five of which are in the Helsinki area. Brand sales in Finland grew by 34 percent during the year.

### DENMARK

Björn Borg was launched in Denmark in 1992, and today it accounts for 9 percent of total brand sales. Björn Borg products are sold exclusively through around 700 external retailers. There are currently no Björn Borg stores in the country. Every product area is represented in Denmark. In 2016 brand sales rose by 6 percent compared with 2015.

### NORWAY

The brand was launched in the Norwegian market in the early 1990s. Norway today accounts for 9 percent of total brand sales. Products are sold through about 580 retailers around the country and in seven Björn Borg stores. All product groups are represented in Norway. Brand sales in the Norwegian market decreased by 15 percent year-on-year.

### BELGIUM

Björn Borg was launched in Belgium during the second half of the 1990s. Today Belgium is Björn Borg's sixth largest market, with 8 percent of total brand sales. Underwear dominates the Belgian market, although all product areas are sold. Björn Borg's products are sold through around 240 retailers and five Björn Borg stores. Brand sales in the Belgian market decreased by 2 percent compared with 2015.

# SMALLER MARKETS

Smaller markets include England and a number of other markets such as Canada, Switzerland, Germany and Austria.

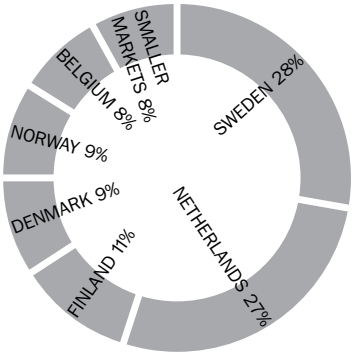
### ENGLAND

Björn Borg was established in England in 2006 with a launch at the department store Selfridges in London. In 2011 Björn Borg started its own operations together with a local partner after the previous distributor was terminated. Distribution has since been broadened to include several other well-known retailers such as Harvey Nichols and Harrods at the same time that more categories have been added such as sports apparel. Brand sales in England increased by 14 percent in 2016.

### OTHER SMALLER MARKETS

Brand sales are decreasing in many smaller markets. Björn Borg has chosen to focus more on what it considers its key markets, i.e., Northern Europe. The sales decline is partly due to the termination of several former distributors.

**BRAND SALES BY COUNTRY**



# BJÖRN BORG'S CORPORATE RESPONSIBILITY

## BJÖRN BORG'S SUSTAINABILITY PLAN 2016-2019

### FIRST STEP IN IMPLEMENTATION

In late 2015 Björn Borg launched a long-term sustainability plan for the years 2016-2019, where 2016 was the first year of implementation. The plan contains targets and activities for each year, with a goal to achieve progress over time and reach our long-term targets by taking steps in the right direction each year. We saw a clear improvement in 2016 despite that we primarily laid a foundation for future acceleration in the area. During the year our targets and activities in the long-term plan were integrated at the department level and through individual goals. This integration is the key to full implementation of the long-term plan, which takes a holistic approach covering every part of the company.

## ROLLOUT OF SUSTAINABLE MATERIALS

### IMPORTANT FIRST STEP TO INCREASE USE OF SUSTAINABLE FIBERS

A concrete plan was established in 2016 to roll out sustainable materials and included both overarching directives and specific activities to meet the company's long-term goal to substantially increase its use of sustainable fibers. The plan has step-by-step activities to reach the long-term target of 70 percent sustainable fibers. As part of the process, we have to build our internal capacity in the area and also ensure that our suppliers have the capacity to support us in this transition.

During the year we focused on internal training on sustainable materials for the team members who are affected and analyzed our current suppliers' capacity. As an important first step in the implementation, the plan is now being integrated in collection planning and material choices. During the year Björn Borg's first collections, Fall/Winter and Holiday 2017, were designed using 15-20 percent sustainable materials. This is a big step forward and marks the beginning of our rollout.

### INTEGRATION OF SPORTS APPAREL IN SUSTAINABILITY PROGRAM

In 2016 the sports apparel business, including all suppliers, was fully integrated in the sustainability program. The business had previously been managed by the licensee, Björn Borg Sport B.V. Procurement was not fully centralized within Björn Borg until early 2016. An important focus for the year was to integrate this part of the business in the overarching sustainability program at Björn Borg's head office. This includes consideration for working conditions in factories through the BSCI program, chemical inspections and carbon footprints. Our sports apparel suppliers were updated on the inspections we conducted during the year, which increased our understanding of their development potential.


BJÖRN BORG

# EMPLOYEES AND ORGANIZATION

With their competence, creativity and drive, Björn Borg's employees contribute to the development of the brand and the Group and are essential to the company's success. As an employer, Björn Borg tries to offer a stimulating work environment where management and staff together build a culture characterized by ambition, drive and a strong passion for fashion and sports.

One of management's top priorities is to provide current employees with development opportunities and attract new employees with the right skills to the organization. This is accomplished by building an open and stimulating corporate culture, where employees can grow on the job and develop. In a growing group like ours, with an expanding number of markets, we also need structure and standardized routines – while still maintaining our creativity.

Björn Borg's employees are generally highly skilled with extensive industry experience, including from large Swedish and international fashion companies and retailers, as well as unique expertise in fashion and sports apparel. They share a great interest in fashion and sports, which is reflected in the culture. To sustain a high level of innovation and creativity in product development, inspiration is sought at trade shows and international fashion events. The company also places great importance on creating an inspiring culture internally, where the driving force is to inspire people to feel active and attractive.

**SHARED VALUES**

Shared values play an important unifying function for Björn Borg, with its extensive international business and network of partners, but also for the brand's development. The values that define Björn Borg can be summarized as follows: *Passion*, *Multiplying* and *Winning attitude*. This distinguishes the way Björn Borg works and all communication internally and externally.

The company's mission is that *"We believe all humans carry the will to make a difference – for themselves, for someone else, or for the world,"* which we take very seriously. Everyone at Björn Borg is treated equally and has the same opportunities regardless of race, ethnicity, age, religion, gender, sexual orientation or disability.

## ORGANIZATION DURING THE YEAR

During the year Björn Borg strengthened its organizational competence through new hires in design, product development and branding, with an emphasis on sports fashion. Through competency mapping, we identified additional areas to strengthen in the year ahead, so that the organization can meet the needs of today and tomorrow. This is a long-term effort also aimed at creating a competence-oriented, stimulating working environment. Each employee has individual development goals in terms of both functional competency and personal well-being.

## PERFORMANCE MANAGEMENT

A growing company requires a well-structured organization with clearly delegated responsibility. Björn Borg uses detailed job descriptions with measurable goals for each employee and takes a structured approach to creating an efficient environment where people thrive and perform well. The company has formulated a business plan (Northern Star) with clearly defined goals for 2015-2019. Employees at every level of the organization have been involved, with support from senior management. The overarching goals have been broken down, with the same degree of involvement, by department and individual, so that everyone in the company has clear goals and activities that lead to shared business objectives. This is followed up through individual reviews each month to maintain focus and maximize results. In addition to strategic growth, the goals include improvements to the working environment, the corporate culture and each individual's development professionally and personally. Each individual also has personal health goals.

The company's compensation system comprises a base salary and variable compensation for certain key employees that pays out when individual targets are met.

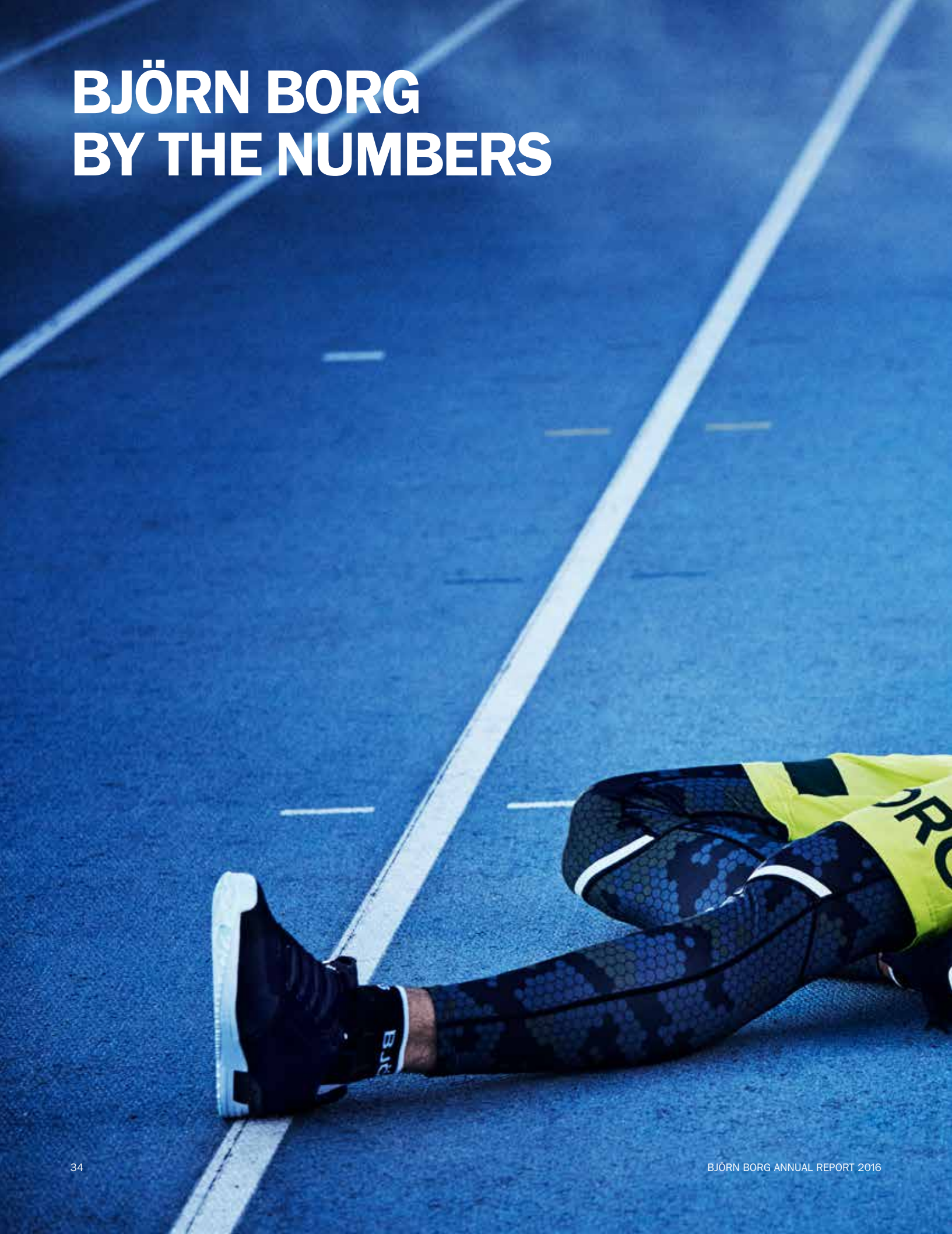
## ORGANIZATION BY THE NUMBERS

The average number of Group employees was 133 in 2016, compared with 132 in 2015.

The average age was 32, and 71 percent were women and 29 percent men. Biologically, their average age is 29, three years younger than their physical age, according to a fitness test employees underwent during the year with a personal trainer, who also helped them set personal goals. In 2016 employees improved in every area (endurance, strength, flexibility and perceived well-being), in line with the goals set for the group.

Employee engagement in the organization is high (75%) and increased last year in line with current goals. All departments have been involved in setting their own goals for coming years.

# BJÖRN BORG BY THE NUMBERS



# FIVE-YEAR SUMMARY

**FIVE-YEAR SUMMARY**

| SEK thousands | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Operating revenue | 638,570 | 584,498 | 544,497 | 499,246 | 551,432 |
| Operating profit | 64,196 | 58,592 | 55,950 | 21,160 | 69,786 |
| Profit after financial items | 63,470 | 57,560 | 63,148 | 24,849 | 68,877 |
| Profit for the year | 46,897 | 41,643 | 47,572 | 13,906 | 47,227 |
| **Balance sheet** | | | | | |
| Intangible assets | 208,492 | 209,336 | 211,187 | 211,246 | 206,048 |
| Tangible non-current assets | 9,277 | 10,076 | 12,334 | 16,519 | 13,952 |
| Long-term receivable | 10,700 | 8,900 | 9,800 | 13,400 | – |
| Deferred tax assets | 13,452 | 35,315 | 31,713 | 31,126 | 35,283 |
| Inventory | 67,477 | 75,851 | 40,381 | 39,031 | 35,688 |
| Current receivables | 153,913 | 107,395 | 85,973 | 86,425 | 123,244 |
| Short-term investments | 26,167 | 80,909 | 133,147 | 136,519 | 163,979 |
| Cash & cash equivalents | 48,948 | 50,643 | 85,080 | 82,304 | 116,195 |
| **Total assets** | **538,426** | **578,425** | **609,613** | **616,570** | **694,389** |
| Equity | 289,103 | 290,675 | 285,708 | 280,650 | 344,216 |
| Non-current liabilities | 17,273 | 174,832 | 201,030 | 217,042 | 223,269 |
| Deferred tax liabilities | 35,418 | 41,969 | 38,350 | 39,694 | 44,544 |
| Current liabilities | 196,632 | 70,949 | 84,524 | 79,184 | 82,361 |
| **Total equity and liabilities** | **538,426** | **578,425** | **609,613** | **616,570** | **694,389** |
| **Key ratios** | | | | | |
| Gross profit margin, % | 50.3 | 52.4 | 52.9 | 51.5 | 50.2 |
| Operating margin, % | 10.2 | 10.2 | 10.4 | 4.3 | 12.7 |
| Profit margin, % | 10.0 | 10.0 | 11.7 | 5.0 | 12.5 |
| Return on capital employed, % | 16.3 | 14.8 | 14.8 | 7.0 | 15.9 |
| Return on average equity, % | 16.3 | 15.6 | 17.2 | 6.9 | 14.3 |
| Profit attributable to Parent Company's shareholders | 47,361 | 45,062 | 48,835 | 21,613 | 52,963 |
| Equity/assets ratio, % | 53.7 | 50.3 | 46.7 | 45.5 | 49.6 |
| Equity per share, SEK | 11.5 | 11.56 | 11.36 | 11.16 | 13.69 |
| Investments in intangible non-current assets | – | 301 | 1,428 | 1,533 | 2,679 |
| Investments in tangible non-current assets | 5,231 | 4,746 | 1,353 | 8,088 | 3,843 |
| Investments in financial assets | – | – | 1,410 | 6,547 | – |
| Depreciation/amortization for the year | –6,797 | –6,592 | –8,877 | –6,825 | –6,438 |
| Average number of employees | 133 | 132 | 129 | 159 | 139 |
| **Data per share** | | | | | |
| Earnings per share, SEK | 1.88 | 1.79 | 1.94 | 0.86 | 2.11 |
| Earnings per share (after dilution), SEK | 1.88 | 1.77 | 1.94 | 0.86 | 2.11 |
| Number of shares | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 |
| Weighted average number of shares | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 |
| Effect of dilution | – | 456,000 | – | – | – |
| Weighted average number of shares (after dilution) | 25,148,384 | 25,604,384 | 25,148,384 | 25,148,384 | 25,148,384 |

# QUARTERLY DATA FOR THE GROUP

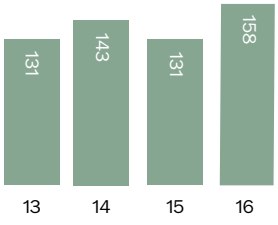
**QUARTERLY DATA FOR THE GROUP**

| SEK thousands | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|---|---|---|---|---|---|---|---|---|
| Net sales | 171,410 | 179,977 | 122,165 | 158,065 | 152,618 | 191,430 | 99,199 | 131,081 |
| Gross profit margin, % | 48.0 | 50.4 | 53.5 | 50.0 | 51.8 | 51.9 | 53.0 | 53.6 |
| Operating profit | 21,365 | 28,636 | 305 | 13,891 | 14,554 | 32,872 | –1,662 | 12,828 |
| Operating margin, % | 12.5 | 15.9 | 0.2 | 8.8 | 9.5 | 17.2 | neg | 9.8 |
| Profit after financial items | 25,413 | 28,493 | –16 | 9,579 | 11,855 | 29,510 | –1,585 | 17,781 |
| Profit margin, % | 14.8 | 15.8 | 0.0 | 6.1 | 7.8 | 15.4 | neg | 13.6 |
| Earnings per share, SEK | 0.74 | 0.95 | –0.09 | 0.28 | 0.34 | 0.88 | –0.04 | 0.61 |
| Earnings per share after dilution, SEK | 0.74 | 0.95 | –0.09 | 0.28 | 0.29 | 0.84 | –0.04 | 0.61 |
| Number of Björn Borg stores at end of period | 40 | 39 | 40 | 40 | 41 | 38 | 38 | 40 |
| of which Group-owned Björn Borg stores | 20 | 20 | 21 | 21 | 21 | 18 | 17 | 18 |
| Brand sales | 371,960 | 479,109 | 280,888 | 424,685 | 330,214 | 472,865 | 249,063 | 394,206 |

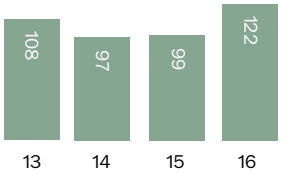
**SEASONAL VARIATIONS**

The Björn Borg Group is active in an industry with seasonal variations. The four quarters vary in terms of sales and earnings.

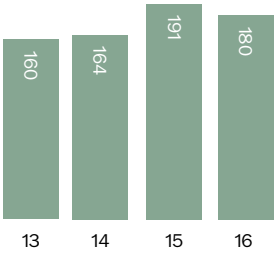
**NET SALES 2013-2016, Q1, SEK MILLION**



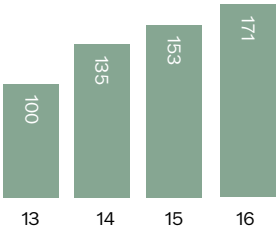

**NET SALES 2013-2016, Q2, SEK MILLION**



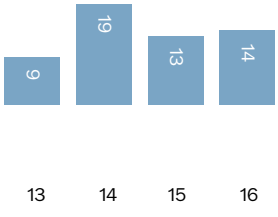

**NET SALES 2013-2016, Q3, SEK MILLION**



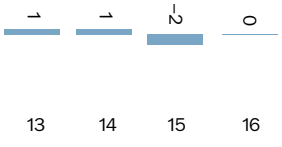

**NET SALES 2013-2016, Q4, SEK MILLION**



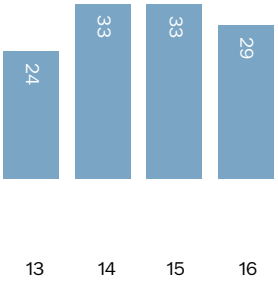

**OPERATING PROFIT 2013-2016, Q1, SEK MILLION**



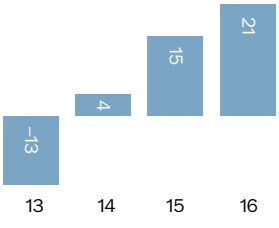

**OPERATING PROFIT 2013-2016, Q2, SEK MILLION**




**OPERATING PROFIT 2013-2016, Q3, SEK MILLION**




**OPERATING PROFIT 2013-2016, Q4, SEK MILLION**



# BOARD OF DIRECTORS' REPORT

The Board of Directors and the CEO of Björn Borg AB (publ), company registration number 556658-0683, herewith present the annual report and consolidated financial statements for the financial year 2016.

**OPERATIONS**

The Björn Borg Group owns and develops the Björn Borg brand. The focus of the business is underwear and sports apparel as well as the licensing of footwear, bags and eyewear. Björn Borg products are sold in around twenty markets, of which Sweden and the Netherlands are the largest.

The Björn Borg Group has operations at every level from branding to consumer sales in its own Björn Borg stores and e-commerce. Operations comprise brand development and services for the network of licensees and distributors as well as product development in the core underwear and sports apparel businesses. The Group is also responsible for the distribution of underwear and sports apparel in Sweden, England and Finland as well as footwear in Sweden, Finland, the Baltic countries and Denmark.

The Björn Borg share has been listed on Nasdaq Stockholm since 2007.

**BJÖRN BORG SHARE AND OWNERSHIP STRUCTUREN**

Björn Borg AB is listed on Nasdaq Stockholm. The total number of shares in Björn Borg is 25,148,384. There is only one class of share. The share capital amounts to SEK 7,858,870 and the quota value per share is SEK 0.3125. Each share carries one vote at the Annual General Meeting (AGM) and there are no limitations on how many votes each shareholder may cast at the AGM. Björn Borg had 7,677 shareholders at year-end. The largest shareholder as of December 31, 2016 was Martin Bjäringer, who directly and indirectly holds 9.7 percent of the shares in Björn Borg.

There are no limitations on the right to transfer the Björn Borg share according to current laws or Björn Borg's Articles of Association. Nor is Björn Borg aware of any agreements between shareholders that could infringe upon the right to transfer Björn Borg shares.

Björn Borg's main debt financing, consisting of a corporate bond maturing in April 2017 and a three-year, SEK 150 million loan agreement signed in 2017 with Danske Bank, contains a so-called change of control clause. This means that if someone acquires 50 percent or more of the company, the bond and bank agreements expire.

The Board of Directors and any deputies are appointed by the AGM for a term concluding with the following AGM. Björn Borg's Articles of Association contain only the usual provisions on board elections and have no rules on special majority requirements to appoint and dismiss directors.

**ANNUAL GENERAL MEETING**

The Annual General Meeting held on May 19, 2016 in Stockholm re-elected Mats H Nilsson, Fredrik Lövstedt, Heiner Olbrich and Martin Bjäringer as Directors. In addition, Petra Stenqvist, Christel Kinning och Lotta de Champs were elected as new Directors. Nathalie Schuterman, Isabelle Ducellier and Kerstin Hessius declined re-election and stepped down from the Board. The AGM also resolved to transfer earnings to shareholders through an automatic share redemption procedure and gave the Board limited authorization to resolve to acquire and transfer the company's own shares or issue new shares. The minutes of the AGM are available on Björn Borg's website.

**BOARD WORK**

In 2016 the Board held six scheduled meetings, four of which were in connection with the quarterly financial reports, one by circulation in connection with the preparations for the AGM and one to adopt the business plan and budget. Further information on the Board's work and members' attendance at the meetings held during the year can be found in the corporate governance report on page 88. Note that the corporate governance report is a separate report, not part of the Board of Directors' report.

**FINANCIAL OBJECTIVES**

Björn Borg's financial objectives for the period 2015–2019 are as follows:

- The Group's objective for the financial year 2019 is to reach SEK 1 billion in sales with an operating margin of 15 percent.
- An annual dividend of at least 50 percent of net profit.
- The equity/assets ratio shall not fall below 35 percent.

**Comments on the financial objectives**

The sales objective for 2019 corresponds to average annual organic growth of 16 percent. The sales increase, as well as the increase in the operating margin, is expected to come from new product groups in sports fashion and expanded geographical distribution in all product groups..

**DIVIDEND**

The Board of Directors has decided to propose to the 2017 AGM a distribution of SEK 2.00 (2.00) per share for the financial year 2016, corresponding to 106 percent (112) of net profit. As proposed, the distribution would be paid through an automatic redemption, where every share is divided into a common share and a redemption share. The redemption shares will then automatically be redeemed for SEK 2.00 per share. Payment for the redemption shares, contingent on the approval of the AGM, is expected to be made around June 15, 2017. The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50.3 million (50.3). For the financial year 2015 a distribution of SEK 2.00 per share was paid, corresponding to 112 percent of net profit.

**EVENTS IN 2016**

**Organization**

During the first quarter Mija Nideborn took over as Design & Product Development Director, a position that was vacant at the end of 2015. She has extensive experience in design and product development mainly from Helly Hansen and Peak Performance. In the second quarter Callum Sneddon, the Managing Director and former co-owner of Björn Borg's UK subsidiary, stepped down and was replaced by Neil Smith, previously the sales manager.

**Markets**
During the second quarter Björn Borg AB acquired Björn Borg UK Limited's minority holding (20 percent), making Björn Borg UK a wholly owned subsidiary.

At the end of the fourth quarter Borg Borg AB acquired Baseline Group, the former distributor of Björn Borg products in Benelux. The distribution agreement for Benelux was terminated in December 2015 and expires in December 2019, when distribution will be taken over by the Björn Borg Group. The acquisition, which closed on January 2, 2017, is an important step in accelerating the vertical integration of Björn Borg's operations and is in line with the strategy to get closer to consumers and retailers. For more information on the acquisition, see note 29.

At the end of 2016 Björn Borg also signed a new, updated agreement with the current distributor of underwear and sports apparel in Denmark. The new agreement expires on December 31, 2020.

**Björn Borg stores**
In 2016 two Group-owned Björn Borg stores were opened, one in Sweden and one in Finland. Three Group-owned stores were closed, two in Sweden and one in Finland. During the year two distributor-owned stores were closed in Belgium, while two were opened, one in Norway and one in the Netherlands. At year-end there were a total of 40 (41) Björn Borg stores, 20 (21) of which are Group-owned.

## THE GROUP'S DEVELOPMENT

**Net sales**
The Group's net sales amounted to SEK 631.6 million (574.3) in the full-year 2016, an increase of 10 percent. Currency effects on net sales were marginal.

The positive sales trend compared with the previous year was driven by the Group's own wholesale and retail operations. External distribution revenue in the product companies decreased significantly from the previous year mainly due to lower sales to Norway and Benelux, while Denmark stayed at the same level as 2015. All Group-owned wholesale and retail companies grew significantly compared with the previous year. The increases in Sweden, Finland and England were mainly due to broader distribution of underwear through sporting goods retailers, but also to growth from existing customers. Sales of discounted merchandise were higher than the previous year, partly due to the considerable price pressure in the market, a change in the distribution mix and initiatives to reduce inventory levels prior to moving the warehouse in January 2017. The footwear wholesale company is growing partly thanks to the new Danish distribution rights, but also through new and existing customers in Sweden. The Swedish retail company is growing mainly in e-commerce (32.9 percent), but also in physical sales thanks to a larger number of stores during the year. Sales for comparable stores in Sweden were unchanged from the previous year. External royalties were in line with the previous year.

**Profit**
The gross profit margin for the full-year decreased to 50.3 percent (52.4). Adjusted for exchange rates, the margin was 50.7 percent. The year-on-year decrease in the gross profit margin was due to increased price pressure in the market with a higher share of discounted merchandise and a change in the distribution mix at the wholesale level. The product companies' margins were also affected by the pressure on external distributors due to lower margins in their markets. Moreover, an inventory of older fragrances was written down by SEK 1.4 million in the fourth quarter.

The higher revenue, coupled with the lower gross profit margin and slightly higher operating expenses, led to an increase in operating profit to SEK 64.2 million (58.6). The operating margin was 10.2 percent (10.2). Operating expenses excluding goods for resale rose by 2.9 percent year-on-year. Adjusted for one-off expenses of SEK 1.7 million from the acquisition of Baseline as well as one-off expenses of SEK 2.2 million in the previous year, expenses rose by 3.2 percent. The increase is mainly due to the higher number of Group-owned stores open during the year and increased logistics expenses as an effect of higher net sales in the Group's own channels.

Net financial items amounted to SEK –0.7 million (–1.0). The realized and unrealized return on investments, plus coupon interest less interest on the bond loan, negatively

**FIVE-YEAR SUMMARY**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Net sales, SEK million | 631.6 | 574.3 | 538.8 | 496.0 | 551.4 |
| Operating profit, SEK million | 64.2 | 58.6 | 56.0 | 21.2 | 69.8 |
| Operating margin, % | 10.2 | 10.2 | 10.4 | 4.3 | 12.7 |
| Profit after financial items, SEK million | 63.5 | 57.6 | 63.1 | 24.8 | 68.9 |
| Profit for the year, SEK million | 46.9 | 41.6 | 47.6 | 13.9 | 47.2 |
| Earnings per share, SEK | 1.88 | 1.79 | 1.94 | 0.86 | 2.11 |
| Earnings per share (after dilution), SEK | 1.88 | 1.77 | 1.94 | 0.86 | 2.11 |
| Equity/assets ratio, % | 53.7 | 50.3 | 46.7 | 45.5 | 49.6 |
| Equity per share, SEK | 11.50 | 11.56 | 11.36 | 11.16 | 13.69 |

affected the Group's financial net by SEK –1.3 million (–2.6). The remaining decrease compared with the previous year was mainly due to the revaluation of financial assets and liabilities in foreign currency. Profit before tax amounted to SEK 63.5 million (57.6).

**Investments and cash flow**

The Group's cash flow from operating activities was positive during the year and amounted to SEK 15.3 million (–17.8). Cash flow improved year-on-year mainly due to improved cash flow from operations before the change in working capital. Working capital is increasing and affects cash flow negatively, primarily due to higher accounts receivable, while inventory decreased from the previous year. The increase in accounts receivable was driven by strong wholesale revenues in Q4, but was also affected by the Benelux acquisition, where the company granted the previous distributor longer payment terms when the acquisition agreement was signed. Acquisitions and sales of short-term investments of SEK 55.0 million (47.7) and investments and sales of tangible non-current assets totaling SEK –5.2 million (–4.7) produced cash flow from investing activities of SEK 49.7 million (42.7). The negative cash flow from financing activities of SEK –68.5 million (–60.6) is largely due to the dividend to shareholders of SEK –50.3 million (–37.7), but also to bond repurchases of about SEK 18 million. The Group's cash flow for the year was negative at SEK –3.4 million (–35.6) and cash & cash equivalents amounted to SEK 48.9 million (50.6) at the end of the period.

**Financial position and liquidity**

The Björn Borg Group's cash & cash equivalents and investments amounted to SEK 75.1 million (131.6) at the end of the period, with interest-bearing liabilities (bond loan) of SEK 137.1 million (154.5).

In April 2012 the company issued a bond loan that is listed on Nasdaq Stockholm and carries an annual coupon rate corresponding to the 3-month STIBOR rate plus 3.25 percentage points, maturing in April 2017. The surplus liquidity from the issuance of the bond loan and the convertible plan is placed in interest-bearing financial instruments, highly liquid corporate bonds, within the framework of the financial policy laid down by the Board of Directors. As of December 31, 2016 investments had been made in bonds with a book value of SEK 26.2 million (80.5), which represents the fair value on that date. During the period bonds were repurchased for SEK 18.0 million.

In addition to the bond loan, Björn Borg has an overdraft facility of SEK 90 million from Danske Bank, which had not been utilized as of December 31, 2016.

In February Björn Borg signed a three-year revolving credit of SEK 150 million to repay the bond loan maturing in April 2017.

**Commitments and contingent liabilities**

As a commitment for the above-mentioned bond loan, the company has pledged to ensure that the ratio between the Group's net debt and operating profit before depreciation and amortization does not exceed 3.00 on the last day of each quarter and that the Group maintains an equity/assets ratio of at least 30 percent at any given time. On December 31, 2016 the ratio was 1.12 (0.62) and the equity/assets ratio was 53.7 percent (50.3). A complete description of commitments and terms of the bond loan is provided in the prospectus, which is available on the company's website and from the Swedish Financial Supervisory Authority.

As a commitment for the overdraft facility, the company has pledged, among other things, to ensure that the ratio between the net debt and 12 month rolling operating profit before depreciation and amortization as of the last day of each quarter does not exceed 3.00 except in the first three quarters of 2017. In the first and second quarters of 2017 the ratio may not exceed 4.00 and in the third quarter of 2017 it may not exceed 3.50. Further, the Group shall at any given time maintain an equity/assets ratio of at least 35 percent.

No other changes were otherwise made with regard to pledged assets and contingent liabilities compared with December 31, 2015.

**Transactions with related parties**

In 2015 Björn Borg issued a warrant program for senior management and a convertible program for all employees. In 2016 a small number of transactions involved subscriptions for new warrants and convertibles. Other senior executives subscribed for 40,000 warrants and 20,000 convertibles during the year, while other employees subscribed for 2,000 convertibles. The consideration Björn Borg received for the warrants and convertibles was based on fair market value. Aside from customary compensation (salary, bonuses and other benefits) to the CEO, senior management and Board of Directors, no transactions with related parties were executed during the period.

**SEGMENTS**

**Brand**

The Brand segment primarily consists of royalty revenue and expenses associated with the brand.

The business segment's operating revenue amounted to SEK 84.3 million (78.5) during the year. External operating revenue decreased to SEK 33.6 million (34.7) as a result of lower brand sales by licensees and certain distributors. Royalty percentages vary by product category, due to which there is not always a precise correlation between royalties and brand sales.

Operating profit decreased to SEK 19.5 million (24.2). The lower operating profit was due to lower margins.

**Product development**

The Björn Borg Group has global responsibility for development, design and production of underwear, sports apparel and adjacent products.

The segment's operating revenue amounted to SEK 363.9 million (462.1) during the year, a decrease of 21 percent. The segment's external revenue amounted to SEK 187.7 million (238.1), a decrease of SEK 50 million or 21 percent. The decrease was mainly due to a weak Norwegian market, where the distributor is adjusting inventory by selling off older merchandise, and because distributors in smaller markets are reducing their purchases or have been terminated. Benelux decreased in the second half of the year and for the full-year, while Denmark maintained the previous year's levels.

Operating profit decreased to SEK 33.4 million (37.4) due to the lower total sales.

**Wholesale**

The Björn Borg Group is the exclusive wholesaler of underwear, sports apparel and adjacent products in Sweden, Finland and England as well as footwear in Sweden, Finland, Denmark and the Baltic countries.

The segment's operating revenue rose during the year to SEK 320.8 million (235.2), up 36 percent. External operating revenue amounted to SEK 289.6 million (207.1), an increase of SEK 82.5 million or 40 percent. Growth in the segment is coming from every market, mainly in underwear and footwear. In the case of underwear, it is partly driven by broader

distribution to sporting goods retailers, but also by existing customers. For footwear, growth is partly driven by the new distribution rights in Denmark, which took effect on July 1, 2015, but also because the Swedish business is growing from new and existing customers.

Operating profit amounted to SEK 17.6 million (–4.1), the improvement due to the revenue increase, but with a lower gross profit margin because of price pressure and a change in the distribution mix.

**Retail**

The Björn Borg Group owns and operates a total of 20 (21) stores and factory outlets in Sweden, Finland and England that sell underwear, sports apparel, adjacent products and other licensed products. Björn Borg also sells online through www.bjornborg.com.

Operating revenue in the Retail segment increased by 25 percent during the year to SEK 145.0 million (115.6). External net sales rose by 22 percent to SEK 127.6 million (104.6). The increase was due to growth in both e-commerce and physical retail, mainly as a result of a higher number of Group-owned stores during the year. E-commerce sales rose by 32.9 percent during the year to SEK 50.8 million (38.2). Sales for comparable Björn Borg stores rose by 4 percent compared with 2015.

The operating loss for the year was SEK –6.3 million, against year-earlier profit of SEK 1.1 million. The loss was a result of lower gross profit margins due to price pressure in the market, a higher share of shares through factory outlets and higher operating expenses due to newly opened stores.

**Intra-Group sales**

Intra-Group sales for 2016 amounted to SEK 274.6 million (312.7).

## PERSONNEL AND REMUNERATION GUIDELINES

The competence, creativity and drive of Björn Borg's employees are important to the development of the brand and the Group and are essential to our future success. Retaining current employees and attracting new professionals to the organization is therefore one of management's top priorities. The company's current compensation system comprises a base salary and an individual bonus system for certain key employees, where the bonus is paid out when individual performance targets are met.

In 2015 Björn Borg issued a warrant plan for senior management and a convertible debenture plan for all employees.

The convertibles carry interest as of July 1, 2015. The interest rate is based on an average of STIBOR on certain fixed dates during the annual period plus a margin of 3.15%. The debentures fall due for payment on June 30, 2019 at their nominal value or can be converted to shares at the holder's request at a rate of SEK 37.96 per share. As of December 31, 2016, 478,000 convertibles had been subscribed for SEK 18.1 million.

The warrants entitle the holder to subscribe for one share for SEK 37.96 per share during the period June 1-14, 2019. Björn Borg has received fair market compensation for the warrants amounting to SEK 2.50 per warrant. As of December 31, 2016, 520,000 warrants had been subscribed for SEK 1.3 million.

For more information on the convertible and warrant plans, see note 8.

The average number of employees for the full-year was 133 (132), of whom 29 (32) percent are men and 71 (68) percent women.

## REMUNERATION GUIDELINES FOR THE CEO AND OTHER SENIOR EXECUTIVES

The Annual General Meeting on May 19, 2016 resolved that remuneration for the CEO and other members of senior management shall comprise a base salary, variable compensation, long-term incentive plans and other benefits, including a pension. Total compensation must be competitive given current market conditions and reasonable relative to each individual's responsibilities and authority. The variable compensation will be based on performance in relation to defined, measurable goals, designed to promote the company's long-term value creation and maximized in relation to the base salary that has been agreed upon. Variable compensation will exceed the base salary only in exceptional cases. If terminated by the company, the notice period shall not be longer than 12 months. Severance is not paid. Pension benefits are defined contribution and entitle senior executives to receive a pension from age 65.

## RESEARCH AND DEVELOPMENT

Björn Borg does not conduct any research, although development and design work is done in the underwear and sports apparel product areas.

## BJÖRN BORG'S SUSTAINABILITY WORK

Björn Borg embraces its responsibility for how people and the environment are affected by its operations and collaborates with the Group's network of licensees and distributors on similar issues.

Björn Borg maintains a close cooperation with the Group's suppliers, in many cases based on longstanding relationships. The limited number of key suppliers facilitates dialogue and monitoring. Björn Borg works continuously with issues of social responsibility and the environment, including by setting requirements that suppliers must meet in the Group's contracts, Code of Conduct and chemical restrictions.

Björn Borg has been a member of the Business Social Compliance Initiative (BSCI) since January 2008 and applies the BSCI Code of Conduct as its working condition guidelines for suppliers. BSCI members apply the same manufacturing practices, which makes it easier for companies and suppliers to achieve improvements. All of Björn Borg's suppliers commit to the company's Code of Conduct, and major suppliers are introduced into the BSCI system and periodically undergo audits by independent, third-party auditing firms. With respect to the use of chemicals in textile production, Björn Borg requires its suppliers to follow the EU's chemical regulation (REACH) and other specific requirements set by the Group, which regulate the maximum levels for particular chemicals, among other things.

In 2016 the company continued the implementation of the Björn Borg Sustainability Roadmap, which was established in 2015 and contains a number of concrete goals and actions in a step-by-step process to meet the goals for 2019.

During the year Björn Borg continued its work to implement BSCI 2.0, the updated Code of Conduct and its new requirements, and completed a number of BSCI audits according to the new Code of Conduct. The system for evaluating and developing suppliers was reviewed, and more sports apparel suppliers were integrated in the Group's sustainability program. In 2016 a concrete rollout plan was put in place to incorporate more sustainable materials into the collections, and several courses were held for employees. During the year the first collection with a more substantial share of sustainable materials was sold to distributors and retailers. An environmental project

focused on water and chemicals and was completed within the framework of the Sweden Textile Water Initiative (STWI), where Björn Borg is a member, involved a subcontractor to one of the company's factories. During the year Björn Borg also prepared a new climate report for the Group's operations.

For more information on Björn Borg's sustainability work, see Björn Borg's separate sustainability report, which can be downloaded from the website (https://corporate.bjornborg.com/en/section/sustainability/).

## RISKS, UNCERTAINTIES AND RISK MANAGEMENT

A number of operational and financial risks internally and externally could affect Björn Borg's results and operations.

### Financial risks

Through its operations, Björn Borg is exposed to currency, interest rate, credit and counterparty risks as well as liquidity and refinancing risks. The Board has decided how the Group will manage these risks. See also note 3.

### Market risks

Björn Borg is active in the highly competitive fashion industry. The company's vision is to solidify Björn Borg's position as a global fashion brand. Competitors control national and international brands, usually focused on the same markets. They often have substantial financial and human resources. While Björn Borg has so far managed to hold its own in competition with other players, there are no guarantees it will be able to continue to compete with current and future brands.

### Legal risks

Björn Borg sells consumer products. There is a risk that the products in question could be associated with safety risks or harm users for other reasons. In certain countries such as the US, this type of product responsibility can lead to significant claims for damages by those affected, which could adversely impact the company's results and reputation. While it takes preventive measures, Björn Borg faces the risk that the marketing or sale of its products could infringe on a third party's intellectual property, and it could be accused, for example, of illegally using another party's trademarked or copyrighted material. Such a claim could leave the company liable for damages that adversely impact results and potentially harm the company's reputation.

### Expansion of operations

The company's future growth is dependent on the network's ability to increase sales through existing channels, but also on identifying new geographical markets for the company's products. The opportunity to find new markets for Björn Borg is partly dependent on factors beyond the company's control such as economic conditions, trade barriers and access to attractive retail locations on commercially viable terms.

### Network

The company's position and future expansion are dependent in part on independent entrepreneurs that serve as product companies, distributors and franchisees in the network. Despite that Björn Borg generally has effective, extensive contractual relationships, directly or indirectly, with outside parties in the network, these agreements can be terminated and there are no guarantees that similar agreements can be signed. The termination of a collaboration with one or more entrepreneurs in the network could adversely impact the company's growth and results. Björn Borg's distribution model with external distributors – both its own and licensees' – also creates the risk that these external parties do not make the investments or take the measures that are needed, for example, to achieve certain planned growth targets or certain types of changes.

### Fashion trends

The company's operations are affected by shifts in trends and fashions and consumer preferences with regard to design, quality and price point. Positioning relative to various competitors' products is critical. In general, there is a positive connection between fashion level and business risk, with higher fashion involving a shorter product lifecycle and higher business risk. Sudden changes in fashion trends may reduce sales for some collections.

### Cyclicality

Like all retail sales, the sale of the company's products is affected by changes in economic conditions. A growing economy has a positive effect on household finances, which is reflected in spending patterns. A downturn in the economy has the opposite effect, which was especially evident in recent years, when unstable demand in the market affected the Group's underwear and sports apparel sales. The company's profitability is also affected by changes in global commodity prices and by increased production, payroll and transport costs in the countries where the company buys its products.

### Protection for the Björn Borg trademark

The Björn Borg trademark is crucial to the company's position and success. Copyright infringements and distribution of pirated copies damage the Björn Borg brand, the reputational capital of its products and Björn Borg's profitability. In addition to the risks associated with pirating, the opportunity to expand to new markets could be affected if, for example, a third party in another country has registered a trademark similar to Björn Borg. The company works continuously with trademark protection. There are no guarantees, however, that the measures taken to protect the Björn Borg trademark are sufficient.

Furthermore, the Björn Borg trademark is associated with Björn Borg the person. The trademark's position is therefore dependent to some degree on whether Björn Borg himself is associated with the core values in the brand's platform.

### Reputational damage

The company's reputation among customers is built on a consistent experience with Björn Borg products in the markets where they are available. Björn Borg products should be presented in a way that reflects the values that Björn Borg represents. If the parties in the network take any action that presents Björn Borg products in a way that conflicts with the company's market positioning or the values the brand represents, Björn Borg's reputation could be damaged. Examples of reputational damage include negative publicity about working conditions in the factories that manufacture Björn Borg products, prohibited chemicals, safety concerns associated with products or allegations of sexist or misogynous advertising. In the long term, reputational damage will harm the company's growth and results.

## OUTLOOK FOR 2017

It is the company's policy not to issue earnings forecasts.

## PARENT COMPANY

Björn Borg AB (publ) is primarily engaged in intra-Group activities. The company also owns 100 percent of the shares

in Björn Borg Brands AB, Björn Borg Footwear AB, Björn Borg Sport BV, Björn Borg Inc., Björn Borg Services AB and Björn Borg UK. It also owns 75 percent of the shares in Björn Borg (China) Ltd and 75 percent of the shares in Bjorn Borg Finland Oy.

The Parent Company's net sales amounted to SEK 64.9 million (52.4) for the full-year 2016.

Profit before tax amounted to SEK 53.9 million (39.1) for the full-year 2016. Investments in tangible and intangible non-current assets amounted to SEK 1.6 million (2.0) for the full-year 2016.

**PROPOSED DISTRIBUTION OF PROFIT**

| The following unappropriated earnings are at disposal of the Annual General Meeting: | |
|---|---|
| Retained earnings, SEK | 40,547,044 |
| Issue of warrants, SEK | 1,266,800 |
| Issue of convertibles, SEK | 1,208,501 |
| Profit for the year, SEK | 52,989,655 |
| | **96,012,000** |
| The Board proposes that: | |
| Shareholders receive a distribution of | |
| SEK 2.00 per share, totaling SEK | 50,296,768 |
| Carried forward, SEK | 45,715,232 |
| | **96,012,000** |

Based on the information above and what has otherwise come to its attention, the Board of Directors has evaluated the financial position of the company and the Group and considers the dividend to be justifiable in view of the requirements that the nature, scope and risks of the operations place on the size of the company's equity, as well as the consolidation needs, liquidity and financial position of the company and the Group in other respects.

**MOTIVATED OPINION OF THE BOARD OF DIRECTORS OF BJÖRN BORG AB PURSUANT TO CHAPTER 20, SECTION 8 OF THE SWEDISH COMPANIES ACT**

Pursuant to Chapter 20, Section 8 of the Swedish Companies Act (2005:551), the Board of Directors herewith offers the following motivated opinion in connection with the proposed reduction in the company's share capital for repayment to shareholders.

The company's and the Björn Borg Group's results and financial position are generally good, as evidenced by the company's and the Group's year-end report for 2016 and by the audited annual report issued by the Board of Directors. As stated in the proposal to reduce the share capital, the Board of Directors proposes that the company's share capital be reduced by SEK 3,929,435 through the withdrawal of 25,148,384 shares after a stock split is completed, for repayment to the shareholders. At the same time the Board of Directors proposes that the Annual General Meeting resolve to restore the company's share capital to the original amount by raising the company's share capital by SEK 3,929,435 through a bonus issue without issuing new shares by transferring the issue amount from the company's unrestricted equity to its share capital. After the bonus issue is completed, the company's restricted equity and share capital will be unchanged.

The proposed repayment amounts to SEK 2.00 per share, corresponding to total redemption proceeds of SEK 50,296,768, or 106 percent of profit after tax for the financial year 2016. Accordingly, the repayment is in line with the company's financial goals and dividend policy for the period 2015-2019.

After the proposed repayment, the company has full coverage for the restricted equity. The unrestricted equity in the company after the repayment and bonus issue amounts to SEK 42,238,621. Total equity after the repayment amounts to SEK 100,390,078 for the company and SEK 238,806,232 for the Group.

The Group's profit after tax for 2016 rose compared with 2015, at the same time that its working capital continued to grow due to higher accounts receivable. As a result, the Group's cash flow from operating activities for the full-year 2016 amounted to SEK 15,300 thousand (–17,800). The proceeds for the acquisition of Björn Borg's distributor in Benelux, Baseline, will marginally affect the Group's cash flow in 2017. On April 17, 2017 a bond loan with a nominal value of SEK 200,000 thousand will mature; the outstanding liability as of December 31, 2016 is SEK 137,000 thousand. The loan has been refinanced with a three-year revolving credit from Danske Bank, which also takes into account the increase in tied-up capital associated with Björn Borg's new business model and its emphasis on a growing share of wholesale and retail sales.

In the judgment of the Board of Directors, the company's and the Group's cash flow over time remains strong, especially considering that the payments of contingent consideration for the Björn Borg brand end on February 15, 2017. The Group's equity/assets ratio and liquidity will remain adequate after the proposed repayment relative to the industry in which the company and the Group compete, also taking into consideration, e.g., planned investments, and the company and the Group are expected to be able to fulfill their obligations in the short and long term.

In its proposal to reduce the share capital with a repayment to the shareholders, the Board of Directors has considered the risks and uncertainties to which the company is exposed (see also the section "Risks, uncertainties and risk management" in the Board of Directors' report). Against this backdrop, the Board of Directors believes that the proposed reduction in share capital with a repayment to the shareholders is justifiable given:

1. The requirements that the nature, scope and risks of the business place on the size of the company's and the Group's equity, and
2. The consolidation needs, liquidity and financial position of the company and the Group in other respects.

Stockholm, April 2017
Björn Borg AB (publ)

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| Net sales | | 631,616 | 574,328 |
| Other operating revenue | | 6,954 | 10,170 |
| **Operating revenue** | 4 | **638,570** | **584,498** |
| Goods for resale | | –314,137 | –273,126 |
| Other external expenses | | –148,187 | –136,135 |
| Staff costs | | –105,191 | –106,013 |
| Depreciation/amortization of tangible/intangible non-current assets | | –6,797 | –6,592 |
| Other operating expenses | | –62 | –4,040 |
| **Operating profit** | 4, 6, 7, 8, 9, 10, 11, 17, 18 | **64,196** | **58,592** |
| Interest income and similar income items | 11, 13 | 7,609 | 12,048 |
| Interest expenses and similar expense items | 11, 13 | –8,336 | –13,080 |
| **Profit after financial items** | | **63,469** | **57,560** |
| **Profit before tax** | | **63,469** | **57,560** |
| **Tax on profit for the year** | 15 | –16,572 | –15,917 |
| **Profit for the year** | | **46,897** | **41,643** |
| **Profit for the year attributable to:** | | | |
| Parent Company's shareholders | | 47,361 | 45,062 |
| Non-controlling interests | 28 | –464 | –3,419 |
| Earnings per share, SEK | 16 | 1.88 | 1.79 |
| Earnings per share before and after dilution, SEK | 16 | 1.88 | 1.77 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit for the year** | | **46,897** | **41,643** |
| **Components that may be reclassified to profit or loss** | | | |
| Translation difference for the year | | 1,704 | –2,887 |
| **Total other comprehensive income for the year** [1] | | **1,704** | **–2,887** |
| **Total comprehensive income for the year** | | **48,601** | **38,756** |
| **Total comprehensive income for the year attributable to** | | | |
| Parent Company's shareholders | | 49,065 | 42,424 |
| Non-controlling interests | | –464 | –3,668 |

[1] The Group has no items that will not be reclassified to the income statement.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| SEK thousands | Note | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| **Intangible assets** | 17 | | |
| Goodwill | | 19,292 | 19,064 |
| Trademarks | | 187,532 | 187,532 |
| Licenses/customer relations | | 297 | 548 |
| Other intangible assets | | 1,371 | 2,192 |
| | | **208,492** | **209,336** |
| **Tangible non-current assets** | 18 | | |
| Property, plant and equipment | | 9,277 | 10,076 |
| | | **9,277** | **10,076** |
| Long-term receivable | 22 | 10,700 | 8,900 |
| Deferred tax assets | 15 | 13,452 | 35,315 |
| | | **24,152** | **44,215** |
| **Total non-current assets** | | **241,921** | **263,627** |
| **Current assets** | | | |
| **Inventory** | | | |
| Trading book | | 65,106 | 75,851 |
| Advance payments | | 2,371 | 3,690 |
| | | **67,477** | **79,541** |
| **Current receivables** | | | |
| Accounts receivable | 20, 22 | 137,769 | 87,816 |
| Tax assets | | 4,095 | 2,802 |
| Other current receivables | | 3,313 | 5,929 |
| Prepaid expenses and accrued income | 21 | 8,736 | 10,848 |
| | | **153,912** | **107,395** |
| **Short-term investments** | | | |
| Short-term investments | 3, 22 | 26,167 | 80,909 |
| | | **26,167** | **80,909** |
| **Cash & cash equivalents** | | | |
| Cash and bank balances | 22, 25 | 48,948 | 50,643 |
| | | **48,948** | **50,643** |
| **Total current assets** | | **296,503** | **318,488** |
| **TOTAL ASSETS** | | **538,426** | **582,115** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| SEK thousands | Note | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| **Equity** | | | |
| Share capital | | 7,859 | 7,859 |
| Other paid-in capital | | 182,145 | 182,145 |
| Reserves | | –6,766 | –8,470 |
| Retained earnings | | 106,137 | 115,874 |
| **Equity attributable to Parent Company's shareholders** | | **289,375** | **297,408** |
| Non-controlling interests | 28 | –272 | –6,733 |
| **Total equity** | | **289,103** | **290,675** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 15 | 35,418 | 41,969 |
| Bond loan | | – | 154,538 |
| Other non-current liabilities | 22, 25 | 17,273 | 20,294 |
| | | **52,691** | **216,801** |
| **Current liabilities** | | | |
| Accounts payable | 22 | 13,797 | 24,309 |
| Bond loan | | 137,092 | – |
| Other current liabilities | 22, 25 | 13,995 | 19,014 |
| Accrued expenses and prepaid income | 26 | 31,748 | 30,916 |
| | | **196,632** | **74,239** |
| **Total liabilities** | | **249,324** | **291,040** |
| **TOTAL EQUITY AND LIABILITIES** | | **538,426** | **582,115** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| SEK thousands | Note | Share capital | Share premium reserve | Translation reserve | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Opening balance, January 1, 2015** | | **7,859** | **182,145** | **–5,832** | **106,181** | **–4,645** | **285,708** |
| Total comprehensive income for the year | | – | – | –2,638 | 45,062 | –3,668 | 38,756 |
| **Transactions with shareholders** | | | | | | | |
| Distribution for 2014 through share redemption | 23 | –3,929 | – | – | –33,794 | – | –37,723 |
| Bonus issue | | 3,929 | – | – | –3,929 | – | – |
| Proceeds received from issue of warrants | | – | – | – | 1,200 | – | 1,200 |
| Equity portion of issue of convertibles | | – | – | – | 1,154 | – | 1,154 |
| Shareholder contribution received from minority owners | | – | – | – | – | 1,580 | 1,580 |
| **Total transactions with shareholders** | | **–** | **–** | **–** | **–35,369** | **1,580** | **–33,789** |
| **Closing balance, December 31, 2015** | | **7,859** | **182,145** | **–8,470** | **115,874** | **–6,733** | **290,675** |
| **Opening balance, January 1, 2016** | | **7,859** | **182,145** | **–8,470** | **115,874** | **–6,733** | **290,675** |
| Total comprehensive income for the year | | – | – | 1,704 | 47,361 | –464 | 48,601 |
| **Transactions with shareholders** | | | | | | | |
| Distribution for 2015 through share redemption | 23 | -3,929 | – | – | –46,368 | – | –50,297 |
| Bonus issue | | 3,929 | – | – | –3,929 | – | – |
| Proceeds received from issue of warrants | 25 | – | – | – | – | – | – |
| Equity portion of issue of convertibles | | – | – | – | 68 | – | 68 |
| Shareholder contribution received from minority owners | | – | – | – | 55 | – | 55 |
| Acquisition of non-controlling interest | | – | – | – | –6,925 | 6,925 | – |
| **Total transactions with shareholders** | | **–** | **–** | **–** | **–57,099** | **6,461** | **–50,174** |
| **Closing balance, December 31, 2016** | | **7,859** | **182,145** | **–6,766** | **106,137** | **–272** | **289,103** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit after tax | | 46,897 | 41,643 |
| Income tax expensed through profit or loss | | 16,572 | 15,917 |
| Financial expenses and income recognized through profit or loss | 13 | 727 | 1,032 |
| Depreciation/amortization of tangible/intangible non-current assets | 17, 18 | 6,797 | 6,592 |
| Other non-cash items | | 663 | 764 |
| Interest received | 13 | 6,058 | 8,691 |
| Interest paid | 13 | –7,815 | –7,691 |
| Taxes paid | 15 | –520 | –18,413 |
| **Cash flow from operating activities before changes in working capital** | | **69,378** | **48,534** |
| **Changes in working capital** | | | |
| Change in inventory | | 12,172 | –35,470 |
| Change in accounts receivable | | –49,953 | –19,584 |
| Change in other receivables | | 5,730 | 2,289 |
| Change in accounts payable | | –10,512 | –4,045 |
| Change in other current liabilities | | –11,502 | –9,532 |
| **Change in working capital** | | **–54,066** | **–66,343** |
| **Cash flow from operating activities** | | **15,313** | **–17,809** |
| INVESTING ACTIVITIES | | | |
| Investments in intangible assets | 17 | – | –301 |
| Investments in tangible non-current assets | 18 | –5,231 | –4,746 |
| Sale of tangible non-current assets | | – | 129 |
| Short-term investments | 3 | –28,337 | –56,476 |
| Sale of short-term investments | 3 | 83,299 | 104,133 |
| **Cash flow from investing activities** | | **49,730** | **42,739** |
| FINANCING ACTIVITIES | | | |
| Amortization of loans | | 1,034 | –7,500 |
| Issue of warrants | | 125 | 1,200 |
| Convertibles | | – | 17,310 |
| Repurchase of bond loan | | –18,480 | –33,844 |
| Acquisition of minority shares | | –842 | – |
| Distribution | 23 | –50,297 | –37,723 |
| **Cash flow from financing activities** | | **–68,460** | **–60,557** |
| **CASH FLOW FOR THE YEAR** | | **–3,417** | **–35,627** |
| Cash & cash equivalents at beginning of year [1] | | 50,643 | 85,080 |
| Translation differences in cash & cash equivalents [1] | | 1,722 | 1,190 |
| **Cash & cash equivalents at year-end** [1] | | **48,948** | **50,643** |
| **Increase/decrease in cash & cash equivalents** [1] | | **1,695** | **34,437** |

[1] Cash & cash equivalents refer to cash and bank balances.

# PARENT COMPANY'S FINANCIAL STATEMENTS

## PARENT COMPANY INCOME STATEMENT

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| Net sales | | 64,905 | 52,358 |
| Other operating revenue | | 3,964 | 5,624 |
| **Operating revenue** | 5 | **68,869** | **57,982** |
| Goods for resale | | –74 | –24 |
| Other external expenses | | –55,768 | –51,268 |
| Staff costs | | –34,615 | –42,152 |
| Depreciation/amortization of tangible/intangible non-current assets | | –2,234 | –1,873 |
| Other operating expenses | | –443 | –3 |
| **Operating profit/loss** | 4, 6, 7, 8, 9, 10, 17, 18 | **–24,265** | **–37,338** |
| Result from shares in subsidiaries | 12 | 54,270 | 43,769 |
| Group contributions received | | 39,047 | 48,054 |
| Interest income and similar income items | 13 | 6,239 | 11,261 |
| Interest expenses and similar expense items | 13 | –22,438 | –26,695 |
| **Profit after financial items** | | **52,853** | **39,051** |
| Appropriations | 14 | 1,014 | – |
| **Profit before tax** | | **53,867** | **39,051** |
| **Tax on profit for the year** | 15 | –877 | 46 |
| **Profit for the year** | | **52,990** | **39,099** |

## PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit for the year** | | **52,990** | **39,099** |
| **Other comprehensive income** | | **–** | **–** |
| **Total comprehensive income for the year** | | **52,990** | **39,099** |

# PARENT COMPANY BALANCE SHEET

| SEK thousands | Note | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| **Intangible assets** | 17 | | |
| Retained expenditures | | 193 | 284 |
| | | **193** | **284** |
| **Tangible non-current assets** | 18 | | |
| Property, plant and equipment | | 2,306 | 3,118 |
| | | **2,306** | **3,118** |
| **Financial non-current assets** | | | |
| Long-term receivable | | 10,700 | 8,900 |
| Deferred tax assets | | 130 | 1,008 |
| Shares in Group companies | 19 | 353,182 | 353,882 |
| | | **364,012** | **363,790** |
| **Total non-current assets** | | **366,511** | **367,192** |
| **Current assets** | | | |
| **Current receivables** | | | |
| Accounts receivable | 20 | 620 | 352 |
| Receivables from Group companies | | 428,241 | 335,914 |
| Tax assets | | 624 | 2,008 |
| Investments | 3 | 26,167 | 80,909 |
| Other current receivables | | 11 | 4,360 |
| Prepaid expenses and accrued income | 21 | 3,377 | 3,369 |
| | | **459,040** | **426,912** |
| **Cash & cash equivalents** | | | |
| Cash and bank balances | 25 | 13,330 | 25,717 |
| | | **13,330** | **25,717** |
| **Total current assets** | | **472,370** | **452,629** |
| **TOTAL ASSETS** | | **838,881** | **819,821** |

# PARENT COMPANY BALANCE SHEET

| SEK thousands | Note | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| **Equity** | | | |
| **Restricted equity** | | | |
| Share capital | | 7,859 | 7,859 |
| Statutory reserve | | 46,817 | 46,817 |
| | | **54,676** | **54,676** |
| **Unrestricted equity** | | | |
| Retained earnings | | 43,022 | 54,098 |
| Profit for the year | | 52,990 | 39,099 |
| | | **96,012** | **93,197** |
| **Total equity** | | **150,687** | **147,872** |
| Untaxed reserves | 24 | – | 1,014 |
| **Non-current liabilities** | | | |
| Bond loan | 3, 25 | – | 154,538 |
| Other non-current liabilities | 25 | 17,273 | 20,294 |
| | | **17,273** | **174,832** |
| **Current liabilities** | | | |
| Accounts payable | | 2,777 | 2,637 |
| Due to Group companies | | 516,066 | 480,250 |
| Bond loan | | 137,092 | – |
| Other current liabilities | | 5,005 | 1,346 |
| Accrued expenses and prepaid income | 26 | 9,981 | 11,870 |
| **Total current liabilities** | | **670,921** | **496,103** |
| **Total liabilities** | | **688,194** | **670,935** |
| **TOTAL EQUITY AND LIABILITIES** | | **838,881** | **819,821** |

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

| SEK thousands | Note | Share capital | Statutory reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Opening balance, January 1, 2015** | | **7,859** | **46,817** | **89,467** | **144,143** |
| Distribution for 2014 through share redemption | 23 | –3,929 | – | –33,794 | –37,723 |
| Bonus issue | | 3,929 | – | –3,929 | – |
| Proceeds received from issue of warrants | 8 | – | – | 1,200 | 1,200 |
| Equity portion of issue of convertibles | 8 | – | – | 1,154 | 1,154 |
| Total comprehensive income for the period | | – | – | 39,099 | 39,099 |
| **Closing balance, December 31, 2015** | | **7,859** | **46,817** | **93,197** | **147,872** |
| **Opening balance, January 1, 2016** | | **7,859** | **46,817** | **93,197** | **147,872** |
| Distribution for 2015 through share redemption | 23 | –3,929 | – | –46,368 | –50,297 |
| Bonus issue | | 3,929 | – | –3,929 | – |
| Proceeds received from issue of warrants | 8 | – | – | 68 | 68 |
| Equity portion of issue of convertibles | 8 | – | – | 55 | 55 |
| Total comprehensive income for the period | | – | – | 52,990 | 52,990 |
| **Closing balance, December 31, 2016** | | **7,859** | **46,817** | **96,012** | **150,687** |

# PARENT COMPANY STATEMENT OF CASH FLOWS

| SEK thousands | Note | 2016 | 2015 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit after tax | | 52,990 | 39,099 |
| Income tax expensed through profit or loss | | 877 | –46 |
| Financial expenses and income recognized through profit or loss | 13 | 16,197 | 15,434 |
| Depreciation/amortization of tangible/intangible non-current assets | 17, 18 | 2,234 | 1,873 |
| Impairment of shares/receivables from subsidiaries | | 2,500 | 21,231 |
| Other non-cash items | | 482 | –1,370 |
| Appropriations | 14 | –1,014 | – |
| Group contributions received, unpaid | | –39,047 | –48,054 |
| Dividends received, unpaid | 12 | –56,770 | –65,000 |
| Interest received | 13 | 6,197 | 11,261 |
| Interest paid | 13 | –7,109 | –7,356 |
| Taxes paid | | – | –1,351 |
| **Cash flow from operating activities before changes in working capital** | | **–22,463** | **–34,279** |
| CHANGES IN WORKING CAPITAL | | | |
| Change in accounts receivable | | –268 | 821 |
| Change in other receivables | | 6,031 | –8,897 |
| Change in accounts payable | | 140 | –2,068 |
| Change in other current liabilities | | 22,417 | 28,591 |
| **Change in working capital** | | **28,320** | **18,447** |
| **Cash flow from operating activities** | | **5,857** | **–15,832** |
| INVESTING ACTIVITIES | | | |
| Formation of subsidiary | 19 | – | – |
| Investments in tangible non-current assets | 18 | –1,636 | –2,033 |
| Investments in intangible non-current assets | 17 | – | – |
| Short-term investments | 3 | –28,337 | –56,476 |
| Sale of short-term investments | 3 | 83,299 | 104,133 |
| **Cash flow from investing activities** | | **53,326** | **45,626** |
| FINANCING ACTIVITIES | | | |
| Repurchase of bond loan | | –18,480 | –33,844 |
| Acquisition of minority shares | 19 | –1,801 | – |
| Warrants | | 125 | 1,200 |
| Convertibles | | – | 17,310 |
| Amortization received from borrowers | | –1,117 | 900 |
| Distribution | 23 | –50,297 | –37,723 |
| **Cash flow from financing activities** | | **–71,570** | **–52,157** |
| **CASH FLOW FOR THE YEAR** | | **–12,387** | **–22,363** |
| Cash & cash equivalents at beginning of year [1] | | 25,717 | 48,080 |
| Translation differences in cash & cash equivalents [1] | | 200 | – |
| **Cash & cash equivalents at year-end** [1] | | **13,330** | **25,717** |
| **Increase/decrease in cash & cash equivalents** [1] | | **12,387** | **22,363** |

[1] Cash & cash equivalents refer to cash and bank balances.

# SUPPLEMENTARY DISCLOSURES

## NOTE 1 ACCOUNTING PRINCIPLES

### GENERAL

Björn Borg owns the Björn Borg trademark and currently has operations in the product areas underwear, sports apparel and footwear as well as bags, eyewear and fragrances. Björn Borg products are sold in around 20 markets, the largest of which are Sweden and the Netherlands. Operations are conducted through a network of product and distribution companies that are either part of the Group or independent companies with licenses for product areas and geographical markets. The Björn Borg Group has its own operations at every level from brand development to consumer sales in its own Björn Borg stores.

The Parent Company operates as a limited liability company with its registered address in Stockholm. The address of the head office is Tulegatan 11, SE-113 53 Stockholm, Sweden. The Parent Company's share is listed on Nasdaq Stockholm. A list of the largest individual shareholders as of December 31, 2016 is provided on page 83 of this annual report. The annual report was approved by the Board of Directors and the CEO on April 13, 2017 and adopted by the Annual General Meeting of the Parent Company on May 11, 2017.

### ACCOUNTING AND VALUATION PRINCIPLES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU as of December 31, 2016. The Group also applies the Swedish Financial Reporting Board's recommendation RFR 1 and 2 Supplementary Accounting Regulations for Groups, which specifies the disclosures that are required in addition to IFRS according to the provisions of the Annual Accounts Act. The Parent Company's functional currency is the Swedish krona, which is also the Group's reporting currency. All amounts are in SEK thousands unless indicated otherwise. The consolidated financial statements have been prepared in accordance with the cost method, other than financial assets, including derivatives, which are measured at fair value through profit or loss. The Group's critical accounting principles are described below.

### REVISED ACCOUNTING PRINCIPLES 2016

Additions and amendments to RFR 2 applicable as of 2016 have not had a material effect on the Group's or Parent Company's results and financial position. Management does not expect the amendments to RFR 2, which have not yet entered into force, to have a material effect on the Parent Company's financial reports when they are applied for the first time.

### NEW ACCOUNTING PRINCIPLES AS OF 2017

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRSIC) have issued a number of new and amended standards which have not yet taken effect, of which Björn Borg has determined that the following are applicable to the Group:

| Standards | Will apply to financial years beginning: |
|---|---|
| IFRS 9 *Finacial Instruments* [1] | on or after January 1, 2018 |
| IFRS 15 *Revenue from Contracts with Customers,* , including amendments to IFRS 15: Effective date of IFRS 15 [1] | on or after January 1, 2018 |
| Clarifications to IFRS 15 *Revenue from Contracts with Customers* | on or after January 1, 2018 |
| IFRS 16 *Leases* [1] | on or after January 1, 2019 |
| Amendments to IAS 7 *Statement of Cash Flows (Disclosure inititative)* | on or after January 1, 2017 |

[1] Not yet approved by the EU for application.

None of the standards and interpretations above have been applied prospectively.

IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Measurement and Disclosure*. IFRS 9 contains new principles on the classification and measurement of financial assets.

The category that a financial asset falls into depends on the company's business model (the purpose of the financial asset) and on the financial asset's contractual flows. The new standard also contains new rules on impairment testing of financial assets, including simplified rules for accounts receivable and lease receivables. Management has not yet conducted a detailed analysis of the effects of the application of IFRS 9 and therefore cannot yet quantify the effects.

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 18 *Revenue* and IAS 11 *Construction Contracts*. IFRS 15 provides a model for revenue recognition (five-step model) based on when control of a good or a service is conveyed to the customer. The core principle is that a company will recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. There is considerably more guidance in IFRS 15 for specific areas, and the disclosure requirements are extensive.

The clarifications to IFRS 15 *Revenues from Contracts with Customers* treat the identification of performance obligations, principal versus agent considerations, licensing and transition rules on contract modifications and completed contracts.

Management has not yet conducted a detailed analysis of the effects of an implementation of IFRS 15 and therefore cannot yet quantify the effects.

IFRS 16 *Leases* will replace IAS 17 *Leases*. IFRS 16 means that practically all leases will be recognized in the statement of financial position. Consequently, the classification as either operating and finance leases will no longer apply. The underlying asset in the lease is recognized in the statement of financial position. In subsequent periods the right-of-use is recognized at cost less depreciation and any impairment and adjusted for any revaluations of the lease liability. The lease liability is recognized in the statement of financial position and is measured at amortized cost less lease payments. The lease liability is remeasured to reflect changes in the lease term, the assessment of a purchase option and future lease payments, among other things. The income statement will be affected as current operating expenses attributable to operating leases will be replaced by depreciation and interest expenses.

Short-term leases (12 months or less) and leases where the underlying asset has a low value do not have to be recognized in the balance sheet. They will be recognized in operating profit in the same way as current leases.

The new standard contains more extensive disclosure requirements compared with the current standard. For the lessor, IFRS 16 does not entail any real differences compared with IAS 17. According to current principles, the Group recognizes office and retail leases as operating leases. According to IFRS 16, they will be recognized as an asset in the form of the right-of-use and a lease liability. Management has not yet conducted a detailed analysis of the effects of IFRS 16 and therefore cannot yet quantify the effects.

The amendments to IAS 7 Statement of Cash Flows are part of the so-called *Disclosure Initiative*. The amendments entail additional disclosure requirements to understand changes in liabilities whose cash flow is recognized in financing activities. Management's assessment is that the amendments will entail more extensive disclosure requirements.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the Parent Company and all entities over which the Parent Company exercises control. Control refers to when Björn Borg has power over a company, is exposed or has the right to variable returns from its holding in the company, and is able to exert power over the company to affect its returns. This is usually achieved when it holds more than 50 percent of the capital and voting rights. The existence and impact of potential voting rights that are currently exercisable or convertible are taken into account when determining whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is

obtained and until the date on which control ceases. The Group's composition is shown in note 19.

Acquisitions are recognized according to the acquisition method. The purchase price of an acquisition is measured at fair value on the acquisition date and is calculated as the sum of the fair value on the acquisition date of assets received, liabilities that have arisen or been assumed, and equity interests issued in exchange for control over the acquired business. Transaction costs that arise in connection with an acquisition are expensed through profit and loss in the period to which the cost of refers. The purchase price also includes the fair value on the acquisition date of the assets and liabilities that are the result of an agreement on contingent consideration. Changes in the fair value of contingent consideration that arise when additional information is received after the acquisition date on facts and conditions that existed on the acquisition date qualify as adjustments during the valuation period and are applied retroactively, with a corresponding adjustment to goodwill. All other changes in the fair value of contingent consideration classified as an asset or liability are recognized in accordance with the applicable standard. Contingent consideration classified as equity is not revalued and any subsequent settlement is recognized in equity.

Contingent liabilities assumed in an acquisition are recognized if they are existing commitments that stem from events which have occurred and whose fair value can be reliably estimated. In an acquisition where the sum of the purchase price, any non-controlling interests and the fair value on the acquisition date of the previous shareholding exceeds the fair value on the acquisition date of identifiable acquired net assets, the difference is recognized as goodwill in the statement of financial position. If the difference is negative, it is recognized as a gain on an acquisition at a low price directly in profit after a revaluation of the difference.

The accounting principles used by subsidiaries are adjusted where necessary to ensure consistency with the principles applied by other Group entities. All intercompany transactions and balances are eliminated in the preparation of the consolidated financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of impairment.

**NON-CONTROLLING INTERESTS**

In acquisitions of less than 100 percent of the shares in a company but where control is obtained, non-controlling interests are measured as either a proportional share of the fair value of identifiable net assets excluding goodwill or at fair value. Non-controlling interests are recognized as a separate item in the Group's equity. Any losses attributable to non-controlling interests are also recognized if it means that the share will be negative. Subsequent acquisitions up to 100 percent and divestments of ownership interests in a subsidiary that do not lead to the loss of control are recognized as a transaction with equity owners.

**TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currency are translated to Swedish kronor at the exchange rate on the transaction date. Monetary items (assets and liabilities) in foreign currency are translated to Swedish kronor at the balance date exchange rate. Exchange gains and losses that arise on such translations are recognized through profit or loss as Net sales and/or Cost of goods sold, except with respect to cash & cash equivalents or loans recognized as financial income or expenses. The items included in the financial statements for the various units in the Group are valued in the currency used in the economic environment where each Group unit conducts its operations (functional currency). Income statement and balance sheet items for all Group companies with a functional currency other than the reporting currency (SEK) are translated to the Group's reporting currency as follows:

- Assets and liabilities are translated at the balance date rate
- Revenue and expenses are translated at the average exchange rate (provided that the average rate represents a reasonable approximation of the cumulative impact of the exchange rates in effect on the transaction date; otherwise, revenue and expenses are translated at the transaction day rate), and
- All exchange rate differences that arise are recognized in other comprehensive income and accumulated in the translation reserve in equity.

**REVENUE RECOGNITION**

Revenue is measured as the fair value of goods and services sold after deducting value-added tax, returns and discounts and after eliminating intra-Group sales. Revenue is recognized as follows:

- Sales of goods are recognized upon delivery of a product to the customer (points 2–4 below), when the financial risks and benefits of ownership are transferred to the buyer, when it is likely that the economic benefits will accrue to Björn Borg, when the revenue can be measured reliably, which coincides with the date of delivery.
- Royalties are recognized in the period to which the underlying revenue refers, i.e., in accordance with the current agreement's economic substance.
- Dividend revenue is recognized when the right to receive payment has been determined.
- Interest income is recognized by applying the effective interest rate method.

**Björn Borg's revenue is classified in the following four categories:**

1. *Royalty revenue*
   Royalty revenue is generated through sales of Björn Borg products by distributors (Group-owned and independent) and the product companies to retailers, and is calculated as a percentage of these sales. Royalties are recognized through profit or loss at the same time as the distributor's sale at the wholesale level.
2. *Product company revenue*
   The product companies for underwear and sports apparel generate revenue for Björn Borg from product sales to distributors. The revenue is recognized upon delivery in accordance with the sales terms, i.e., the point of time when the risks and benefits associated with ownership transfer to the buyer. The distributors are not entitled to return merchandise or to any significant quantity discounts.
3. *Distribution company revenue*
   The Group-owned distribution companies for the underwear and footwear product areas generate revenue for Björn Borg from product sales to retailers. The revenue is recognized upon delivery to the retailer, which coincides with the point of time when the risks and benefits associated with ownership transfer to the retailer.
4. *Björn Borg store and web shop revenue*
   Björn Borg stores generate revenue for Björn Borg from sales to consumers. Retail purchases are usually made in cash or by credit or debit card. Provisions for returns are based on the Group's collective experience with returns and historical data.

**LEASING**

In a finance lease, the economic risks and benefits associated with ownership of an asset are transferred in all essential respects from lessor to lessee. Other leases are classified as operating.

**The Group as lessee**

Assets held according to finance leases are recognized as non-current assets in the consolidated balance sheet at fair value at the start of the lease term or at the present value of the minimum lease fees, whichever is lower. The corresponding liability is carried in the balance sheet as a liability to the lessor. Lease payments are distributed between interest and principal. Interest is distributed over the lease term so that every reporting period is charged with an amount corresponding to a fixed interest rate on the recognized liability for each period. Depreciation of financially leased assets is carried for owned assets, with the exception of lease assets where it is unlikely Björn Borg will redeem the asset in question. In such cases, the asset is depreciated over its period of use or the lease term, whichever is shorter, taking into account residual values at the conclusion of each period.

Lease fees paid for operating leases are expensed on a straight-line basis over the lease term unless another systematic approach better reflects Björn Borg's use of the leased asset.

**EMPLOYEE BENEFITS**

The Group has only defined contribution pension plans. A defined contribution plan is a pension plan where the Group pays fixed premiums to a separate legal entity. After it has paid the premium, Björn Borg has no further obligation to the Group's employees. Fees are recognized as staff costs in the period to which the fees relate.

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts redundancy. The Group recognizes a liability and an expense in connection with a termination when Björn Borg is demonstrably committed to terminating employment before the normal retirement date or provides termination benefits as the result of an offer made to encourage voluntary redundancy.

Björn Borg recognizes a liability and an expense for bonuses when there is a legal or constructive obligation to pay such bonuses to employees as a result of past practice.

The Group has issued warrants to senior executives. Share-based compensation settled with equity instruments is measured at fair value, excluding any effect from non-market-related terms, on the allotment date, i.e., the date when the company enters an agreement on share-based compensation. The fair value determined on the allotment date is recognized as an expense with a corresponding adjustment to equity distributed over the vesting period, based on the company's estimation of the number of shares that are expected to be redeemable. Fair value is calculated using the Black-Scholes model. The consideration received for the warrants issued is recognized as an increase in equity with a corresponding reduction of the recognized cost over the vesting period.

**TAXES**

The Group's total tax expense consists of current tax and deferred tax. Current tax is the tax paid or received for the current year and any adjustments to current tax in prior years. Deferred tax is calculated on the difference between the tax bases of the company's assets and liabilities and their carrying amounts. Deferred tax is recognized using the balance sheet approach. Deferred tax liabilities are normally recognized for all taxable temporary differences, while deferred tax assets are recognized to the extent it is probable that the amounts can be offset against future taxable surpluses.

The carrying amount of deferred tax assets is tested at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow any or all of the deferred tax asset to be utilized.

Deferred tax is determined using the tax rates that are expected to apply to the period when the asset is recovered or the liability settled. Deferred tax is recognized as income or expense through profit or loss, unless it is attributable to transactions or events recognized directly against other comprehensive income or equity, in which case it is also recognized directly against other comprehensive income or equity.

Tax assets are set off against tax liabilities when they relate to income taxes levied by the same tax authority and the Group intends to make or receive a single net payment.

**INTANGIBLE ASSETS**

**Goodwill**

Goodwill arises in the acquisition of subsidiaries and refers to the amount by which the sum of the purchase price transferred and fair value in subsequent acquisitions of previous non-controlling interests exceeds the fair value of identifiable assets, liabilities and contingent liabilities in the acquired company. To test for impairment, goodwill is divided among the cash-generating units that are expected to benefit from synergies from the acquisition. Each unit or group of units to which goodwill has been distributed corresponds to the lowest level in the Group at which the goodwill is monitored in the internal control, which is not larger than a business segment. Goodwill has an indeterminate period of use and is recognized at cost less accumulated impairment losses.

**Tenancy rights**

Tenancy rights are recognized at cost less amortization. Amortization is booked on a straight-line basis over the estimated period of use of three to five years, which corresponds to the lease term.

**Trademarks**

Trademarks are tested annually to identify any impairment loss and are recognized at cost less accumulated amortization. The Björn Borg trademark was established in the Swedish fashion market during the first half of the 1990s. Continuity has given the brand a distinctive identity and strong position in its markets. It is characterized by quality products and creative, innovative design influenced by the sporting heritage associated with the Björn Borg name. Through consistent, long-term branding, Björn Borg has strengthened its role in the international fashion market. The trademark is considered to have a very strong market position and therefore has an indeterminate period of use.

**Website development**

Costs to maintain software and websites are expensed as they arise. Development costs directly attributable to the development and testing of identifiable software, including websites controlled by the Group, are recognized as intangible assets when the following criteria are met: it is technically possible to complete the website, there are opportunities to utilize the website for commercial purposes, it can be demonstrated that it will generate future economic benefits, and the expenses attributable to the development of the website can be reliably estimated. Directly attributable expenses primarily relate to outside consultants hired to build the website as well as expenses for employees. Development costs for the website are recognized as intangible assets and amortized over their estimated period of use, i.e., five years. Other development costs which do not meet these criteria are expensed as they arise.

**TANGIBLE NON-CURRENT ASSETS**

Tangible non-current assets are recognized as assets in the balance sheet if it is probable that future economic benefits will accrue to the company and their cost can be reliably measured. Tangible non-current assets, consisting mainly of equipment and computers, are carried at cost less accumulated depreciation and impairment losses. Depreciation of tangible non-current assets is expensed in a way that the asset's value is depreciated on a straight-line basis over its estimated useful life. Equipment and computers are depreciated by 20-33 percent annually.

**IMPAIRMENT**

At the end of each reporting period the Group's assets are tested for impairment. If there is an indication of impairment, the asset's recoverable amount is calculated. Goodwill has been allocated to cash-generating units and, together with other intangible assets with an indeterminate period of use and intangible assets not in use, is subject to annual impairment testing even if there is no indication of diminished value. However, impairment testing is done more frequently if there are indications of diminished value. The recoverable amount is the higher of the asset's value in use and the value that would be obtained if the asset were sold to an independent party, i.e., its net selling price. Value in use is the present value of all receipts and disbursements expected to arise from continuing use of the asset plus the present value of the net selling price at the end of the asset's useful life. If the estimated recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount. Previous impairment losses are reversed when the recoverable amount of the previously impaired asset exceeds the carrying amount and the impairment is no longer considered necessary, and is recognized through profit or loss. Previous impairment

losses may not reversed to such an extent that the carrying amount, after the reversal, exceeds what would have been recognized after depreciation/amortization if the impairment had not been made. Previous impairment losses are tested individually. Goodwill impairment is not reversed.

**INVENTORY**

Inventory is valued at the lower of cost according to the first in, first-out method and fair value (net selling price).

Net selling price corresponds to the estimated selling price less estimated expenses required to complete the sale.

The necessary reserves for obsolescence are based on individual assessments. The change between the year's opening and closing obsolescence reserve affects operating profit in its entirety.

**RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES AND OTHER FINANCIAL INSTRUMENTS**

Financial instruments are measured and recognized by the Group in accordance with the rules in IAS 39. Financial assets and liabilities are categorized according to IAS 39. Financial instruments are initially recognized at cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments other than those in the category financial assets (liabilities), which are recognized at fair value through profit or loss. Subsequent recognition and valuation depend on how the financial instruments have been classified.

Financial assets and liabilities are recognized in the balance sheet when the company becomes a party to the instrument's contractual terms. Accounts receivable are recognized in the balance sheet when an invoice has been issued. Liabilities are recognized when the counterparty has performed as agreed and there is a contractual obligation to pay, even if the invoice has not yet been received. Accounts payable are recognized when an invoice has been received.

A financial asset is derecognized from the balance sheet when the rights in the agreement are realized, expire or the company loses control of them. The same applies to part of a financial asset. A financial liability is derecognized when the obligation in the agreement is fulfilled or otherwise discharged. The same applies to part of a financial liability.

**Estimation of fair value of financial instruments**

The fair value of short-term investments and derivatives is estimated using official market listings on the closing day. When such listings are unavailable, valuations are made using generally accepted methods such as the discounting of future cash flows to listed interest rates for each maturity. Translations to SEK are based on listed exchange rates on the closing day.

**Set-off of financial assets and liabilities**

Financial assets and liabilities are set off and recognized net in the balance sheet when there is a legal right of set-off and when the intention is to report the items net or realize the asset while settling the liability.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are divided into two categories: financial assets held for trading and financial assets designated upon initial recognition as belonging to this category. Financial assets held for trading are defined as financial assets acquired for the purpose of selling or repurchasing in the short term. The Group's financial assets held for trading consist of derivatives.

Designating a financial asset as belonging to this category upon initial recognition (the so-called fair value option) requires that this recognition provides a more accurate picture than would otherwise be the case because it reduces the so-called accounting mismatch or because the assets are included in a group of assets managed and evaluated based on their fair value, in accordance with the Group's risk management or investment strategy. The Group's investments in corporate bonds are managed and evaluated by management in accordance with the Group's documented investment strategy based on their fair values. The Group has therefore chosen upon initial recognition to designate investments in corporate bonds as belonging to this category.

Assets in this category are measured initially and upon subsequent recognition at fair value. All changes in value that arise are recognized through profit or loss.

**Loans receivable and accounts receivable**

Loans receivable and accounts receivable are financial receivables that arise when the company provides money without the intent to trade its claim and are categorized as loans receivable and accounts receivable. Loans receivable and accounts receivable include accounts receivable and other current receivables. Assets in this category are initially recognized at fair value and subsequently at amortized cost. Amortized cost is calculated with the help of the effective interest rate method, which means that any premiums and discounts as well as directly related costs or revenue are accrued over the life of the agreement with the help of the estimated effective interest rate. The effective interest rate is the interest rate that produces the instrument's cost through a present value calculation of future cash flows. The anticipated maturity of accounts receivable is short, due to which they are carried at their nominal amount without discounting less any provisions for impairment. Accounts receivable are recognized at the amounts that are expected to be received after deducting impaired receivables, which are evaluated individually. Provisions for impaired receivables are recognized when there is objective proof that the Group will not be able to receive all the amounts that are due as per the original terms of the receivables. If it is determined in the quarterly review of exposures that a customer, due to insolvency, has not been able to pay its liabilities or for good reason is not expected to pay its liabilities within three months, or for good reason it is likely that the customer cannot meet its obligations, a provision is allocated for the entire established or anticipated loss. Provisions for anticipated impaired receivables are based on an individual assessment of each customer given their solvency, estimated future risk and the value of the collateral received.

Write-downs of accounts receivable are recognized in operating expenses. Translations to SEK are based on closing day exchange rates.

**Cash & cash equivalents**

Cash & cash equivalents consist of cash, demand deposits and other short-term investments with maturities of three months or less. Cash and bank deposits are recognized at nominal amounts and short-term investments at fair value, with any changes in value recognized through profit or loss.

**Financial liabilities**

Accounts payable and loan liabilities are categorized as "Financial liabilities," which means that they are recognized at amortized cost. The anticipated maturity of accounts payable is short, due to which the liability is carried at nominal amount without discounting.

Liabilities to credit institutions, funding, bank overdraft facilities and other liabilities (loans) are initially recognized at fair value, net after transaction costs. Loans are subsequently carried at amortized cost. Amortized cost is calculated with the help of the effective interest rate method, which means that any premiums and discounts as well as directly related transaction costs are accrued over the life of the agreement with the help of the estimated effective interest rate. The effective rate is the interest rate that produces the instrument's cost through a present value calculation of future cash flows. Non-current liabilities have an anticipated maturity of more than one year, while current liabilities have a maturity of less than one year.

**SHARE CAPITAL**

Common shares are classified as share capital. Transaction costs in connection with new share issues are recognized as a deduction (net of tax) from the issue proceeds.

**PROVISIONS**
Provisions for legal claims or other claims from external counterparties are recognized when the Group has a legal or constructive obligation as a result of a past event and it is likely that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

**Restructuring**
A provision for restructuring is allocated when the Group has formulated a detailed restructuring plan and created a well-founded expectation among those affected if the Group restructures. The restructuring reserve includes only direct expenditures that arise in the restructuring, i.e., only expenditures associated with the restructuring but with no connection to the Group's ongoing operations.

**STATEMENT OF CASH FLOWS**
The statement of cash flows has been prepared according to the indirect method. Reported cash flow comprises only transactions that entail receipts and disbursements.

**PARENT COMPANY'S ACCOUNTING PRINCIPLES**
The annual report of the Parent Company has been prepared according to the Annual Accounts Act, the Swedish Financial Reporting Board's recommendation RFR 2 *Accounting in Legal Entities* and statements from the Swedish Financial Reporting Board. RFR 2 means that the Parent Company, in the annual report for the legal entity, must apply all EU-approved IFRS and pronouncements as far as possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act, taking into account the connection between reporting and taxation. The recommendation specifies the exemptions from and additions to IFRS. Differences between the accounting principles of the Group and the Parent Company are indicated below. Additions and amendments to RFR applicable as of 2015 have not had a material effect on the Parent Company's results or financial position. The amendments to RFR 2 *Accounting in Legal Entities,* which take effect on January 1, 2016, mainly refer to the following areas:

**IAS 38 *Intangible assets***
If development costs are capitalized, a limit is placed on the opportunity to distribute equity by allocating an equal amount to what is capitalized to a special restricted fund for development costs. This only applies, however, to new capitalized costs, i.e., those capitalized after January 1, 2016.

**Taxes**
The amounts allocated to untaxed reserves constitute taxable temporary differences. Because of the relationship between recognition and taxation, the deferred tax liability attributable to untaxed reserves is not recognized separately by the legal entity. Swedish practice requires changes in untaxed reserves to be recognized through profit or loss in individual companies under the heading "Appropriations." The accumulated value of provisions is reported in the balance sheet under the heading "Untaxed reserves," of which 22 percent is considered a deferred tax liability and 78 percent restricted equity.

**Shares in subsidiaries**
Shares in subsidiaries are recognized according to the cost method. Acquisition related costs to acquire shares in subsidiaries are included as part of the cost of shares in subsidiaries.

**Group contributions**
Group contributions received are recognized according to the main rule, i.e., the same principles as ordinary dividends, i.e., as financial income.

**Leased assets**
All leases are recognized according to the rules for operating leases.

**Financial guarantees**
The Parent Company applies the exception in RFR 2 and recognizes guarantees according to the rules for provisions.

## NOTE 2 CRITICAL ESTIMATES AND ASSUMPTIONS

**CRITICAL ESTIMATES AND ASSUMPTIONS FOR ACCOUNTING PURPOSES**
Estimates and assumptions are periodically evaluated based on historical experience and other factors, including assumptions regarding future events that under current circumstances seem reasonable. Estimates and assumptions about the future are part of the work in preparing the annual report. By definition, the accounting estimates this necessitates will not always correspond to actual outcomes.

**Taxes**
Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and their value for tax purposes. There are primarily two types of assumptions and estimates that affect reported deferred tax, i.e., those used to determine the carrying amount of various assets and liabilities and those used to determine future taxable gains in cases where future utilization of deferred tax assets is dependent on this. The carrying amount as of December 31, 2016 amounted to SEK 13,452 thousand (35,315). For more information, see note 15.

**Impairment testing of goodwill and trademarks**
Impairment testing of the Group's goodwill and the carrying amount for trademarks requires estimates and assumptions regarding margins, growth, discount rates, etc. For a more detailed description of impairment testing, see note 17. The carrying amount for trademarks and goodwill as of December 31, 2016 amounted to SEK 206,824 thousand (206,596).

**Recognition of trademarks**
In 2006 Björn Borg acquired the Björn Borg trademark. The purchase price consisted of a cash payment on the acquisition date of SEK 124,000 thousand and contingent consideration payable annually through 2016. The contingent consideration is divided into a fixed and a variable portion. The fixed portion, corresponding to SEK 7,800 thousand per year, has been recognized as part of the cost because it can be reliably determined, while the variable portion is recognized as an operating expense on an annual basis. Total contingent consideration paid in the financial year 2016 amounted to around SEK 30.0 million (28.4). The variable portion is based on a percentage of sales at the wholesale level during the period 2006–2016 and therefore could not be reliably determined on the acquisition date. In accordance with IAS 38, the future payment of the contingent consideration has been discounted to present value, because of which the total cost of the trademark amounted to SEK 187,532 thousand and has been recognized among other current liabilities in the amount of SEK 0 thousand (SEK 7,211 thousand). The difference between the present value of the future fixed contingent consideration and the nominal amount is recognized as an interest expense over the credit period applying the effective interest rate method.

Continuity has given the brand a distinctive identity and strong position in its markets. It is characterized by quality products and creative, innovative design influenced by the sporting heritage associated with the Björn Borg name. Through consistent, long-term branding, Björn Borg has strengthened its role in the international fashion market. The trademark is considered to have a very strong market position and therefore has an indeterminate period of use.

**Share-related compensation**
The Group has issued warrants to senior executives. According to the Group's accounting principles, the fair value of the warrants is recognized

as an expense distributed over the vesting period. With respect to the issued warrants, the Group has received market-rate compensation based on a valuation according to Black & Scholes. The Group has made a determination that market-rate consideration was received and that the terms are otherwise designed in a way that does not benefit the participants in the warrant plan. Against the backdrop of this determination, no cost is recognized for the issued warrants.

**Inventory**
Inventory has been valued at the lower of cost and fair value (net selling price). Net selling price corresponds to the estimated selling price less estimated expenses required to complete the sale. These estimates are based on historical outcomes and are evaluated on a continuous basis. The fair value of future sales prices and selling costs may deviate from the assumptions and estimates made.

## NOTE 3 FINANCIAL RISK MANAGEMENT

**FINANCIAL RISK MANAGEMENT AND FINANCIAL DERIVATIVES**
Through its operations, Björn Borg is exposed to currency, interest rate, credit and counterparty risks as well as liquidity and refinancing risks. The Board has decided how the Group will manage these risks.

**CURRENCY RISK**
Currency risk refers to the risk that the fair value of or future cash flows from a financial instrument vary due to fluctuations in foreign exchange rates. Exposure to currency risk arises because transactions occur in different currencies (transaction exposure). Fluctuations in foreign exchange rates also affect the Group when foreign subsidiaries are translated to SEK upon consolidation (translation exposure).

**Transaction exposure**
Transaction exposure is divided into commercial transaction exposure and financial transaction exposure.

*Commercial transaction exposure* refers to exposure attributable to purchases and sales in foreign currency. The Group's largest currency exposure is against USD-pegged currencies, of which USD represents the single largest exposure. Where mentioned below, USD also includes HKD. Approximately 20 percent of the Group's sales is in USD and the overwhelming majority of its goods purchases is in USD. The Group's transaction risk arises because Björn Borg's largest business segment, Product Development, primarily has sales in USD and EUR and purchases in USD and EUR, at the same time that the Wholesale business segment has sales in SEK, EUR, GBP and DKK and purchases in USD and EUR. The transaction exposure is managed primarily by matching as far as possible inflows and outflows in the same currency in terms of both duration and amount in order to achieve a natural hedge. Björn Borg does not use derivatives to manage this currency risk. During the year realized and unrealized exchange rate differences affected operating profit positively by SEK 4,215 thousand (positively by 3,320).

*Financial transaction exposure* refers to exposure attributable to loans and investments in foreign currency.

Björn Borg has invested in corporate bonds in foreign currency. To reduce this currency risk, Björn Borg has entered into forward exchange contracts. The exposure as of December 31, 2016 amounted to EUR 1,100 thousand (2,200).

**Translation exposure**
Fluctuations in foreign exchange rates affect the Group when the net assets of foreign subsidiaries are translated to SEK. Translation differences are recognized in other comprehensive income and accumulated in equity. Björn Borg is primarily exposed to changes in EUR, USD and GBP. Björn Borg has chosen not to hedge the translation exposure. The exposure as of December 31, 2016 amounted to EUR 1,260 thousand (1,739), USD –1,190 thousand (–1,188) and GBP –3,500 thousand (–2,620).

**SENSITIVITY ANALYSIS**
**Commercial transaction exposure**
In 2016 the Björn Borg Group was marginally impacted by foreign exchange movements with respect to its commercial transaction exposure.

The table below describes the impact of the two currencies on the Björn Borg Group's revenue, operating profit and equity based on the current business model. As sales increased significantly during the year at both the wholesale and retail level, while the product development segment decreased significantly from the previous year, the commercial transaction exposure has changed and the net effect of a stronger USD now has a negative effect on gross profit, while in 2015 it produced a positive result. Due to the acquisition of the Benelux distributor, this effect will continue to strengthen in 2017

Several aspects impact the currencies' total effect on the Group, e.g., each business segment's geographical share of total revenue and gross margin, the timing of deliveries and changes in inventory.

Björn Borg does not use currency derivatives to hedge its exchange rate exposure from sales and purchases in foreign currency. Following is a sensitivity analysis of commercial transaction exposure from changes in the currencies that most impact the Group's sales and goods purchases.

**ESTIMATED CURRENCY EFFECT**

| 2016 | % | Estimated effect on revenue,% | Estimated effect on operating profit, % | Estimated effect on equity, % |
|---|---|---|---|---|
| Stronger USD vs. SEK | 10 | 2.5 | –14.3 | –2.5 |
| Weaker USD vs. SEK | –10 | –2.5 | 14.3 | 2.5 |
| Stronger EUR vs. SEK | 10 | 2.3 | 13.4 | 2.3 |
| Weaker EUR vs. SEK | –10 | –2.3 | –13.4 | –2.3 |

The estimated effect on revenue and profit is calculated before tax. The estimated effect on equity is calculated after tax.

The detailed reason for the table is that the Group's sales and purchases through the Product Development business segment of underwear to external distributors are positively or negatively impacted depending on the US dollar's fluctuations relative to the Swedish krona – sales in USD/purchases in USD. In the Wholesale business segment, goods purchases are impacted negatively by a strong USD and positively by a weak USD at the same time that pricing to retailers is not adjustable due to currency sales in SEK/purchases in USD.

The euro's fluctuations against the Swedish krona impact the Group's revenue mainly from revenue in Björn Borg Finland, e-commerce to euro countries and invoicing of royalties to euro countries.

**Financial transaction exposure**
Following is a sensitivity analysis of the financial transaction exposure from changes in the currencies that are material to the Group.

**ESTIMATED CURRENCY EFFECT**

| 2016 | % | Estimated effect on profit, SEK thousands | Estimated effect on equity, SEK thousands |
|---|---|---|---|
| EUR | +/–10 | +/–811 | +/–632 |
| USD | +/–10 | +/–0 | +/–0 |
| GBP | +/–10 | +/–244 | +/–95 |
| NOK | +/–10 | +/–122 | +/–95 |

**ESTIMATED CURRENCY EFFECT**

| 2015 | % | Estimated effect on profit, SEK thousands | Estimated effect on equity, SEK thousands |
|---|---|---|---|
| EUR | +/–10 | +/–2,200 | +/–1,700 |
| USD | +/–10 | +/–0 | +/–0 |
| GBP | +/–10 | +/–100 | +/–50 |
| NOK | +/–10 | +/–1,400 | +/–1,100 |

**Translation exposure**
Following is a sensitivity analysis for translation exposure due to changes in the currencies that are material to the Group.

**ESTIMATED CURRENCY EFFECT**

| 2016 | % | Estimated effect on equity, SEK thousands |
|---|---|---|
| EUR | +/–10 | +/–1,200 |
| USD | +/–10 | +/–1,080 |
| GBP | +/–10 | +/–3,900 |

**ESTIMATED CURRENCY EFFECT**

| 2015 | % | Estimated effect on equity, SEK thousands |
|---|---|---|
| EUR | +/–10 | +/–1,600 |
| USD | +/–10 | +/–1,000 |
| GBP | +/–10 | +/–3,400 |

**PRICE RISK**
Price risk refers to the risk that the fair value of or future cash flows from a financial instrument vary due to changes in market prices (other than those that derive from interest rate or currency risk). As of December 31, 2016 Björn Borg had investments of SEK 26,167 thousand (80,909). An exchange fluctuation of +/–1 percent for the entire portfolio would affect the value of the bond portfolio (and related revenue) by approximately SEK 260 thousand (800). The corresponding effect on equity would be about SEK +/–200 thousand (600).

**INTEREST RATE RISK**
Interest rate risk refers to the risk that changes in market interest rates will impact the fair value of or cash flows from a financial instrument. Björn Borg's interest rate risk is primarily attributable to bank balances and investments as well as funding in the form of bond loans. The Group is also impacted by changes in market interest rates as a result of derivatives held to hedge the transaction exposure (see above). The fair value of the forward exchange contracts is impacted immediately when market interest rates change, which in turn impacts the consolidated income statement.

As of December 31, 2016 interest-bearing assets in the form of bank balances amounted to SEK 48,948 thousand (50,643) and in the form of corporate bonds amounted to SEK 26,167 thousand (80,909). Interest-bearing assets related to bank balances primarily carry variable interest rates, because of which changes in market interest rates lead to higher or lower future interest income. The revaluation effect on assets measured at fair value is shown above under price risk. Investments in corporate bonds carry both variable and fixed interest rates.

A change in market interest rates of one percentage point would impact the Group's net interest income and expenses for outstanding assets by about SEK +/–400 thousand on the closing day, based on average interest-bearing assets in 2016. The effect on equity would have been about SEK +/–340 thousand (400).

Moreover, there is an interest rate risk associated with the SEK 200,000 thousand bond loan Björn Borg issued in 2012 and which extends until April 2017. The coupon rate is variable and corresponds to the 3-month STIBOR +3.25 percentage points. As of December 31, 2016 Björn Borg had repurchased bonds with a nominal value of SEK 63.0 million. An increase in the 3-month STIBOR of 1 percentage point, all else being equal, would increase Björn Borg's interest expenses by SEK 1,100 thousand per year, and a decrease of 1 percentage point would result in a corresponding decrease. Equity would be affected correspondingly by about SEK +/–860 thousand.

In addition to the above bond loan, Björn Borg has issued a convertible debenture with a nominal value of SEK 18,155 thousand. A change of +/–1 percentage point in the 3-month STIBOR would, all else being equal, increase or decrease the Group's interest expenses by SEK 182 thousand (170). As a result, the Group's total interest expense would be affected by a one percentage point change by SEK 1,682 thousand (2,220) and equity by SEK 1,312 thousand (1,771).

**CREDIT AND COUNTERPARTY RISKS**
The Group's credit and counterparty risks consist of exposures to commercial and financial counterparties. Credit or counterparty risk refers to the risk of a loss if the counterparty does not meet its obligations. According to the decision of the Board of Directors, this risk will be limited by accepting only counterparties with high credit ratings and by setting limits. Björn Borg's commercial credit risk mainly consists of accounts receivable, which are distributed among a large number of counterparties. Credit risk vis-à-vis financial counterparties is limited to financial institutions with high credit ratings. As of December 31, 2016 there were outstanding receivables in the product companies for underwear and sports apparel from a commercial counterparty corresponding to about 44 percent (37 percent) of the Group's total accounts receivable. In addition to the accounts receivable, the Group has a loan receivable of SEK 10,700 thousand (12,500) from the same counterparty. As of December 31, 2016 the market value of the holdings in three individual issuers amounted to SEK 6,486 thousand, SEK 5,275 thousand and SEK 5,100 thousand, or 64 percent of the portfolio's market value. The maximum credit risk corresponds to the carrying amount of the financial assets.

**THE BJÖRN BORG GROUP'S OUTSTANDING CREDIT RISK AS OF DEC. 31, 2016**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Receivable DBM, long-term portion | 10,700 | 8,900 | 10,700 | 8,900 |
| Accounts receivable | 137,769 | 87,816 | 620 | 5,461 |
| Other current receivables | 3,313 | 5,929 | 11 | 4,360 |
| Investments | 26,167 | 80,909 | 26,167 | 80,909 |
| Cash and bank balances | 48,948 | 50,643 | 13,330 | 25,717 |
| | **226,897** | **234,197** | **50,828** | **125,347** |

During the year Björn Borg invested in and sold corporate bonds and derivatives (forward exchange contracts) corresponding to a nominal amount of SEK 54,962 thousand. See the item Investments SEK 26,167 thousand (80,909) in the table above. According to Group policy, investments may be made only in bonds issued by companies with stable, positive cash flows. Investments are made in corporate bonds and mortgage bonds primarily with variable interest rates and maturities that by rule do not stretch beyond 2017. Investments are permitted in bonds with maturities through 2019, though with an investment limit of SEK 50 million. Not more than SEK 10 million may be invested in the same bond issuer, but

for issuers with credit ratings there is an upper limit of SEK 20 million. Not more than SEK 50 million may be invested in any specific sector such as real estate or banking. For investments in bonds in foreign currency, the equivalent value is normally hedged with forward contracts. Holdings in foreign currency exceeding SEK 20 million must be hedged. The investment portfolio is evaluated monthly by the investment team and quarterly by the Board of Directors. The credit quality of the holdings is as follows:

**THE BJÖRN BORG GROUP'S OUTSTANDING CREDIT RISK AS OF DEC. 31, 2016**

| | BBB | BB | B | Non-rated | Total |
|---|---|---|---|---|---|
| Corporate bonds | – | 10,606 | 15,349 | – | 25,955 |
| Derivatives | – | – | – | – | 212 |
| | **–** | **10,606** | **15,349** | **–** | **26,167** |

Of the investments of SEK 26,167 thousand (80,909), the equivalent of SEK 1,223 thousand is in NOK holdings, SEK 12,314 thousand in EUR holdings. The remainder is invested in SEK.

**LIQUIDITY AND REFINANCING RISKS**

Liquidity and refinancing risk refers to the risk that the cost will be higher and financing opportunities limited when loans are renewed and that payment obligations cannot be met due to insufficient liquidity or difficulty obtaining financing.

Björn Borg's outstanding bond loan matures in April 2017. In February 2017 Björn Borg signed a three-year revolving credit of SEK 150 million with Danske Bank to repay the bond loan maturing in April 2017. In addition to the revolving credit Björn Borg has an overdraft facility of SEK 90 million with Danske Bank. As a commitment for the revolving credit and the overdraft facility, the company has pledged, among other things, to ensure that the ratio between the Group's net debt and 12 month rolling operating profit before depreciation and amortization as of the last day of each quarter does not exceed 3.00 except in the first three quarters of 2017. In the first and second quarters of 2017 the ratio may not exceed 4.00 and in the third quarter of 2017 it may not exceed 3.50. Further, the Group shall at any given time maintain an equity/assets ratio of at least 35percent.

Maturity structure of the Björn Borg Group's outstanding receivables and liabilities as of Dec. 31, 2016 (contractual and undiscounted cash flows):

**MATURITY STRUCTURE OF THE BJÖRN BORG GROUP'S OUTSTANDING ASSETS AND LIABILITIES AS OF DEC. 31, 2016**

| Dec. 31, 2016 | Up to 3 mos. | 3–12 mos. | 1–5 yrs. | Over 5 yrs. |
|---|---|---|---|---|
| Long-term receivable | – | – | 10,700 | – |
| Accounts receivable | 137,769 | – | – | – |
| Other receivables | 3,313 | – | – | – |
| Investments | – | 1,225 | 24,942 | – |
| Cash and bank balances | 48,948 | – | – | – |
| Other liabilities | – | –45,743 | –17,273 | – |
| Accounts payable | –13,797 | – | – | – |
| Bond loans | –1,330 | –137,092 | – | – |
| **Total** | **174,903** | **–181,610** | **18,369** | **–** |

**MATURITY STRUCTURE OF THE BJÖRN BORG GROUP'S OUTSTANDING ASSETS AND LIABILITIES AS OF**

| 2015-12-31 | Up to 3 mos. | 3–12 mos. | 1–5 yrs. | Over 5 yrs. |
|---|---|---|---|---|
| Long-term receivable | 900 | 2,700 | 5,300 | – |
| Accounts receivable | 87,816 | – | – | – |
| Other receivables | 5,929 | – | – | – |
| Investments [1] | 3,876 | 5,243 | 71,526 | – |
| Cash and bank balances | 50,643 | – | – | – |
| Other liabilities | – | –49,929 | –21,994 | – |
| Accounts payable | –21,019 | – | – | – |
| Bond loans | –1,476 | –4,428 | –157,128 | – |
| **Total** | **126,669** | **–46,414** | **–102,296** | **–** |

[1] Including derivatives.

**CAPITAL**

Capital refers to shareholders' equity and loan capital. The Group's goal in managing capital is to safeguard its survival and freedom of action and to ensure that shareholders receive a return on their investment. The distribution between shareholders' equity and loan capital should be such that a good balance is achieved between risk and return. If necessary, the capital structure is adapted to changing economic conditions and other market factors. To maintain and adapt its capital structure, the Group can distribute funds, raise shareholders' equity by issuing new shares or capital contributions, or reduce or increase liabilities. The Group's liabilities and equity are shown in the consolidated statement of financial position, while the elements included in the reserves are shown in consolidated statement of changes in equity. See also notes 16 (Earnings per share), 22 (Financial assets and liabilities) and 24 (Dividend per share).

The Group's bond loan contains certain covenants, where the company has committed to maintain a ratio between the Group's net debt and operating profit before depreciation/amortization not exceeding 3.00 as of the last day of each quarter as well as an equity/assets ratio of at least 35 percent. As of December 31, 2016 the ratio was 1.12 (0.35) and the equity/assets ratio was 53.7 percent (50.3). For a complete account of other assumptions and conditions for the bond loan, refer to the prospectus, which is available in Swedish on the company's website and from the Swedish Financial Supervisory Authority.

## NOTE 4 SEGMENT REPORTING

The CEO is the Group's chief operating decision maker. The reported business segments are the same as those reported internally to the chief operating decision maker and used as a basis for distributing resources and evaluating results in the Group. The monitoring and evaluation of the business segments' results are based mainly on operating profit. Segment reporting is prepared according to the same accounting principles as the consolidated financial statements, as indicated in note 1, with the exception that external sales are presented including other operating revenue.

**BRAND**
In its capacity as owner and manager of the Björn Borg trademark, the Björn Borg Group receives royalty revenue based on wholesale revenues by distributors and licensees.

**PRODUCT DEVELOPMENT**
The product companies for sports apparel and underwear are responsible for design and development of collections for all markets in the network. They generate revenue from product sales to distributors.

**WHOLESALE**
The distribution companies for the sports apparel, underwear and footwear product areas generate revenue for the Björn Borg Group from the sale of products to retailers.

**RETAIL**
The concept stores and outlets generate revenue for the Björn Borg Group from sales to consumers.

**SUMMARY BY SEGMENT 2016**

| SEK thousands | Brand | Product Development | Wholesale | Retail | Total | Eliminations | Group |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 33,626 | 187,747 | 289,633 | 127,565 | 638,570 | – | 638,570 |
| Internal sales | 49,822 | 176,156 | 31,199 | 17,412 | 274,589 | –274,589 | – |
| **Total revenue** | **83,448** | **363,903** | **320,832** | **144,977** | **913,160** | **–274,589** | **638,570** |
| **Operating profit** | **19,500** | **33,415** | **17,595** | **–6,314** | **64,196** | **–** | **64,196** |
| Non-current assets | 566,588 | 33,908 | 5,415 | 2,635 | 608,546 | –366,625 | 241,921 |
| Inventory | – | 30,670 | 41,150 | 13,116 | 84,936 | –17,459 | 67,477 |
| Other current assets | 1,284,545 | 527,353 | 381,755 | 110,009 | 2,303,662 | –2,074,635 | 229,027 |
| **Total assets** | **1,851,133** | **591,931** | **428,320** | **125,760** | **2,997,144** | **–2,458,719** | **538,426** |
| Other liabilities | 1,115,231 | 571,700 | 418,755 | 139,840 | 2,245,526 | –1,996,203 | 249,324 |
| **Total liabilities** | **1,115,231** | **571,700** | **418,755** | **139,840** | **2,245,526** | **–1,996,203** | **249,324** |
| Investments in tangible and intangible non-current assets | 1,636 | 70 | 2,620 | 905 | 5,231 | – | 5,231 |
| Depreciation/amortization | –2,234 | –207 | –3,158 | –2,188 | –7,787 | 990 | –6,797 |

**SUMMARY BY SEGMENT 2015**

| SEK thousands | Brand | Product Development | Wholesale | Retail | Total | Eliminations | Group |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 34,747 | 238,062 | 207,131 | 104,557 | 584,498 | – | 584,498 |
| Internal sales | 49,591 | 224,071 | 28,041 | 11,031 | 312,734 | –312,734 | – |
| **Total revenue** | **84,338** | **462,133** | **235,172** | **115,589** | **897,232** | **–312,734** | **584,498** |
| **Operating profit** | **24,179** | **37,425** | **–4,065** | **1,053** | **58,592** | **–** | **58,592** |
| Non-current assets | 575,598 | 35,134 | 6,598 | 4,264 | 621,594 | –357,967 | 263,627 |
| Inventory | – | 9,691 | 70,811 | 33,313 | 113,815 | –37,964 | 75,851 |
| Other current assets | 1,213,812 | 453,376 | 318,223 | 57,783 | 2,043,194 | –1,804,247 | 238,947 |
| **Total assets** | **1,789,410** | **498,201** | **395,632** | **95,360** | **2,778,603** | **–2,200,178** | **578,425** |
| Other liabilities | 1,019,576 | 475,439 | 410,071 | 144,042 | 2,049,128 | –1,761,378 | 287,750 |
| **Total liabilities** | **1,019,576** | **475,439** | **410,071** | **144,042** | **2,049,128** | **–1,761,378** | **287,750** |
| Investments in tangible and intangible non-current assets | 2,033 | – | 275 | 1,466 | 3,774 | 1,273 | 5,047 |
| Depreciation/amortization | –1,873 | –263 | –2,510 | –3,863 | –8,509 | 1,917 | –6,592 |

**RECONCILIATION BETWEEN OPERATING PROFIT AND PROFIT FOR TAX PURPOSES**

The difference between operating profit for segments for which information is disclosed, SEK 64,196 thousand (58,592), and profit before tax, SEK 63,470 thousand (57,560), is net financial items, SEK –727 thousand (1,032).

**INTERNAL PRICING**

Sales between segments are executed on market terms. The revenue from external parties that is reported to management is valued in the same way as in the income statement.

**ELIMINATIONS**

The column for eliminations refers strictly to internal transactions.

**GEOGRAPHICAL AREAS**

| | Sweden | | Netherlands | | Norway | | Finland | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net sales | 245,086 | 226,869 | 160,386 | 171,285 | 26,971 | 46,038 | 88,298 | 66,223 | 117,828 | 74,083 | 638,570 | 584,498 |
| Assets | 206,650 | 224,512 | 135,234 | 169,506 | 22,741 | 45,559 | 74,451 | 65,535 | 99,350 | 73,313 | 538,426 | 578,425 |
| Investments | 4,228 | 3,566 | – | – | – | – | 973 | 196 | 30 | 1,285 | 5,231 | 5,047 |
| Depreciation/amortization | –5,110 | –6,166 | – | –56 | – | – | –2,207 | –823 | 521 | 453 | –6,797 | –6,592 |

The Group presents revenue for its four largest markets: Sweden, the Netherlands, Norway and Finland.

## NOTE 5 REVENUE DISTRIBUTION

**NET SALES AND OTHER OPERATING REVENUE**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Goods | 597,991 | 539,580 | – | – |
| Trademarks/royalties | 33,626 | 34,747 | – | – |
| Service revenue | 6,954 | 10,170 | 68,869 | 57,982 |
| | **638,570** | **584,498** | **68,869** | **57,982** |

Other operating revenue of SEK 3,964 thousand (5,624) essentially consists of re-invoicing of expenses.

## NOTE 6 OTHER EXTERNAL EXPENSES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Premises | 30,385 | 27,175 | 10,614 | 10,899 |
| Selling expenses | 43,372 | 34,149 | 2,766 | 4,757 |
| Marketing expenses | 37,913 | 42,610 | 21,225 | 22,053 |
| Administrative expenses | 26,282 | 23,066 | 15,611 | 10,151 |
| Other | 10,235 | 9,135 | 5,552 | 3,408 |
| | **148,187** | **136,135** | **55,768** | **51,268** |

## NOTE 7 REVENUE AND EXPENSES BETWEEN GROUP COMPANIES

The Parent Company's revenue from subsidiaries amounted to SEK 68,297 thousand (57,263). The Parent Company's expenses for subsidiaries amounted to SEK 2,472 thousand (2,847). The Parent Company's sales to subsidiaries mainly consist of compensation to cover shared costs for rents, central administration, shared systems and marketing services.

## NOTE 8 INFORMATION ON PERSONNEL AND COMPENSATION TO BOARD, CEO AND OTHER SENIOR EXECUTIVES

**WAGES, SALARIES, OTHER COMPENSATION AND SOCIAL SECURITY CONTRIBUTIONS**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Wages, salaries and other compensation | 73,675 | 73,889 | 20,931 | 25,801 |
| Social security contributions | 20,881 | 19,663 | 8,086 | 8,740 |
| Pension costs | 6,502 | 7,423 | 2,778 | 5,662 |
| **Total** | **101,058** | **100,975** | **31,795** | **40,203** |

**WAGES, SALARIES AND OTHER COMPENSATION DIVIDED BETWEEN SENIOR EXECUTIVES AND OTHER EMPLOYEES**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Board, CEO and other senior executives | 13,403 | 17,325 | 12,253 | 16,653 |
| Other employees | 60,272 | 56,564 | 8,679 | 9,148 |
| **Total** | **73,675** | **73,889** | **20,931** | **25,801** |

**AVERAGE NUMBER OF EMPLOYEES** [1]

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Women | 94 | 90 | 19 | 18 |
| Men | 39 | 42 | 9 | 11 |
| **Total** | **133** | **132** | **28** | **29** |

[1] The average number of employees is calculated based on 1,800 annual working hours.

**GENDER DISTRIBUTION AMONG DIRECTORS AND SENIOR EXECUTIVES**

| Group | 2016 | | 2015 | |
|---|---|---|---|---|
| SEK thousands | Men | Women | Men | Women |
| Board | 4 | 3 | 4 | 3 |
| Other senior executives | 4 | 4 | 4 | 4 |
| **Total** | **8** | **7** | **8** | **7** |

**COMPENSATION AND OTHER BENEFITS TO DIRECTORS**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| SEK thousands | Board fees | Other compen-sation | Board fees | Other compen-sation |
| *Chairman of the Board* | | | | |
| Fredrik Lövstedt | 375 | 107 | 350 | 100 |
| *Other Directors:* | | | | |
| Mats H Nilsson | 150 | 71 | 140 | 65 |
| Heiner Olbrich | 150 | – | 140 | – |
| Martin Bjäringer | 150 | – | 140 | – |
| Christel Kinning | 150 | 55 | – | – |
| Lotta De Champs | 150 | – | – | – |
| Petra Stenqvist | 150 | – | – | – |
| Nathalie Schuterman | – | – | 140 | – |
| Isabelle Ducellier | – | – | 140 | – |
| Kerstin Hessius | – | – | 140 | 50 |
| **Total** | **1,275** | **233** | **1,190** | **215** |

**COMPENSATION AND OTHER BENEFITS TO SENIOR EXECUTIVES 2016**

| SEK thousands | Base salary | Variable compen-sation | Pension | Sever-ance | **Total** |
|---|---|---|---|---|---|
| CEO | 2,880 | 432 | 713 | 146 | **4,171** |
| Deputy CEO | 264 | – | 46 | 6 | **316** |
| Other senior executives | 7,481 | 838 | 1,325 | 132 | **9,777** |
| **Total** | **10,625** | **1,270** | **2,084** | **284** | **14,263** |

**COMPENSATION AND OTHER BENEFITS TO SENIOR EXECUTIVES 2015**

| SEK thousands | Base salary | Variable compen-sation | Pension | Sever-ance | **Total** |
|---|---|---|---|---|---|
| CEO | 3,900 | – | 674 | 110 | **4,684** |
| Deputy CEO | 1,581 | 638 | 552 | 70 | **2,841** |
| Other senior executives | 8,344 | 1,458 | 1,713 | 107 | **10,421** |
| **Total** | **13,825** | **2,096** | **2,939** | **287** | **17,946** |

**BENEFITS TO BOARD, CEO AND OTHER SENIOR EXECUTIVES**

**Compensation to the Board**

In accordance with the resolution of the Annual General Meeting, the Chairman of the Board and other Directors received total fees of SEK 1,508 thousand (1,405) in 2016. The Chairman received SEK 350 thousand (350), while other Directors received SEK 150 thousand (140) each. In addition to their fees, the Chairman and other Directors are reimbursed for travel and accommodations in connection with Board meetings. The members of the Compensation Committee received total fees of SEK 43 thousand (40) in 2016 and the members of the Audit Committee received a total of SEK 190 thousand (175). All compensation is pursuant to the Board compensation resolved by the AGM.

**Compensation to the CEO and deputy CEO**

Björn Borg's CEO received salary and other remuneration of SEK 2,880 thousand (3,900), in addition to variable compensation of SEK 432 thousand. The CEO, according to his contract, is entitled to a base salary as well as variable compensation if certain predefined targets are met. In addition, the CEO is entitled to certain other benefits such as a company car and certain insurance. The CEO is also entitled to a monthly pension provision corresponding to 25 percent of his base salary. The former deputy CEO left the company in June 2015 and has not been replaced. In connection with his departure, the company in 2015 expensed his base salary during a six-month term of notice and severance corresponding to one month's salary. Compensation of SEK 264 thousand was paid for 2016. The variable compensation has been calculated based on the Group's sales and operating profit in relation to the Board-approved budget.

The CEO has a term of notice of 12 months if terminated by the company. If he resigns, there is a six-month term of notice. A proposal on the terms of the compensation package for the CEO is made by a compensation committee consisting of Fredrik Lövstedt and Mats H Nilsson and approved by the Board. The CEO's holding of shares and warrants is described below.

**Compensation to senior executives**

Senior executives refer to the Group Management. Aside from the CEO, senior executives consisted of seven executives in 2016. In 2016 the average number of other senior executives excluding the deputy CEO was seven. Base salaries paid to senior executives amounted to SEK 7,481

thousand (8,344) in 2016, in addition to which they receive variable compensation if the Group's sales and results exceed the Board's established budget. The variable compensation for 2016 amounted to SEK 838 thousand (1,458). One senior executive receives commission-based variable compensation that can exceed base salary, which is an exception to the established guidelines. This exception has been approved by the Compensation Committee. Certain senior executives also have access to a company car. Björn Borg pays pension premiums to a defined contribution pension plan. Retirement benefit costs for 2016 amounted to SEK 1,325 thousand (1,713). If terminated by the company, senior executives are entitled to a term of notice of 3-6 months. The shareholdings of senior executives of Björn Borg are described below.

**SHAREHOLDINGS OF BOARD, CEO AND OTHER SENIOR EXECUTIVES AS OF DEC. 31, 2016**

| SEK thousands | No. of shares |
|---|---|
| Fredrik Lövstedt | 1,050,040 |
| Mats H Nilsson | 1,638,440 |
| Martin Bjäringer | 2,450,000 |
| Christel Kinning | – |
| Lotta De Champs | – |
| Petra Stenqvist | – |
| Heiner Olbrich | – |
| CEO | 100,000 |
| Other senior executives | 38,082 |
| **Total number of shares** | **5,276,562** |

**PENSIONS**

The Group has only defined contribution pension plans. A defined contribution plan is a plan where the Group pays fixed premiums to a separate legal entity. After it has paid the premium, Björn Borg has no further obligation to the Group's employees. The fees are recognized as staff costs in the period to which the fees relate and in 2016 amounted to SEK 6.5 million (7.4).

**CONVERTIBLE DEBENTURES**

Björn Borg issued convertible debentures on June 16 that were subscribed for at a nominal value of SEK 18,155 thousand. The convertibles carry interest (starting date July 1, 2015), which is paid annually in arrears, with the first payment on June 30, 2016. The interest rate is determined based on an average of STIBOR on certain fixed dates during the period (September 10, December 10, March 10 and June 10) plus a margin of 3.15 percent. The recognized interest expense for 2016 was SEK 515.0 thousand. The debentures fall due for payment on June 30, 2019 at their nominal value of SEK 18,155 thousand or can be converted to shares at the request of the holder at a price of SEK 37.96 per share. Each convertible entitles its holder to subscribe for one share, which means that the maximal conversion would increase the number of shares by 478,000, corresponding to a dilution effect of 1.8 percent. Convertible debentures are a so-called hybrid financial instrument, which means that the liability portion is initially recognized at its fair value, i.e., the value that a similar liability without the right to convert to shares would have had. The equity portion is initially recognized as the difference between the fair value of the entire instrument and the fair value of the liability portion. Björn Borg has not incurred any material, directly related transaction costs for the issue. In subsequent measurements the liability portion is recognized at amortized cost and the equity portion is not revalued other than in connection with conversions or redemptions. Due to the short time that has passed since the issue, the market interest rate is essentially unchanged, because of which the carrying amount is a good approximation of fair value as of December 31, 2016. The distribution between the liability portion and the equity portion is as follows:

| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Nominal value convertible debentures | 18,155 | 17,310 |
| Less equity portion | 1,209 | 1,154 |
| Accrued interest | 327 | – |
| **Recognized liability** | **17,273** | **16,156** |

Björn Borg has determined that the issue was implemented on market terms and that the terms of the convertible plan are designed in a way that does not unfairly favor the employees. As a result, no expenses, other than interest, have been recognized for the employee convertibles.

**WARRANTS**

Björn Borg issued warrants on June 16, 2015 to senior executives within the Group; 480,000 warrants were initially subscribed, and an additional 40,000 in 2016. The warrants entitle the holder to subscribe for one share for SEK 37.96 per share during the period June 1-14, 2019. In the event of full subscription, the total dilution effect is 1.9 percent. Björn Borg has received market-rate consideration for the warrants of SEK 2.50 per warrant, corresponding to total proceeds received of SEK 1,300 thousand, which has been recognized as an increase in equity. The warrants have been valued according to Black & Scholes. The most important inputs in the valuation were the average volume-weighted price paid for the Björn Borg share during the period May 21-29, 2015, volatility of 30 percent, a risk-free rate of interest of 0.28 percent and an adjustment for the present value of future dividends. The corresponding inputs have been used in the valuation of the convertible rights as described above. According to the terms, there is no requirement that the employee remained employed with the company, but there is a right of first refusal that gives Björn Borg a right, though not an obligation, to acquire the holder's warrant if the holder's employment were to end before June 30, 2019. Against this backdrop, Björn Borg has determined that market-rate consideration has been received and that the terms in other respects are designed in a way that does not unfairly favor the participants in the warrant plan. As a result, no expenses have been recognized related to the issued warrants.

**WARRANTS**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | No. of warrants | Average exercise price in SEK per warrant | No. of warrants | Average exercise price in SEK per warrant |
| **As of January 1** | **480,000** | | **–** | |
| Issued | 40,000 | 37.96 | 480,000 | 37.96 |
| Forfeited | – | – | – | – |
| Exercised | – | – | – | – |
| Expired | – | – | – | – |
| **As of December 31** | **520,000** | **37.96** | **480,000** | **37.96** |

## NOTE 9 AUDITORS' FEES

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| **Deloitte** | | | | |
| Statutory audit | 738 | 958 | 643 | 828 |
| Other attestation services | 200 | – | 200 | – |
| Tax advisory services | 123 | 167 | 93 | 167 |
| Other services | 320 | 18 | – | 18 |
| | **1,381** | **1,143** | **936** | **1,013** |
| **Other accounting firms** | | | | |
| Statutory audit | 169 | – | – | – |
| Other attestation services | – | – | – | – |
| Tax advisory services | – | – | – | – |
| Övriga tjänster | – | – | – | – |
| | **169** | **–** | **–** | **–** |
| **Total** | **1,550** | **1,143** | **1,036** | **1,013** |

## NOTE 10 OPERATING LEASES

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Rental and lease expenses during the year amount to | 24,267 | 22,666 | 10,095 | 9,884 |
| Future lease fees amount to | | | | |
| – within 1 year | 24,402 | 24,135 | 10,257 | 10,057 |
| – later than 1 year but within 5 years | 96,985 | 96,257 | 40,033 | 41,074 |
| **Total** | **145,654** | **143,528** | **60,385** | **61,015** |

The Björn Borg Group leases offices and retail space. The leases are signed on market terms with regard to price and duration. Certain leases are variable and include both a minimum rent and a portion contingent on sales. The expense for variable rents in 2016 and 2015 was insignificant.

As of the closing day, December 31, 2016, the Björn Borg Group had no finance leases.

## NOTE 11 NET PROFIT/LOSS FOR EACH CATEGORY OF FINANCIAL INSTRUMENT

| SEK thousands | Group 2016 | Group 2015 |
|---|---|---|
| Accounts and loans receivable | 5,105 | 728 |
| Financial liabilities at amortized cost [1] | –332 | 810 |
| Financial assets at fair value through profit or loss [2] | –220 | –4,056 |
| **Total** | **–4,553** | **–2,518** |

[1] Refers to revaluation of accounts payable.
[2] Net result for financial assets of SEK -220 thousand refers to unrealized changes in value.

## NOTE 12 RESULT FROM SHARES IN SUBSIDIARIES

| SEK thousands | Parent Company 2016 | Parent Company 2015 |
|---|---|---|
| Anticipated dividend | 56,770 | 65,000 |
| Impairment of shares and receivables in subsidiaries | –2,500 | –21,231 |
| | **54,270** | **43,769** |

## NOTE 13 NET FINANCIAL ITEMS

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Change in exchange rates | 1,446 | 1,581 | 42 | –176 |
| Interest income [1] | 6,058 | 8,690 | 6,197 | 11,262 |
| Other financial income [2] | 105 | 1,777 | – | 175 |
| **Total financial income** | **7,609** | **12,048** | **6,239** | **11,261** |
| Interest expenses [1] | –7,815 | –7,691 | –22,216 | –22,463 |
| Interest expense Trademarks [1] | –301 | –588 | – | – |
| Other financial expenses [2] | –220 | –4,801 | –220 | –4,232 |
| **Total financial expenses** | **–8,336** | **–13,080** | **–22,436** | **–26,695** |
| **Net financial items** | **–727** | **–1,032** | **–16,199** | **–15,434** |

[1] The item relates in its entirety to financial assets and liabilities which are not measured at fair value, with the exception of interest income of SEK 7.9 million (9.1) related to assets measured at fair value.
[2] Of which SEK –4,056 thousand (–4,367) relates to unrealized changes in short-term investments at fair value through profit or loss.

## NOTE 14 APPROPRIATIONS

| SEK thousands | Moderbolaget 2016 | 2015 |
|---|---|---|
| **Appropriations** | | |
| Change in accelerated depreciation/amortization | 1,014 | – |
| | **1,014** | **–** |

## NOTE 15 TAXES

### TAX ON PROFIT FOR THE YEAR

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Current tax on profit for the year | –901 | –15,775 | – | – |
| Deferred tax expense | –15,671 | –142 | –877 | 46 |
| **Total recognized tax expense** | **–16,572** | **–15,917** | **–877** | **46** |

### RECONCILIATION BETWEEN CURRENT TAX RATE AND EFFECTIVE TAX RATE

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| Recognized profit before tax | 63,470 | 57,560 | 53,865 | 39,051 |
| Tax according to current tax rate in Sweden | –13,963 | –12,663 | –11,850 | –8,591 |
| *Tax effect of:* | | | | |
| Non-deductible expenses | –382 | –1,299 | –544 | –5,709 |
| Tax-exempt income | 2 | 208 | 11,518 | 14,347 |
| Deferred tax income, previously unrecognized | – | – | – | – |
| Effect of tax rates in other countries | 299 | 299 | – | – |
| Effect of unrecognized tax loss carryforwards | –2,529 | –3,484 | – | – |
| Effect of change in tax rates | – | 928 | – | – |
| Tax related to previous years | – | 94 | – | – |
| **Recognized tax expense** | **–16,572** | **–15,917** | **–877** | **46** |

### DEFERRED TAXES

| SEK thousands | Group 2016 | Group 2015 | Parent Company 2016 | Parent Company 2015 |
|---|---|---|---|---|
| *Deferred tax assets recognized in the balance sheet* | | | | |
| Short-term investments | 130 | 1,008 | 130 | 1,008 |
| Internal gain on inventories | –3,636 | 8,164 | – | – |
| License | 4,407 | 5,500 | – | – |
| Tax loss carryforwards | 12,551 | 20,643 | – | – |
| **Total deferred tax assets** | **13,452** | **35,315** | **130** | **1,008** |
| *Deferred tax liabilities recognized in the balance sheet* | | | | |
| Trademarks | 41,257 | 41,257 | – | – |
| Finland | 286 | 358 | – | – |
| Untaxed reserves | 1,147 | 354 | – | – |
| Internal gain on inventories (receivable) | –7,272 | – | – | – |
| **Total deferred tax liabilities** | **35,418** | **41,969** | **–** | **–** |

No tax items have been recognized directly against equity or other comprehensive income.

### TAX LOSS CARRYFORWARDS AND UNRECOGNIZED DEFERRED TAX ASSETS

The Group has recognized deferred tax assets related to tax loss carryforwards totaling SEK 12,551 thousand (20,643). The taxable value of these tax loss carryforwards is SEK 55,795 thousand (93,832), none of which has an expiration date (previous year: SEK 30,000 thousand within 7-9 years). The taxable value of tax loss carryforwards for which deferred tax assets have not been recognized in the balance sheet amounts to SEK 66,140 thousand (67,605) as of December 31, 2016 and is attributable to the operations in the US, the Netherlands, Finland and the UK. No deferred tax assets have been recognized for these tax loss carryforwards because these units, with the exception of the Netherlands this year and historically, have recognized tax losses, as well as because of uncertainty whether and when in the future these operations will generate sufficient taxable surpluses. This corresponds to total unrecognized deferred tax assets in the range of SEK 15,080 thousand. Of these deficits, SEK 11,530 thousand expires within 7-9 years.

## NOTE 16 EARNINGS PER SHARE

| SEK thousands | Earnings per share 2016 | Earnings per share 2015 | Earnings per share after dilution 2016 | Earnings per share after dilution 2015 |
|---|---|---|---|---|
| **Earnings** | | | | |
| Earnings attributable to Parent Company's shareholders | 47,361 | 45,062 | 47,361 | 45,062 |
| Interest expense for convertible debentures (after tax) | – | – | 390 | 245 |
| **Net profit used to determine earnings per share after dilution** | **47,361** | **45,062** | **390** | **45,307** |
| **Weighted average number of shares outstanding** | | | | |
| Adjustment for: | | | | |
| - Convertible debentures | – | – | – | 456,000 |
| - Warrants | – | – | – | – |
| **Weighted average number of common shares for calculation of earnings per share after dilution** | **25,148,384** | **25,148,384** | **25,148,384** | **25,604,384** |
| **Earnings per share** | **1.88** | **1.79** | **1.88** | **1.77** |

| SEK thousands | 2016 | 2015 |
|---|---|---|
| Earnings per share, SEK | 1.88 | 1.79 |
| Earnings per share, SEK (after dilution) | 1.88 | 1.77 |
| Number of shares | 25,148,384 | 25,148,384 |
| Number of shares, weighted average | 25,148,384 | 25,148,384 |
| Effect of dilution | – | 456,000 |
| Number of shares, weighted average (after dilution) | 25,148,348 | 25,604,384 |

Earnings per share before dilution is calculated dividing earnings attributable to the Parent Company's shareholders by the weighted average number of common shares outstanding during the period, excluding repurchased shares. When calculating earnings per share after dilution, the weighted average number of common shares outstanding has been adjusted for the dilution effect of all potential common shares. The Group has potential common shares with a dilution effect related to convertible debentures and warrants.

## NOTE 17 INTANGIBLE ASSETS

**GROUP**

| SEK thousands | Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Goodwill** | | |
| *Accumulated cost* | | |
| Opening balance | 19,064 | 19,265 |
| Translation differences for the year | 228 | –201 |
| **Carrying amount at year-end** | **19,292** | **19,064** |
| **Trademarks** | | |
| *Accumulated cost* | | |
| Opening balance | 187,532 | 187,532 |
| **Carrying amount at year-end** | **187,532** | **187,532** |
| **License** | | |
| *Accumulated cost* | | |
| Opening balance | 1,343 | 1,399 |
| Translation differences for the year | 64 | –56 |
| **Closing balance** | **1,407** | **1,343** |
| *Accumulated amortization* | | |
| Opening balance | –795 | –552 |
| Amortization for the year | –276 | –276 |
| Translation differences for the year | –39 | 33 |
| **Closing balance** | **–1,110** | **–795** |
| **Carrying amount at year-end** | **297** | **548** |
| **Tenancy rights** | | |
| *Accumulated cost* | | |
| Opening balance | 1,725 | 1,725 |
| **Closing balance** | **1,725** | **1,725** |
| *Accumulated amortization* | | |
| Opening balance | –1,642 | –1,542 |
| Amortization for the year | –83 | –100 |
| **Closing balance** | **–1,725** | **–1,642** |
| **Carrying amount at year-end** | **–** | **83** |

| SEK thousands | Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Capitalized expenditure for software** | | |
| *Accumulated cost* | | |
| Opening balance | 8,291 | 18,328 |
| Investments | – | 301 |
| Disposals and discontinued operations | – | –10,319 |
| Translation differences for the year | 84 | –19 |
| **Closing balance** | **8,375** | **8,291** |
| *Accumulated amortization* | | |
| Opening balance | –6,182 | –14,968 |
| Disposals and discontinued operations | – 278 | 10,319 |
| Amortization for the year | – 534 | –1,524 |
| Translation differences for the year | –10 | –9 |
| **Closing balance** | **–7,004** | **–6,182** |
| **Carrying amount at year-end** | **1,371** | **2,109** |

**PARENT COMPANY**

| SEK thousands | Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Capitalized expenditure for software** | | |
| *Accumulated cost* | | |
| Opening balance | 2,191 | 2,730 |
| Disposals and discontinued operations | – | –539 |
| **Closing balance** | **2,191** | **2,191** |
| *Accumulated amortization* | | |
| Opening balance | –1,907 | –2,337 |
| Amortization for the year | –91 | –109 |
| Disposals and discontinued operations | – | 539 |
| **Closing balance** | **–1,998** | **–1,907** |
| **Carrying amount at year-end** | **193** | **284** |

**IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS**

Goodwill has been allocated to four cash-generating units: Björn Borg Brands AB, Björn Borg Clothing AB, Björn Borg Footwear AB and Björn Borg Finland Oy.

There are also intangible non-current assets in the form of trademarks where the cash-generating unit is Björn Borg Brands AB. A list is provided below.

| SEK thousands | Dec. 31 2016 | Dec. 31 2015 |
|---|---|---|
| **Goodwill** | | |
| Björn Borg Brands AB | 9,330 | 9,330 |
| Björn Borg Clothing AB | 657 | 658 |
| Björn Borg Footwear AB | 3,956 | 3,956 |
| Björn Borg Finland Oy | 5,349 | 5,120 |
| | **19,292** | **19,064** |
| **Trademarks** | | |
| Björn Borg Brands AB | 187,532 | 187,532 |
| | **187,532** | **187,532** |

Each year the Group tests goodwill and trademarks for impairment in accordance with the accounting principle described in Note 1. Future cash flows used to calculate each unit's value in use are based in the first year on the budget adopted by the Board for 2017 for each unit. With the budget as a starting point, management bases the cash flow forecast on sales volume, gross margins, investment levels and operating expenses vis-à-vis internal and external counterparties. Impairment tests conducted as of December 31, 2016 applied approximately a 13 percent (13) discount rate after tax (16 percent before tax) and assumed annual growth of 2 percent (1) during the forecast period, followed by sustainable growth of 1 percent (1) for the period beyond the forecast horizon. This growth assumption is cautious and below the company's target. The forecast period stretches from 2017 to 2021, i.e., a five-year period. In addition, it has been assumed that the costs to protect the brand and similar activities will increase by 4 percent (4) annually. Valuations as of December 31, 2016 also take into account the fact that the company will no longer pay contingent consideration to the previous trademark owner as of 2017, which will have a positive effect on cash flow in 2017 and beyond. There are no impairment losses in the Group, since the discounted present value of future cash flows exceeds the carrying amount of the net assets in every case. If the assumed growth rate beyond the forecast period used in the calculation of value in use for goodwill and trademarks had been –1 percent instead of the assumed +1 percent, there would have still been no impairment losses. An increase in the discount rate of 2 percentage points would not trigger any impairment losses either. Other goodwill items have been tested if an impairment need is determined through a calculation of value in use. The discount rate has set at 13 percent after tax. Future cash flows are based on the 2017 budget established by the Board and subsequently on future cash flows assuming annual revenue growth of 1–2 percent. The assumptions are based on management's previous experience and future assessment of each market. Sensitivity analyses that have been performed do not indicate any impairment need given a reasonable change in the significant assumptions in the impairment test. The forecast periods, discount rates (WACC), and end values for growth in free cash flow used in the impairment testing are presented in the table below.

| 2016 | Trade-marks | Brands | Clothing | Footwear | Finland |
|---|---|---|---|---|---|
| Forecast period, years | 5 | 5 | 5 | 5 | 5 |
| WACC after tax, % | 13 | 13 | 13 | 13 | 13 |
| WACC before tax, % | 16 | 16 | 16 | 16 | 16 |
| Growth in free cash flow, % | 4 | 4 | 2 | 2 | 2 |

| 2015 | Trade-marks | Brands | Clothing | Footwear | Finland |
|---|---|---|---|---|---|
| Forecast period, years | 5 | 5 | 5 | 5 | 5 |
| WACC after tax, % | 13 | 13 | 13 | 13 | 13 |
| WACC before tax, % | 16 | 16 | 16 | 16 | 16 |
| Growth in free cash flow, % | 17 | 4 | 2 | 2 | 14 |

## NOTE 18 TANGIBLE NON-CURRENT ASSETS

| SEK thousands | Group Dec. 31, 2016 | Group Dec. 31, 2015 | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|---|---|
| *Accumulated cost* | | | | |
| Opening balance | 35,276 | 45,044 | 9,649 | 11,530 |
| Investments | 5,231 | 4,746 | 1,636 | 2,033 |
| Sales and disposals | –2,499 | –14,476 | –373 | –3,914 |
| Translation differences for the year | 70 | –38 | – | – |
| **Closing balance** | **38,078** | **35,276** | **10,912** | **9 649** |
| *Accumulated depreciation* | | | | |
| Opening balance | –25,200 | –32,710 | –6,531 | –8,681 |
| Sales and disposals | 2,326 | 13,948 | 68 | 3,914 |
| Depreciation for the year | –5,904 | –6,401 | –2,143 | –1,764 |
| Translation differences for the year | –23 | –37 | – | – |
| **Closing balance** | **–28,801** | **–25,200** | **–8,606** | **–6,531** |
| **Carrying amount at year-end** | **9,277** | **10,076** | **2,306** | **3,118** |

## NOTE 19 FINANCIAL NON-CURRENT ASSETS

**SHARES IN SUBSIDIARIES**

| SEK thousands | Parent Company Dec. 31, 2016 | Parent Company Dec. 31, 2015 |
|---|---|---|
| Opening cost | 353,882 | 335,331 |
| Acquisition of minority shares | 841 | – |
| Offset issue | – | – |
| Writedown | –2,500 | –4,185 |
| Shareholder's contribution paid | 959 | 22,736 |
| **Closing accumulated cost** | **353,182** | **353,882** |

In 2016 Björn Borg acquired the remaining 25 percent in the subsidiary Björn Borg UK Limited. Björn Borg paid shareholder's contributions of SEK 959 thousand to Björn Borg Finland Oy.

**SHARES IN SUBSIDIARIES AND THE GROUP'S COMPOSITION**

| SEK thousands | Reg.no. | Registered address | No. of shares | Share of equity, % | Book value |
|---|---|---|---|---|---|
| Björn Borg Brands AB | 556537-3551 | Stockholm | 84,806 | 100 | 58,216 |
| Björn Borg Clothing AB | 556414-0373 | Stockholm | 1,000 | 100 | – |
| Björn Borg Sweden AB | 556374-5776 | Stockholm | 3,000 | 100 | – |
| Björn Borg Retail AB | 556577-4410 | Stockholm | 1,000 | 100 | – |
| Björn Borg Footwear AB | 556280-5746 | Varberg | 6,999 | 100 | 14,281 |
| Björn Borg Inc | | Delaware | 3,000 | 100 | – |
| Björn Borg UK Limited | 7392965 | Wales | 400,000 | 100 | 841 |
| Björn Borg Sport B.V | 34268432 | Netherlands | 100,000 | 100 | 12,045 |
| Björn Borg Services AB | 556537-3551 | Stockholm | 5,000 | 100 | 262,088 |
| Björn Borg Finland Oy | 2126188-3 | Helsinki | 100 | 75 | 5,712 |
| Björn Borg Limited (China) Limited CR | 1671008 | Hong Kong | 7,500 | 75 | – |
| Björn Borg (Shanghai) Trading Co. Ltd | 310000400680797 | Shanghai | n/a | 100 | – |
| | | | | | **353 182** |

## NOTE 20 ACCOUNTS RECEIVABLE

The credit quality of financial assets that are not due for payment or in need of impairment is determined primarily by evaluating the counterparty's payment history. In cases where external credit ratings are available, such information is obtained to support the credit evaluation.

**ACCOUNTS RECEIVABLE**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Accounts receivable, gross | 140,159 | 89,900 | 620 | 354 |
| Reserve for impaired receivables | –2,390 | –2,084 | – | –2 |
| **Total accounts receivable, net after reserve for impaired receivables** | **137,769** | **87,816** | **620** | **352** |

As of December 31, 2016 the Group and the Parent Company had recognized SEK 2,390 thousand (2,086) in impaired receivables. Individually assessed receivables considered to be in need of impairment largely relate to individual customers who are in financial difficulty and cannot meet their obligations to Björn Borg.

The age of these receivables is distributed as follows:

**OVERDUE RECEIVABLES**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Not overdue | 60,396 | 30,656 | 268 | 197 |
| 1–30 days | 41,690 | 36,537 | 10 | 151 |
| 31–90 days | 8,865 | 18,225 | – | – |
| 91–180 days | 9,700 | 1,881 | 115 | 6 |
| >180 days | 19,508 | 2,601 | 227 | – |
| **Total** | **140,159** | **89,900** | **620** | **354** |

As of December 31, 2016 the Group had SEK 77,373 thousand (57,136) in overdue receivables which were not considered impaired. These receivables relate to a number of customers which previously had not had payment difficulties.

The age of these receivables is distributed as follows:

**OVERDUE RECEIVABLES NOT CONSIDERED IMPAIRED**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Not overdue | 60,396 | 30,680 | 268 | 197 |
| 1–30 days | 41,690 | 36,799 | 10 | 151 |
| 31–90 days | 8,865 | 18,043 | – | – |
| 91–180 days | 9,686 | 1,162 | 115 | 4 |
| >180 days | 17,132 | 1,132 | 227 | – |
| **Total** | **137,769** | **87,816** | **620** | **352** |

Impaired receivables are recognized as an operating expense. Changes in the reserve for impaired receivables were as follows:

**IMPAIRED RECEIVABLES – RECONCILIATION**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Provisions at beginning of year | –2,084 | –1,121 | –2 | 12 |
| Reversed provisions for the period | 640 | 461 | – | –12 |
| Provisions for the period | –2,390 | –2,084 | – | –2 |
| Established losses | 1,444 | 660 | 2 | – |
| | **–2,390** | **–2,084** | **–** | **–2** |

The maximum exposure for credit risk as of the closing day is the recognized amount for each category of receivable.

## NOTE 21 PREPAID EXPENSES AND ACCRUED INCOME

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Accrued royalty revenue | – | 2,123 | – | – |
| Prepaid rents | 4,922 | 5,066 | 2,533 | 2,503 |
| Other | 3,814 | 3,659 | 844 | 866 |
| | **8,736** | **10,848** | **3,377** | **3,369** |

## NOTE 22 FINANCIAL ASSETS AND LIABILITIES

**GROUP 2016**

| SEK thousands | Measured at fair value through profit or loss | Accounts receivable and liabilities | Other financial liabilities | Total carrying amount | Fair value | Non-financial assets and liabilities | Total assets |
|---|---|---|---|---|---|---|---|
| Long-term receivable | – | 10,700 | – | 10,700 | 10,700 | – | 10,700 |
| Accounts receivable | – | 137,769 | – | 137,769 | 137,769 | – | 137,769 |
| Investments | 26,167 | – | – | 26,167 | 26,167 | – | 26,167 |
| Cash and bank balances | – | 48,948 | – | 48,948 | 48,948 | – | 48,948 |
| **Total financial assets** | **26,167** | **197,417** | **–** | **223,584** | **223,584** | **–** | **223,584** |
| Other non-current liabilities | – | – | 17,273 | 17,273 | 17,273 | – | 17,273 |
| Bond loan | – | – | 137,092 | 137,092 | 136,315 | – | 137,092 |
| Other current liabilities | 4,138 | – | – | 4,138 | 4,138 | 9,857 | 13,995 |
| Accounts payable | – | – | 13,797 | 13,797 | 13,797 | – | 13,797 |
| **Total financial liabilities** | **4,138** | **–** | **168,162** | **172,299** | **171,523** | **9,857** | **182,157** |

**GROUP 2015**

| SEK thousands | Measured at fair value through profit or loss | Accounts receivable and liabilities | Other financial liabilities | Total carrying amount | Fair value | Non-financial assets and liabilities | Total assets |
|---|---|---|---|---|---|---|---|
| Long-term receivable | – | 8,900 | – | 8,900 | 8,900 | – | 8,900 |
| Accounts receivable | – | 87,816 | – | 87,816 | 87,816 | – | 87,816 |
| Investments | 80,909 | – | – | 80,909 | 80,909 | – | 80,909 |
| Cash and bank balances | – | 50,643 | – | 50,643 | 50,643 | – | 50,643 |
| **Total financial assets** | **80,909** | **147,359** | **–** | **228,268** | **228,268** | **–** | **228,268** |
| Other non-current liabilities | 4,138 | – | 16,156 | 20,294 | 20,294 | – | 20,294 |
| Bond loan | – | – | 154,538 | 154,538 | 154,373 | – | 154,538 |
| Other current liabilities | 1,654 | – | – | – | 1,654 | 17,360 | 19,014 |
| Accounts payable | – | – | 21,019 | 21,019 | 21,019 | – | 21,019 |
| **Total financial liabilities** | **5,792** | **–** | **191,713** | **195,851** | **195,686** | **17,360** | **214,865** |

Fair values are determined according to a valuation hierarchy comprised of three levels. The levels reflect the extent to which the fair values are based on observable market inputs or internal assumptions. Following is a description of the various levels for determining the fair value of financial instruments recognized at fair value.

Level 1 fair value is determined using observable (unadjusted) quoted prices on an active market for identical assets and liabilities.
Level 2 fair value is determined using valuation models based on observable inputs for the asset or liability other than quoted prices included in level 1.
Level 3 fair value is determined using valuation models where significant inputs are based on non-observable data.

**FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

| SEK thousands, Group 2016 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Securities held for trading | 25,955 | – | – |
| Derivatives held for trading | – | 212 | – |
| Contingent consideration (liability) | – | – | –4,138 |
| **Total assets/liabilities** | **25,955** | **212** | **–4,138** |

| SEK thousands, Group 2015 | Level 1 | Levelå 2 | Level 3 |
|---|---|---|---|
| Securities held for trading | 80,779 | – | – |
| Derivatives held for trading | – | 130 | – |
| Contingent consideration (liability) | – | – | –5,792 |
| **Total assets/liabilities** | **80,779** | **130** | **–5,792** |

The carrying amount of financial instruments recognized at amortized cost corresponds to the fair value as of December 31, 2016, with the exception of the bond loan, the fair value of which was SEK 136,315 thousand (154,373), compared with a carrying amount of SEK 137,092 thousand (154,538). The valuation was based on the quoted price of the outstanding bond loan.

In 2013 the company granted the Dutch distributor an interest-bearing loan of SEK 17 million maturing on March 31, 2017, with quarterly amortizations of SEK 900,000 beginning on December 31, 2013.

Outstanding loans to the Dutch distributor amounted to SEK 10.7 million at the end of the period. Following the acquisition of Baseline, the entire short-term liability was reclassified as a long-term receivable, because of which long-term receivables increased from the previous year.

## NOTE 23 DIVIDEND PER SHARE

The Annual General Meeting on May 19, 2016 approved a distribution of SEK 50,296,768 for the financial year 2015, corresponding to SEK 2.00 per share.

The Board of Directors has decided to recommend to the AGM a distribution of SEK 2.00 per share for the financial year 2016. As proposed, the distribution would be paid through an automatic redemption, where every share is divided into one common share and one redemption share. The redemption shares will then automatically be redeemed for SEK 2.00 per share. Payment for the redemption shares, contingent on the approval of the AGM, is expected to be made around June 15, 2017. The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50,297 thousand (50,297).

## NOTE 24 UNTAXED RESERVES

| | Parent Company | |
|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 |
| **Untaxed reserves** | | |
| Accumulated accelerated depreciation/amortization | – | 1,014 |
| | **–** | **1,014** |

## NOTE 25 LIABILITIES

**NON-CURRENT AND CURRENT INTEREST-BEARING LIABILITIES**

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Bank overdraft facilities | 90,000 | 20,000 | 90,000 | 20,000 |
| **Total available credit lines** | **90,000** | **20,000** | **90,000** | **20,000** |
| **Unused credit lines** | **90,000** | **20,000** | **90,000** | **20,000** |

Bank overdraft facilities were used to a limited extent in 2016. The company pays annual contractual interest of 0.25 percent on the facility.

**OTHER NON-CURRENT LIABILITIES**

The Group's bond loan of SEK 0 (154,538), which was previously recognized under other non-current liabilities, was reclassified among current liabilities in 2016.

In spring 2012 Björn Borg issued a five-year senior unsecured bond loan of SEK 200 million. The offer was fully subscribed after broad interest was expressed by both individual and institutional investors. The purpose of the issue was to increase financial flexibility and preparedness for Björn Borg's future development and growth ambitions through current and future projects. At the same time the capital injection increased the capacity to maintain a high, stable dividend level until the annual contingent consideration for the acquisition of the trademark terminates in 2016. The bond loan has an annual coupon rate corresponding to the three-month STIBOR +3.25 percentage points and matures in April 2017. The bond loan was listed on Nasdaq Stockholm in early May 2012. During the period 2012-2016 the company repurchased corporate bonds with a nominal value of SEK 62.1 million without a material effect on the Group's results, due to which the carrying amount of the bond loan after the repurchase amounted to SEK 137.1 million as of December 31, 2016.

The fair value of the bond loan (nominal value of SEK 136,315 thousand after the repurchase) amounted to SEK 137.1 million (154.6) as of December 31, 2016.

As a condition for the above-mentioned bond loan, the company has committed to maintain a ratio between the Group's net debt and operating profit before depreciation/amortization not exceeding 3.00 as of the last day of each quarter as well as an equity/assets ratio of at least 35 percent. As of December 31, 2016 the ratio was 1.12 (0.62) and the equity/assets ratio was 53.7 percent (50.3). For a complete account of other assumptions and conditions for the bond loan, refer to the prospectus, which is available in Swedish on the company's website and from the Swedish Financial Supervisory Authority.

A convertible loan of SEK 17,273 thousand (16,156) is also recognized among other long-term liabilities. For information on recognition of the convertible loan, see note 8.

## NOTE 26 ACCRUED EXPENSES, DEFERRED INCOME AND PROVISIONS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Accrued royalty expenses | 5,579 | 4,953 | – | – |
| Personnel-related items | 12,533 | 15,191 | 6,378 | 9,791 |
| Marketing expenses | – | 32 | – | 32 |
| Deferred income | 2,075 | 3,157 | – | – |
| Other | 10,931 | 7,583 | 3,604 | 2,047 |
| | **31,748** | **30,916** | **9,981** | **11,870** |

## NOTE 27 PLEDGED ASSETS AND CONTINGENT LIABILITIES

### PLEDGED ASSETS

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Chattel mortgages | 18,000 | 18,000 | – | – |
| Securities | – | – | – | – |
| Shares in subsidiaries | 199,971 | 248,819 | 40,216 | 40,216 |
| | **217,971** | **266,819** | **40,216** | **40,216** |

### CONTINGENT LIABILITIES

| | Group | | Parent Company | |
|---|---|---|---|---|
| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 | Dec. 31, 2016 | Dec. 31, 2015 |
| Rental guarantee and other guarantees | 4,251 | 1,890 | – | – |
| | **4,251** | **1,890** | **–** | **–** |

See also note 25.

## NOTE 28 NON-CONTROLLING INTERESTS

### INFORMATION ON NON-CONTROLLING INTERESTS

| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Opening balance | –6,733 | –4,645 |
| Share of profit for the year | –464 | –3,419 |
| Share of total comprehensive income for the year | – | –249 |
| Offset issue in subsidiary (BB Sport) | – | – |
| Shareholder's contribution received from minority owner | – | 1,580 |
| Change as a result of acquisition of shares from non-controlling interests | 6,925 | – |
| **Closing balance** | **–272** | **–6,733** |

The Björn Borg Group has one subsidiary with material non-controlling interests as of December 31, 2016, Björn Borg Oy, where Björn Borg owns 75 percent of the shares and the remainder are owned by the local CEO.

### SUBSIDIARIES

| | Result distributed to non-controlling interests | | Cumulative holdings of non-controlling interests | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Björn Borg UK Ltd | – | –1,805 | – | –6,486 |
| Björn Borg Finland Oy | –388 | –1,506 | –272 | 146 |
| Other non-controlling interests | –64 | –108 | – | –393 |
| **Total** | **–452** | **–3,419** | **–272** | **–6,733** |

### CONDENSED FINANCIAL INFORMATION

The financial information below shows figures prior to eliminations.

### INCOME STATEMENT

| | Björn Borg UK | | Björn Borg Finland | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Revenue | – | 23,291 | 66,397 | 44,376 |
| Expenses | – | –32,318 | –67,950 | –50,327 |
| **Profit/loss for the year** | **–** | **–9,027** | **–1,553** | **–5,951** |
| Other comprehensive income | – | – | – | – |
| **Total comprehensive income for the year** | **–** | **–9,027** | **–1,553** | **–5,951** |

### STATEMENT OF FINANCIAL POSITION

| | Björn Borg UK | | Björn Borg Finland | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| Non-current assets | – | 1,275 | 2,602 | 6,916 |
| Current assets | – | 13,109 | 25,467 | 13,602 |
| **Total assets** | **–** | **14,384** | **28,069** | **20,518** |
| Equity | – | –32,432 | 67 | 649 |
| Current liabilities | – | 46,816 | 28,002 | 19,869 |
| **Total liabilities** | **–** | **46,816** | **28,002** | **19,869** |
| **Total equity and liabilities** | **–** | **14,384** | **28,069** | **20,518** |

### CASH FLOWS

| | Björn Borg UK | | Björn Borg Finland | |
|---|---|---|---|---|
| SEK thousands | 2016 | 2015 | 2016 | 2015 |
| From operating activities | – | –1,032 | 8,314 | –9,397 |
| From investing activities | – | – | -973 | –1,456 |
| From financing activities | – | – | – | – |
| **Total cash flow** | **–** | **–1,032** | **7,341** | **–10,853** |

The remaining minority shares in the UK subsidiary were acquired in Q2.

## NOTE 29 BENELUX ACQUISITION

On December 8 Björn Borg signed an agreement to acquire all the shares in Baseline BV, the parent company of the distributor of underwear and sportswear in the Netherlands and Belgium. The Baseline Group consists of six legal entities with wholesale operations as well as retail operations through twelve Björn Borg concept and outlet stores.

The acquisition closed on January 2, 2017. Björn Borg is paying about SEK 7.2 million for all shares and shareholders' loans after disposing of net assets to the former owners relating to brands other than Björn Borg. The difference between the actual and preliminary acquisition price previously announced as approximately SEK 12 million (EUR 1.25 million) is the value of assets (primarily inventory and accounts receivables) unrelated to the Björn Borg brand, which on December 31, 2016 was higher than preliminarily estimated and was therefore deducted from the acquisition price. A portion of the acquisition price was paid on the closing day and the remainder falls due in the three subsequent financial years. The acquisition is financed with own funds. There is no contingent consideration.

Direct acquisition expenses amounted to about SEK 1.7 million and were charged to other external expenses in the fourth quarter.

The acquisition of the Benelux operations is an important step in accelerating the vertical integration of the Björn Borg operations and in line with the strategy to get closer to consumers and retailers.

Consolidating Baseline in the Björn Borg Group is estimated to increase annual net sales by SEK 100 million with marginal impact on EBIT, excluding short-term negative effects for 2017. In 2017 the Björn Borg Group's EBIT is expected to decline due to timing effects for revenues from the Benelux market as a consequence of accounting effects when the wholesale and consumer sales are managed within the Björn Borg Group instead of by an external distributor. At the same time, from 2017 the earn-out payments to the former owner of the Björn Borg brand will discontinue, which is estimated to positively impact EBIT by SEK 21 million, largely compensating for the negative short-term effect from the acquisition of Baseline Group.

Net assets largely consist of inventory, receivables and tangible non-current assets comprising retail and office furniture and fixtures. The financial non-current assets largely consist of tax loss carry forwards. Acquired surplus values are attributable in their entirety to goodwill. Acquired goodwill is not tax deductible.

The table shows a preliminary acquisition analysis.

**ACQUIRED NET ASSETS**

| SEK thousands | Fair value |
|---|---|
| Preliminary acquisition price | 11,980 |
| Adjustment net assets | –4,829 |
| Acquisition price | 7,151 |
| **Acquired net assets** | |
| Intangible and tangible assets | 6,731 |
| Financial non-current assets | 11,923 |
| Inventory | 60,932 |
| Other short-term receivables | 8,701 |
| Long-term interest-bearing liabilities | –20,547 |
| Short-term non-interest-bearing liabilities | –76,775 |
| Total acquired assets and liabilities | –9,035 |
| Goodwill | 16,187 |
| **Total net assets** | **7,151** |
| **Acquisition payments fall due as follows:** | |
| 2017 | 1,764 |
| 2018 | 109 |
| 2019 | 1,688 |
| 2020 | 3,590 |
| **Total acquisition payments** | **7,151** |

## NOTE 30 RELATED PARTY TRANSACTIONS

In 2015 Björn Borg issued a warrant program for senior management and a convertible program for all employees. In 2016 a small number of transactions involved subscriptions for new warrants and convertibles. Other senior executives subscribed for 40,000 warrants and 20,000 convertibles during the year, while other employees subscribed for 2,000 convertibles. The consideration Björn Borg received for the warrants and convertibles was based on fair market value. Aside from customary compensation (salary, bonuses and other benefits) to the CEO, senior management and Board of Directors, no transactions with related parties were executed during the period.

# SIGNATURES OF THE BOARD OF DIRECTORS

The undersigned certify that the consolidated financial statements and the annual report have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU as well as generally accepted auditing standards and provide a true and fair view of the financial position and results of the Group and the Parent Company and that the Board of Directors' report provides a true and fair overview of the operations, financial position and results of operations of the Group and the Parent Company and describes the substantial risks and uncertainties faced by the Parent Company and companies in the Group.

Stockholm, April 10, 2017

Fredrik Lövstedt
Chairman

Martin Bjäringer
Board member

Lotta de Champs
Board member

Christel Kinning
Board member

Mats H Nilsson
Board member

Heiner Olbrich
Board member

Petra Stenqvist
Board member

Henrik Bunge
CEO

Our audit report was submitted on April 13, 2017
Deloitte AB

Didrik Roos
Authorized Public Accountant


BORG
BORG

# AUDIT REPORT

To the Annual General Meeting of Björn Borg AB (publ), company registration number 556658-0683

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### OPINIONS

We have audited the annual accounts and consolidated accounts of Björn Borg AB (publ) for 2016. The annual accounts and consolidated accounts of the company are included on pages 38-76 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Parent Company as of December 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. We therefore recommend that the general meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

### BASIS FOR OPINIONS

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

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

### KEY AUDIT MATTERS

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

#### Valuation of inventory

*Description of risk*

The company recognized inventory of SEK 67 million on December 31, 2016. Inventory is recognized at the lower of cost according to the first-in first-out method and fair value. Fair value consists of net realizable value and corresponds to the estimated sales price less estimated selling expenses.

We have identified this as an area of particular importance partly because the company's inventory is a material item and because the company's operations are highly affected by changing trends and fashions, which can affect the ability of the company to sell its collections. The obsolescence reserve is based on individual assessments from management's standpoint.

For further information, refer to the section Risks, uncertainties and risk management on page 42 and the Group's accounting principles on page 57.

*Our audit procedures*

Our audit procedures included but were not limited to:

- Evaluation of Björn Borg's routines and internal controls for managing inventory
- Examination of management's assessment of the inventory's valuation with a focus on ensuring that the correct inputs have been used in the valuation model and that it fairly reflects reality in view of the valuation of obsolete merchandise
- Verified the inventory's existence by participating in a selection of audits of various warehouses.

#### Revenue recognition

*Description of risk*

The Group's net sales amounted to SEK 632 million as of December 31, 2016. Net sales consist of four revenue streams, which are described in the company's accounting principles on page 55. Revenue from sales of goods is recognized upon delivery of a product to the customer, when the financial risks and benefits of ownership are transferred to the buyer, when it is likely that the economic benefits will accrue to the Group, when the revenue can be measured reliably, which coincides with the date of delivery. Royalties are recognized in the period to which the underlying revenue refers, i.e., in accordance with the current agreement's economic substance.

We have identified this as an area of particular importance because the company's revenue is a material item that, in part, consists of a large number of small transactions and, in part, is attributable to customer-specific agreements which could impact revenue recognition.

*Our audit procedures*

Our audit procedures included but were not limited to:

- Evaluation of the company's accounting principles for revenue
- Created an understanding of the company's routines and internal controls associated with revenue recognition, which also include the IT system used
- Examination of security controls in the cash management and accounting system with the involvement of IT auditors
- Examination of a selection of transactions to ensure that they have been reported correctly according to agreements and in the correct periods
- Examination of margin analyses and follow-up of budget variances
- Examination that appropriate accounting principles are applied and that the required disclosures are provided in the annual accounts and sustainability report.

**OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-37, 81-87 and 93-96. The Board of Directors and the Chief Executive Officer are responsible for this other information.

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

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

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

**RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER**

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

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

**AUDITOR'S RESPONSIBILITY**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, 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 opinions. 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 the company's internal control relevant to our 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Chief Executive Officer.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group'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 annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. 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 a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### OPINIONS

In addition to our audit of the annual accounts, we have audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Chief Executive Officer of Björn Borg AB (publ) for 2016.

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

### BASIS FOR OPINIONS

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

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

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes, among other things, continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and, among other matters, take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner. The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### AUDITOR'S RESPONSIBILITY

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Further, we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's current situation and future development. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to the company's administration. If we observe real or expected damage to the company, we consider whether there was intent or negligence, and if so who bears responsibility for actions or omissions. Additional audit procedures performed are based on our professional judgment. As regards the proposed appropriations of the company's profit or loss, we have especially examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm, April 13, 2017
Deloitte AB

Didrik Roos
Authorized Public Accountant


BJÖRN BORG

# THE SHARE

The Björn Borg share was listed on the Mid Cap list of Nasdaq Stockholm on May 7, 2007, but has been on the Small Cap list since January 2, 2013. The share, which is traded under the ticker symbol BORG, had previously been listed on the First North alternative marketplace since December 2004.

**SHARE CAPITAL**

The share capital in Björn Borg AB amounts to SEK 7,858,870, divided into 25,148,384 shares with a quota value of SEK 0.3125 per share. All shares carry equal rights to participate in the company's profits and assets.

**TRADING**

The last price paid on December 30, 2016 was SEK 33.70, giving Björn Borg a market capitalization of about SEK 848 million. A total of 13,783,389 shares were traded in 2016 at a value of approximately SEK 479 million. The average daily turnover was 54,480 shares. The share price increased during the year by SEK 2.30, which was 7.3 percent higher than the previous year. The share reached a high of SEK 44.60 and fell to a low of SEK 27.20.

**INCENTIVE SCHEME**

Björn Borg issued convertible debentures on June 16, 2015, which on December 31, 2016 had a nominal value of SEK 18,155 thousand. The convertibles carry interest (starting date July 1, 2015), which is paid annually in arrears. The interest rate is determined based on an average of STIBOR on certain fixed dates during the 12-month period (September 10, December 10, March 10 and June 10) plus a margin of 3.15 percent. The recognized interest expense for 2016 was SEK 515 thousand. The debentures fall due for payment on June 30, 2019 at their nominal value of SEK 18,155 thousand or can be converted to shares at the request of the holder at a price of SEK 37.96 per share. Each convertible entitles its holder to subscribe for one share, which means that the maximal conversion would increase the number of shares by 478,000, corresponding to a dilution effect of 1.88 percent. Convertible debentures are a so-called hybrid financial instrument, which means that the liability portion is initially recognized at its fair value, i.e., the value that a similar liability without the right to convert to shares would have had. The equity portion is initially recognized as the difference between the fair value of the entire instrument and the fair value of the liability portion. Björn Borg has not incurred any material, directly related transaction costs for the issue. In subsequent measurements the liability portion is recognized at amortized cost and the equity portion is not revalued other than in connection with conversions or redemptions. Due to the short time that has passed since the issue, the market interest rate is essentially unchanged, because of which the carrying amount is a good approximation of fair value as of December 31, 2016. The distribution between the liability portion and the equity portion is as follows:

| SEK thousands | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Nominal value convertible debentures | 18,155 | 17,310 |
| Less equity portion | 1,209 | 1,154 |
| Accrued interest | 327 | – |
| **Recognized liability** | **17,273** | **16,156** |

Björn Borg has determined that the issue was implemented on market terms and that the terms of the convertible plan are designed in a way that does not unfairly favor the employees. As a result, no expenses, other than interest, have been recognized for the employee convertibles.

**WARRANTS**

Björn Borg issued warrants on June 16 to senior executives within the Group. As of December 31, 2016, 520,000 warrants had been subscribed. The warrants entitle the holder to subscribe for one share for SEK 37.96 per share during the period June 1-14, 2019. In the event of full subscription, the total dilution effect is 1.88 percent. Björn Borg has received market-rate consideration for the warrants of SEK 2.50 per warrant, corresponding to total proceeds received of SEK 1,300 thousand, which has been recognized as an increase in equity. The warrants have been valued according to Black & Scholes. The most important inputs in the valuation were the average volume-weighted price paid for the Björn Borg share during the period May 21-29, 2015, volatility of 30 percent, a risk-free rate of interest of 0.28 percent and an adjustment for the present value of future dividends. The corresponding inputs have been used in the valuation of the convertible rights as described above. According to the terms, there is no requirement that the employee remained employed with the company, but there is a right of first refusal that gives Björn Borg a right, though not an obligation, to acquire the holder's warrant if the holder's employment were to end before June 30, 2019. Against this backdrop, Björn Borg has determined that market-rate consideration has been received and that the terms in other respects are designed in a way that does not unfairly favor the participants in the warrant plan. As a result, no expenses have been recognized related to the issued warrants.

**BOND LOAN**

On March 30, 2012 Björn Borg issued a five-year senior unsecured bond loan of SEK 200 million. The bond loan has an annual coupon rate corresponding to the three-month STIBOR +3.25 percentage points and matures in April 2017. As a condition for the bond loan, the company has committed to maintain a ratio between the Group's net debt and operating profit before depreciation/amortization not exceeding 3.00 as of the last day of each quarter as well as an equity/assets ratio of at least 30 percent. As of December 31, 2016 the ratio was 1.12 (0.62), and the equity/assets ratio was 53.7 percent (50.3). The bonds have been listed on Nasdaq Stockholm since May 4, 2012 and are traded under the ticker symbol BORG 001 02.

**DIVIDEND POLICY**
According to Björn Borg's financial objectives for the period 2015–2019, at least 50 percent of net profit will be distributed annually to the company's shareholders.

**DIVIDEND PROPOSAL**
The Board of Directors has recommended to the AGM a distribution of SEK 2.00 per share for 2016, corresponding to 106 percent of net profit. As proposed, the distribution would be paid through an automatic redemption, where every share is divided into one common share and one redemption shares. The redemption shares will then automatically be redeemed for SEK 2.00 per share. Payment for the redemption shares, contingent on the approval of the AGM, is expected to be made around June 15, 2017.

The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50.3 million (50.3). For 2015 a distribution of SEK 2.00 was paid per share, corresponding to 112 percent of net income.

**SHAREHOLDERS**
As of December 30, 2016 Björn Borg had 7,677 shareholders (6,590), according to Euroclear, based on shareholders grouped by company. Björn Borg's ten largest shareholders owned shares corresponding to 50.9 percent of the votes and capital in the company.

**CHANGES IN SHARE CAPITAL**

| Year | Transaction | Change in no. of shares | Total no. of shares | Change in share capital, SEK | Total share capital, SEK | Quota value, SEK | Issue price, SEK |
|---|---|---|---|---|---|---|---|
| 2004 | Company formation | 1,000 | 1,000 | 100,000 | 100,000 | 100.00 | – |
| 2004 | New share issue | 7,500 | 8,500 | 750,000 | 850,000 | 100.00 | 6 |
| 2004 | Non-cash issue | 37,243 | 45,743 | 3,724,000 | 4,574,300 | 100.00 | 6 |
| 2004 | 20-for-1 split | 869,117 | 914,860 | – | 4,574,300 | 5.00 | – |
| 2004 | New share issue | 450,000 | 1,364,860 | 225,000 | 6,824,300 | 5.00 | 17 |
| 2004 | Bonus issue | 66,176 | 1,431,036 | 330,880 | 7,155,180 | 5.00 | 16 |
| 2006 | 4-for-1 split | 4,293,108 | 5,724,144 | – | 7,155,180 | 1.25 | – |
| 2006 | Redemption of warrants | 15,800 | 5,739,944 | 19,750 | 7,174,930 | 1.25 | 27 |
| 2006 | Redemption of warrants | 61,900 | 5,801,844 | 77,375 | 7,252,305 | 1.25 | 27 |
| 2007 | New share issue | 278,552 | 6,080,396 | 348,190 | 7,600,495 | 1.25 | 90 |
| 2007 | 4-for-1 split | 18,241,188 | 24,321,584 | – | 7,600,495 | 0.31 | – |
| 2007 | Redemption of warrants | 422,400 | 24,743,984 | 132,000 | 7,732,495 | 0.31 | 33 |
| 2007 | Redemption of warrants | 293,000 | 25,036,984 | 91,563 | 7,824,058 | 0.31 | 33 |
| 2008 | Redemption of warrants | 4,600 | 25,041,584 | 1,438 | 7,825,495 | 0.31 | 33 |
| 2008 | Redemption of warrants | 17,600 | 25,059,184 | 5,500 | 7,830,995 | 0.31 | 33 |
| 2009 | Redemption of warrants | 89,200 | 25,148,384 | 27,875 | 7,858,870 | 0.31 | 33 |

**LARGEST SHAREHOLDERS**

| | No. of shares | Votes/capital, % |
|---|---|---|
| Martin Bjäringer | 2,450,000 | 9.7 |
| Swedbank Robur Small Cap Fund | 2,210,088 | 8.8 |
| Mats H Nilsson | 1,638,440 | 6.5 |
| Fourth Swedish National Pension Fund | 1,422,258 | 5.7 |
| Fredrik Lövstedt | 1,050,040 | 4.2 |
| Vilhelm Schottenius | 1,023,520 | 4.1 |
| Avanza Pension | 858,765 | 3.4 |
| Objectif Investissement, Microcaps | 809,614 | 3.2 |
| Håkan Roos | 713,886 | 2.8 |
| Nordnet Pension | 614,887 | 2.4 |
| **Total, largest shareholders** | **12,791,498** | **50.9** |
| **Total, other** | **12,356,886** | **49.1** |
| **Total number of shares** | **25,148,384** | **100.00** |

According to share register on December 30, 2016, shareholders grouped by company.

With respect to major shareholders in Björn Borg, the holdings of related parties are equated with the shareholders' own shares to the extent allowed by the Act on Reporting Obligations for Certain Holdings of Financial Instruments.

**SHAREHOLDER STRUCTURE**

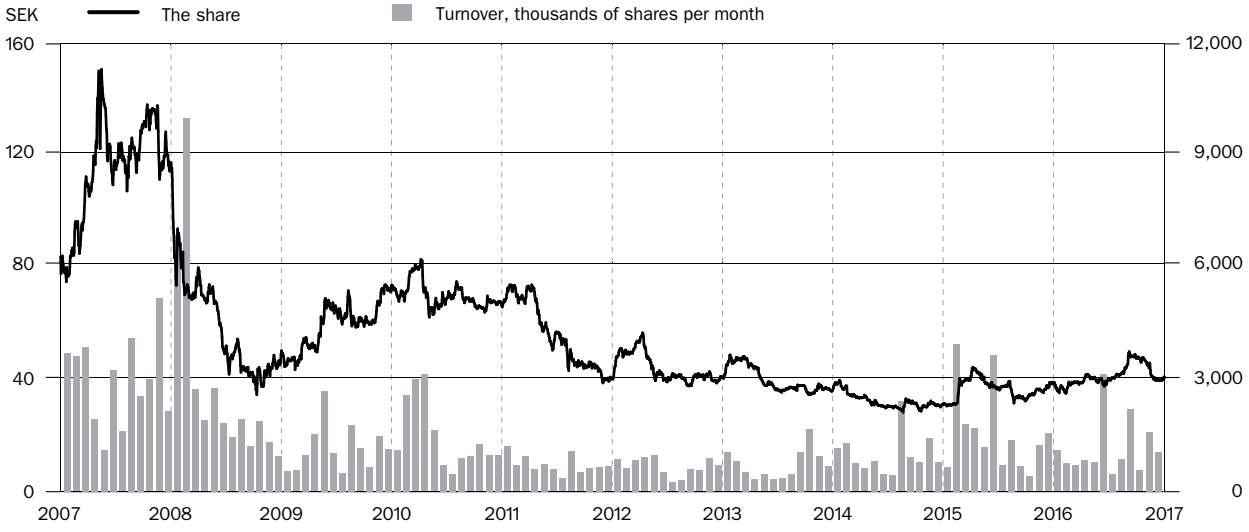
| Size of holding | No. of shareholders | No. of shares | Capital and votes, % |
|---|---|---|---|
| 1 – 500 | 5,258 | 863,999 | 3.5 |
| 501 – 1 000 | 1,077 | 928,855 | 3.7 |
| 1 001 – 5 000 | 1,065 | 2,590,292 | 10.3 |
| 5 001 – 10 000 | 139 | 1,038,268 | 4.1 |
| 10 001 – 15 000 | 32 | 405,016 | 1.6 |
| 15 001 – 20 000 | 25 | 435,415 | 1.7 |
| 20 001 – | 81 | 18,886,539 | 75.1 |
| **Total** | **7,677** | **25,148,384** | **100.00** |

Källa: Euroclear Sweden AB per 2016-12-30, ägargrupperat av bolaget.

**DATA PER SHARE**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Earnings per share before dilution, SEK | 1.88 | 1.79 | 1.94 | 0.86 | 2.11 |
| Earnings per share after full dilution, SEK | 1.88 | 1.77 | 1.94 | 0.86 | 2.11 |
| Number of shares outstanding on closing day | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 |
| Average number of shares outstanding | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 | 25,148,384 |
| Average number of shares outstanding after dilution | 25,148,384 | 25,604,384 | 25,148,384 | 25,148,384 | 25,148,384 |

## SHARE PRICE PERFORMANCE




Source: NasdaqOMXNordic.com

# DEFINITIONS

The company presents certain financial measures in this annual report that are not defined according to IFRS. The company considers these measures to be valuable complementary information for investors and the company's management. Since not all companies calculate financial measures in the same way, they are not always comparable with measures used by other companies. Consequently, these measures should not be seen as a substitute for measures defined according to IFRS. For more on the calculation of these key financial ratios, see https://corporate.bjornborg.com/en/section/investors/interim-reports/

**BRAND SALES**
Estimated total sales of Björn Borg products at the consumer level, excluding VAT, based on reported wholesale sales.
**Purpose:** Shows the sales trend measured as retail value excluding VAT.

**CAPITAL EMPLOYED**
Total assets less non-interest-bearing liabilities and provisions.
**Purpose:** Capital employed measures capital use and efficiency.

**EARNINGS PER SHARE (DEFINED ACCORDING TO IFRS)**
Profit after tax in relation to the weighted average number of shares during the period.
**Purpose:** This indicator is used to assess an investment from an owner's perspective.

**EARNINGS PER SHARE AFTER DILUTION (DEFINED ACCORDING TO IFRS)**
Earnings per share adjusted for any dilution effect.
**Purpose:** This indicator is used to assess an investment from an owner's perspective.

**EQUITY/ASSETS RATIO**
Equity as a percentage of total assets.
**Purpose:** This indicator shows financial risk, expressed as a share of total restricted equity financed by the owners.

**GROSS PROFIT MARGIN**
Net sales less cost of goods sold divided by net sales.
**Purpose:** The gross margin is used to measure operating profitability.

**NET DEBT**
Liabilities less investments and cash & cash equivalents.
**Purpose:** Net debt reflects the company's total debt situation.

**NET DEBT TO EBITDA RATIO**
Liabilities less investments and cash & cash equivalents divided by operating profit before depreciation/amortization.
**Purpose:** This indicator shows the company's ability to pay debts.

**NET FINANCIAL ITEMS**
Financial income less financial expenses.
**Purpose:** Describes the company's financial activities.

**OPERATING MARGIN**
Operating profit as a percentage of net sales.
**Purpose:** The operating margin is used to measure operating profitability.

**OPERATING PROFIT**
Profit before tax plus net financial items.
**Purpose:** This indicator facilitates profitability comparisons regardless of the company's tax rate and independent of its financing structure.

**PROFIT MARGIN**
Profit before tax as a percentage of net sales.
**Purpose:** Profit margin shows the company's profit in relation to its sales.

**RETURN ON CAPITAL EMPLOYED**
Profit before tax (per rolling 12-month period) plus financial expenses as a percentage of average capital employed.
**Purpose:** This indicator is the key measure to quantify the return on the capital used in operations.

**RETURN ON EQUITY**
Profit for the period/year attributable to the Parent Company's shareholders (for rolling 12 months) according to the income statement as a percentage of average equity. Average equity is calculated by adding equity at January 1 to equity at December 31 and dividing by two.
**Purpose:** This indicator is used to show, from an ownership perspective, the return generated on the owners' invested capital.

# BOARD OF DIRECTORS AND AUDITORS

**Fredrik Lövstedt**
Chairman since 2005,
Director since 2004.
b. 1956.
MSc Eng from KTH Royal Institute of Technology, MBA from INSEAD.
Other assignments: Chairman of Alertsec AB. CEO of AB Durator.
Background: Former EVP of Protect Data AB (1996–2001). Has run his own company since 1984.
Shares in Björn Borg: 1,050,040.

Independent from the company and management but not from major shareholders.

**Martin Bjäringer**
Director since 2014.
b. 1959.
BSc Econ.
Other assignments: Director of Fine Art Fund Group, London.
Background: Various positions at Alfred Berg, founder of Monterro PE, Chairman of Protect Data, Svensk Bevakningstjänst and Svenska Orient Linien, and Director of Gunnebo, Björn Borg, Resco, Pricer and Erik Penser Fondkommission.
Shares in Björn Borg: 2,450,000.

Independent from the company and management as well as from major shareholders.

**Lotta de Champs**
Director since 2016.
b. 1961.
Academy of cutting and tailoring, Stockholm.
Other assignments: Founder, owner and CEO of Presskontakterna, Director of Tamiko International AB.
Background: Director Svenska PR-företagen, assignments within NK.
Shares in Björn Borg: 0.

Independent from the company and management as well as from major shareholders.

**Christel Kinning**
Director since 2016.
b. 1962.
Education: Studies at Gothenburg School of Economics, Business and Marketing.
Other current assignments: Own consultancy within Soldränkta Tomater AB, Director of HOPE STLM AB, Reima, Stadium, Venue Retail Group and Vasakronan.
Background: Executive chairman of Zound industries AB. Director of Mio, MQ, Hemtex. CEO of RNB Retail and Brands AB. CEO of Polarn o Pyret AB.
Shares in Björn Borg: 0.

Independent from the company and management as well as from major shareholders.

**Mats H Nilsson**
Director since 1998.
b. 1955.
BSc Econ from Stockholm School of Economics.
Other assignments: Director of Credelity Capital AB and SevenDay Finans AB.
Background: Former Executive Director of Swiss Bank Corporation, London, and Director of SG Warburg & Co Ltd, London.
Shares in Björn Borg: 1,638,440.

Independent from the company and management as well as from major shareholders.

**Heiner Olbrich**
Director since 2015.
b. 1965.
MBA from University of Hamburg, PhD in Economics, University of St. Gallen, Switzerland.
Other assignments: Consulting assignments for Adidas, among others, member of a number of Advisory Boards for SPORT 2000, among others, and Advisory Council for Warsteiner Brauerei Haus Cramer KG.
Background: Chief Marketing and Sales Officer at Miele and Senior Vice President Global Sales at Adidas.
Shares in Björn Borg: 0.

Independent from the company and management as well as from major shareholders.

**Petra Stenqvist**
Director since 2016.
b. 1970.
Master's degrees from Stockholm and Gothenburg Universities.
Other assignments: Partner at PwC and Chief Experience Officer at POND Innovation.
Background: Director of Alenio, Strand Interconnect, Thielska Galleriet, the Swedish Association of Communication Agencies. Member of Advisory Board for Hyper Island. Founder and CEO of Stockholm New Media. Director of Keybroker.
Shares in Björn Borg: 0.

Independent from the company and management as well as from major shareholders.

**Auditors**
Deloitte AB
Didrik Roos, Authorized Public Accountant

Shareholdings as of December 31, 2016.

# SENIOR MANAGEMENT

**Henrik Bunge**
CEO
b. 1973.
Recruited 2014.
LLB from University of Uppsala; Sales Management at Harvard.
Background: CEO of Peak Performance, Managing Director Group Area Nordic at adidas Group, VP Sales and Marketing at Hästens sängar.
Shares in Björn Borg: 100.000.
Convertibles in Björn Borg: 100.000.
Warrants in Björn Borg: 190.000.

**Daniel Grohman**
CFO
b. 1975.
Recruited 2015.
MBA.
Background: CFO & Buying Director at Efva Attling, Nordic Finance Director at adidas Group Nordic.
Shares in Björn Borg: 1.600.
Convertibles in Björn Borg: 10.000.
Warrants in Björn Borg: 40.000.

**Mija Nideborn**
Design & Product Development Director
b. 1972.
Recruited 2016.
Bachelor of Fine Arts in Fashion and Design, Borås textilhögskola.
Background: Design and Development Director at Helly Hansen, Design Manager at Peak Performance.
Shares in Björn Borg: 0.
Convertibles in Björn Borg: 20.000.
Warrants in Björn Borg: 20.000.

**Lena Nordin**
HR Director
b. 1972.
Recruited 2014.
BSc Econ, HR Management at Stockholm School of Economics.
Background: HR Director at Peak Performance, HR Director at adidas Area Nordic, HR Director at SATS.
Shares in Björn Borg: 0.
Convertibles in Björn Borg: 50.000.
Warrants in Björn Borg: 40.000.

**Jonas Lindberg Nyvang**
Marketing Director
b. 1975.
Recruited: 2012.
MSc in Business Economics, MA in Design Futures.
Background: Business Development Director at Starcom Nordics, Marketing Director at MySpace Nordics, CEO of State of the Arts.
Shares in Björn Borg: 4.477.
Convertibles in Björn Borg: 60.000.
Warrants in Björn Borg: 60.000.

**Joacim Sjödin**
Global Sales Director
b. 1975.
Recruited 2015.
Background: Country manager at adidas Group, 2006-2012; European Sales Director at Peak Performance, 2012-2015.
Shares in Björn Borg: 30,000.
Convertibles in Björn Borg: 100.000.
Warrants in Björn Borg: 120.000.

**Victoria Swedjemark**
General Counsel and Sustainability Director
b. 1974.
Recruited: 2011.
LLM from Stockholm University, MSc in Business Law, Linköping University, and BS in Business Administration, Linköping University.
Background: General Counsel at Tilgin AB, Senior Associate at Advokatfirman Delphi.
Shares in Björn Borg: 1,005.
Convertibles in Björn Borg: 50.000.
Warrants in Björn Borg: 40.000.

**Lisa Udd**
Management Assistant
b. 1961.
Recruited: 2014.
Distribution/Office & Language at Stockholm University.
Background: Peak Performance, Entreprenörföretagen, Plåtslageriernas Riksförbund, Accuray Scandinavia, FRA, Nam-Nam.
Shares in Björn Borg: 1, 000.
Convertibles in Björn Borg: 5.000.
Warrants in Björn Borg: 10.000.

Shareholdings as of December 31, 2016.

# CORPORATE GOVERNANCE REPORT 2016

The Björn Borg share is listed on Nasdaq Stockholm.

**CORPORATE GOVERNANCE AT BJÖRN BORG**

Corporate governance refers to the rules and structure established to effectively control and manage the operations of a corporation. Ultimately the purpose of corporate governance is to satisfy the demands of shareholders for a return on their investment and the demands of all stakeholders for information regarding the company and its development.

The principles of corporate governance that Björn Borg applies, in addition to the rules pursuant to law or other legislation, follow the Swedish Code of Corporate Governance ("the Code"). The Board of Directors is responsible for monitoring the application of the Code. If a company that is bound by the Code does not comply with the Code in any respect, the company must report this noncompliance, describe the solutions it has adopted instead and state the reasons for doing so. During the year Björn Borg had two instances of noncompliance with the Code, the first of which is that Directors of the company constituted a majority of the members of the Nomination Committee. The reason for the noncompliance is that this composition was considered motivated against the backdrop of the ownership structure and because large, engaged owners are represented on the Board. The second instance of noncompliance was that the Nomination Committee appointed the Chairman of the Board of Directors, Fredrik Lövstedt, as Chairman of the Nomination Committee, and the reason for this noncompliance was that the Nomination Committee felt that Fredrik Lövstedt, as a major shareholder for many years, had special qualifications to effectively lead the Nomination Committee's work as Chairman.

This corporate governance report does not constitute part of the formal annual report.

**ANNUAL GENERAL MEETING**

Björn Borg's highest decision-making body is the Annual General Meeting (AGM).

The AGM elects the company's Board of Directors and the Chairman. Among the other duties of the AGM are to adopt the balance sheet and income statement, decide on the disposition of the profit from the company's operations and decide whether to discharge from liability the Directors and the CEO. The AGM also decides on remuneration to the Board and approves the compensation guidelines for management. The AGM in addition elects the company's auditors and decides on their remuneration. Further, the AGM may resolve to increase or reduce the share capital and can amend the Articles of Association. With respect to new issues of shares, convertibles and warrants, the AGM may authorize the Board to take decisions.

**Annual General Meeting 2017**

The next AGM will be held in Stockholm on May 11, 2017. A notice will be released in accordance with the Articles of Association and the rules that apply according to the Companies Act and the Code.

**Annual General Meeting 2016**

The 2017 AGM was held in Stockholm on May 19, 2016. The AGM resolved, among other things, to reelect Directors Mats H Nilsson, Fredrik Lövstedt, Heiner Olbrich and Martin Bjäringer. In addition, Petra Stenqvist, Christel Kinning and Lotta de Champs were elected as new Directors. Nathalie Schuterman, Isabelle Ducellier and Kerstin Hessius declined re-election and stepped down from the Board. The AGM also resolved to transfer earnings to shareholders through an automatic share redemption procedure and gave the Board limited authorization to resolve to acquire and transfer the company's own shares or issue new shares. The minutes of the AGM are available on Björn Borg's website.

**NOMINATION COMMITTEE**

According to the resolution of the 2016 AGM, Björn Borg's Nomination Committee shall be appointed by having the Chairman of the Board contact the four largest shareholders by votes as of August 31, 2016 and ask them to appoint one person each to participate in the Nomination Committee. The Nomination Committee, whose composition was published on the Group's website in September 2016, consisted of the following members for the 2016 AGM:

- Fredrik Lövstedt, Chairman of the Board and himself a shareholder in the company
- Martin Bjäringer, representing himself as a shareholder
- Mats H Nilsson, representing himself as a shareholder
- Marianne Flink, appointed by Swedbank Robur
- Thomas Ehlin, appointed by the Fourth Swedish National Pension Fund

Fredrik Lövstedt was named Chairman of the Nomination Committee. According to the resolution of Björn Borg's 2016 AGM, the Nomination Committee's mandate is to propose to the 2017 AGM the number of Directors to be elected by the meeting, their remuneration, any compensation for committee work, the composition of the Board, the Chairman of the Board, the Nomination Committee, the Chairman of the AGM and the election of the auditors and their remuneration. Through March 16, 2017 the Nomination Committee has held three meetings at which minutes were taken, in addition to other contacts. No compensation was paid to the members of the committee.

**BOARD OF DIRECTORS**

In accordance with the Articles of Association, Björn Borg's Board of Directors consists of a minimum of four and a maximum of eight members. Directors are elected annually at the AGM for a one-year term up until the following AGM. The 2016 AGM reelected Directors Mats H Nilsson, Fredrik Lövstedt, Martin Bjäringer and Heiner Olbrich and elected Petra Stenqvist, Christel Kinning and Lotta de Champs as new Directors. Fredrik Lövstedt was re-elected Chairman of the Board.

The Board fulfills the requirements of the Code in that a majority of the Directors are independent in relation to the company and the management, and that at least two of them are independent in relation to the company's major shareholders. Prior to the 2016 AGM the Nomination Committee concluded

that all of the nominated Directors were independent from the company and the management as well as from major shareholders, with the exception that the Chairman of the Board, Fredrik Lövstedt, was not considered independent in relation to the company's major shareholders due to his shareholding. Fredrik Lövstedt subsequently, in June 2016, divested shares, so that his shareholding is now less than 10 percent, as a result of which he too is considered independent from the major shareholders.

An annual board review, one of the aims of which is to analyze the Board's work and whether the Board has a composition appropriate for the company's needs, was conducted within the company during the latter part of the fourth quarter, and its conclusions were presented in their entirety to the Nomination Committee.

The Board is assisted by an attorney, who serves as external secretary. For more information on the Directors, see page 86 of the annual report.

**The Board's rules of procedure**

Pursuant to the Companies Act, Björn Borg's Board is responsible for the company's organization and the management of its affairs and appoints its CEO. The Board lays down the company's goals and strategy, adopts critical policy documents and continuously monitors compliance thereto. The Board also has ultimate responsibility for its various committees. The Board's rules of procedure, which were adopted most recently at the Board meeting on August 18, 2016, define the principles for Board work, the delegation between the Board and the CEO, and the financial reporting.

**Board work**

In 2016 the Board held seven scheduled meetings, four of which were in connection with the quarterly financial reports, one by circulation in connection with the preparations for the AGM and one to adopt the budget. An additional Board meeting was also held during the year in direct connection with the May meeting (the day after), where other issues beyond the quarterly report were discussed. Directors' attendance at the year's Board meetings is shown in the table below.

**Compensation Committee**

The Board has established a Compensation Committee consisting of Chairman Fredrik Lövstedt and Mats H Nilsson to prepare proposals on remuneration and other terms of employment for Senior executives. In 2016 the Committee held four meetings, which both members attended. During the year the Compensation Committee, which is a drafting committee, addressed, among other things, the right of first refusal in the incentive scheme adopted by the 2015 AGM and a change in the CEO's employment contract pertaining to the term of notice.

**Audit Committee**

Björn Borg's Board of Directors has established an Audit Committee consisting of Chairman Fredrik Lövstedt and Mats H Nilsson as well as Christel Kinning, who in the second half of the year replaced Kerstin Hessius, who stepped down from the Board at the AGM in May 2016. The Audit Committee supports the Board in efforts to quality assure Björn Borg's financial reports and is tasked with, among other things, ensuring that accurate, qualitative financial reports are prepared and communicated. The Audit Committee is also tasked with issuing a recommendation to the Nomination Committee on the auditors' election. The committee convened a total of four times in 2016, all in connection with the quarterly reports. All of the Committee's members attended these meetings, with the exception that Fredrik Lövstedt did not attend the meeting in November concerning the quarterly report for the third quarter. In 2016 the CEO attended the meetings as a co-opted member. The Audit Committee is a drafting committee.

**DIRECTORS' ATTENDANCE IN 2016**

| | Feb 18 | Apr 11** | May 19 | May 20 | Aug 18 | Nov 11 | Nov 30 |
|---|---|---|---|---|---|---|---|
| Fredrik Lövstedt | 1 | 1 | 1 | 1 | – | 1 | 1 |
| Martin Bjäringer | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Mats H Nilsson | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Nathalie Schuterman* | – | 1 | – | * | * | * | * |
| Heiner Olbrich | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Kerstin Hessius | 1 | 1 | 1 | * | * | * | * |
| Isabelle Ducellier | 1 | 1 | 1 | * | * | * | * |
| Petra Stenqvist* | * | * | * | 1 | 1 | 1 | 1 |
| Christel Kinning* | * | * | * | – | 1 | 1 | 1 |
| Lotta de Champs* | * | * | * | 1 | 1 | 1 | 1 |
| **No. of attendees** | **6 (of 7)** | **7 (of 7)** | **6 (of 7)** | **6 (of 7)** | **6 (of 7)** | **7 (of 7)** | **7 (of 7)** |

* The person in question left or was elected to the Board at the 2016 AGM.
** Meeting held by circulation with all members participating in the decisions.

**CEO**

The Board has established an instruction for the CEO's work and role, which in its current wording was adopted on August 18, 2016. The CEO is responsible for day-to-day management of the Group's operations according to the Board's guidelines and other established policies and guidelines, and reports to the Board.

Henrik Bunge (b. 1973) has been CEO since August 4, 2014. He does not own shares in any company with which Björn Borg has significant business interests. For more information on the CEO, see page 87 of the annual report.

**THE COMPANY'S AUDITORS**

The outside auditors review Björn Borg's annual accounts, accounting records and the administration of the Board of Directors and the CEO. After every financial year the auditors submit an audit report to the AGM. The 2016 AGM elected the registered public accounting firm Deloitte AB as auditor of the company until the conclusion of the next AGM. Authorized Public Accountant Didrik Roos is chief auditor. The next auditors' election will be held at the 2017 AGM.

Further information on the auditors can be found on page 86 in the annual report. Information on the auditors' fee can be found in note 9.

**REMUNERATION TO DIRECTORS AND SENIOR EXECUTIVES**

Remuneration to the Chairman and other Directors is resolved by the AGM. According to the resolution of the 2016 AGM, the Chairman received remuneration of SEK 375,000 and other Directors received SEK 150,000. For committee work in 2016 the members of the Compensation Committee were paid SEK 16,000 and the Chairman was paid SEK 27,000, while the members of the Audit Committee were each paid SEK 55,000 and the Chairman was paid SEK 80,000.

According to the remuneration guidelines for senior executives approved by the 2016 AGM, the remuneration for the CEO and other members of management can consist of a base salary, variable compensation, long-term incentive schemes and other benefits, including a pension. Any variable compensation is based on performance relative to predefined, measurable targets and is maximized relative to the target salary.

The fixed and variable salary components and benefits for the CEO and the management of Björn Borg are indicated in Note 8 of the annual report.

**INCENTIVE SCHEME**

The 2015 AGM adopted a long-term incentive scheme (2015/2019) comprising the issuance and transfer of convertibles and warrants, which was implemented in early summer 2015. The incentive scheme comprises a convertible plan for all employees of Swedish Group companies, including Group Management, and a warrant plan exclusively for Group Management.

As part of the convertible plan, Björn Borg raised a convertible debenture loan with a nominal value of SEK 22,016,800, corresponding to 580,000 convertibles, which can be converted to not more than 580,000 shares in the company. As part of the warrant plan, Björn Borg issued 520,000 warrants that can be exercised to subscribe for not more than 520,000 new shares in the company. Of this total, all the warrants were transferred, but only 478,000 convertibles were transferred. The reason why all the convertibles were not transferred was that certain instruments that were intended for senior executives were not acquired due to certain management changes in 2015. The 102,000 convertibles that were not transferred can no longer be transferred after the 2016 AGM and cannot be exercised.

At the current subscription level, Björn Borg's share capital can increase by not more than SEK 285,606, distributed between SEK 123,106 due to the conversion of convertibles and SEK 162,500 due to the exercise of warrants, through the issuance of not more than 998,000 shares. This corresponds to a maximum dilution effect of 4.0 percent of the share capital and votes.

The convertibles were issued at nominal value, which corresponded to the conversion price. The subscription price corresponded to 100 percent of the convertibles' nominal value. The subscription price of the warrants was the market value according to the Black & Scholes valuation model. Each convertible and warrant in the incentive scheme entitles its holder to convert to, or subscribe for, one new share in Björn Borg at a conversion or subscription price of SEK 37.96, corresponding to 120 percent of the average volume-weighted price paid for the Björn Borg share on Nasdaq Stockholm during the period May 21-29, 2015. Subscriptions and conversions as part of the plans are permitted during the period June 1-14, 2019.

**FINANCIAL REPORTING**

The quality of the financial reporting is ensured by the Board of Directors' policies and instructions on delegation of responsibility and control as well as the instruction for the CEO on financial reporting, among other things. Prior to each of its meetings, the Board receives the latest financial reports and at each meeting it addresses the financial situation of the Parent Company and the Group. The Board also addresses the interim and annual reports. At least once a year the company's auditors report on whether the company has ensured that its accounts, their management and financial controls are working satisfactorily. After the formal report management's representatives leave the meeting, so that the Directors can dialogue with the auditors without the participation of the company's senior executives.

**BOARD REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

According to the Companies Act and the Code, the Board is responsible for internal control. The following report on internal control over financial reporting for 2016 has been prepared in accordance with these regulations and constitutes part of the corporate governance report. Björn Borg's Board has evaluated the need for a separate audit function (internal audit) and come to the conclusion that such a function is not motivated at present in view of the staffing in the company's finance department in relation to the nature, scope and complexity of the business.

## ORGANIZATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

### Control environment and corporate governance

The control environment serves as the basis for internal control over financial reporting. The Board of Directors' rules of procedure and instructions for the CEO and the Board's committees clearly define the delegation of roles and responsibilities in order to effectively manage the company's risks. The Board has established a number of fundamental guidelines and frameworks that are important to internal control. Examples include the Board's rules of procedure, finance policy, investment policy, code of conduct and communication policy, which were reviewed during the year. The Board's Audit Committee has as its specific responsibility to monitor and quality assure the financial reporting. The Audit Committee monitors internal control in connection with its meetings prior to quarterly reporting. Management regularly reports to the Board based on established routines, as does the Audit Committee. Management is responsible for ensuring that the routines and systems established for internal control are followed to ensure proper management of significant operating risks. This includes routines and guidelines for various senior executives, so that they understand the importance of their roles in maintaining good internal control.

### Risk assessment

Management works continuously and actively with risk analysis, risk assessment and risk management to ensure that the risks the company faces are managed appropriately within the frameworks that have been established. The risk assessment takes into consideration, among other things, the company's administrative routines with respect to operating, financial and legal risks. Balance sheet and income statement items are continuously reviewed as well if there is a risk of material errors. Assessed risks in major balance sheet and income statement items are graded and monitored. The risk analysis has identified a number of critical processes, with the greatest focus on purchasing and revenue processes. The Audit Committee plays an important role in risk assessment, since it reports its observations and priorities to Björn Borg's Board.

### Communication and control activities

Prior to each of its meetings, the Board receives financial reports. The financial situation of the Parent Company and the Group is treated as a separate point at each Board meeting. The Audit Committee plays an important role in the monitoring process, since it reports its observations and priorities to the Board. Manuals, guidelines and policy documents important to financial reporting are updated and provided to all parties concerned at internal meetings or by e-mail. To ensure that external information is distributed correctly, Björn Borg has a communication policy laid down by the Board. Information reporting and financial reporting for all Swedish subsidiaries are managed by Björn Borg's finance department. Foreign subsidiaries are managed locally. The company's auditors conduct the audit of the Group's financial reporting and review the processes, systems, routines and accounting work conducted by Björn Borg's finance department.

### Monitoring

The Board of Directors of Björn Borg is ultimately responsible for internal control. The Audit Committee appointed by the Board is responsible for, among other things, quality assuring the company's financial reporting, keeping updated on the focus of the audit and reviewing the effectiveness of the internal control systems for financial reporting. The Audit Committee has the internal control structure as a recurring point at its meetings.

## BJÖRN BORG SHARE AND OWNERSHIP STRUCTURE

The shares in Björn Borg AB are listed on the Small Cap list on Nasdaq Stockholm. The total number of shares in Björn Borg is 25,148,384. There is only one class of share. The share capital amounts to SEK 7,858,870 and the quota value per share is SEK 0.3125. Each share carries one vote at the company's AGM, and there are no limitations on how many votes each shareholder may cast at the AGM. Björn Borg had 7,677 shareholders at year-end. The largest shareholder as of December 31, 2016 was Martin Bjäringer, through companies and directly, with 9.7 percent of the shares and votes. There are no limitations on the right to transfer the Björn Borg share due to legal provisions or Björn Borg's Articles of Association. Nor is Björn Borg aware of any agreements between shareholders that could infringe upon the right to transfer Björn Borg shares.

**TEN LARGEST SHAREHOLDERS DEC. 31, 2016**

| | No. of shares | % |
|---|---|---|
| Martin Bjäringer | 2,450,000 | 9.7 |
| Swedbank Robur Small Cap Fund | 2,210,088 | 8.8 |
| Mats H Nilsson | 1,638,440 | 6.5 |
| Fourth Swedish National Pension Fund | 1,422,258 | 5.7 |
| Fredrik Lövstedt | 1,050,040 | 4.2 |
| Vilhelm Schottenius | 1,023,520 | 4.1 |
| Håkan Roos | 858,765 | 3.4 |
| Objectif Investissement, Microcaps | 809,614 | 3.2 |
| Avanza Pension | 713,886 | 2.8 |
| Nordnet Pension | 614,887 | 2.4 |
| **Total, largest shareholders** | **12,791,498** | **50.9** |
| **Total, other** | **12,356,886** | **49.1** |
| **Total number of shares** | **25,148,384** | **100.00** |

# AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of the shareholders of Björn Borg AB (publ), company identity number 556658-068368

**DISTRIBUTION OF RESPONSIBILITIES**
It is the Board of Directors that has responsibility for the corporate governance report for the financial year January 1, 2016 – December 31, 2016 on pages 88-91 and for ensuring that the report has been prepared in accordance with the Annual Accounts Act.

**DIRECTION AND SCOPE OF THE EXAMINATION**
Our statutory examination has been conducted according to FAR's opinion, RevU 16 *Auditor's examination of the corporate governance report*. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted according to the International Standards on Auditing and generally accepted auditing standards in Sweden. In our opinion, this examination gives us a sufficient basis for our opinion.

**OPINION**
A corporate governance report has been prepared. Disclosures in accordance with chapter 6, section 6, paragraph 2, points 2-6 of the Annual Accounts Act and chapter 7, section 31, paragraph 2 of the same act are consistent with the annual accounts and the consolidated financial statements as well as the Annual Accounts Act.

Stockholm, April 13, 2017
Deloitte AB

Didrik Roos
Authorized Public Accountant

# OTHER INFORMATION

**ANNUAL GENERAL MEETING**

The Annual General Meeting of the shareholders of Björn Borg AB (publ) will be held on Thursday, May 11, 2017 at 5:30 pm (CET) at the company's office, Tulegatan 11, Stockholm. Registration begins at 4:45.

To be entitled to participate in the Annual General Meeting, shareholders must be entered in the shareholders' register maintained by Euroclear Sweden AB by Friday, May 5, 2017 and must notify the company of their intention to participate by this date (Friday, May 5, 2017) in writing to Björn Borg AB, Tulegatan 11, SE-113 53 Stockholm, Sweden, by telephone to +46 8 506 33700, through the company's website (http://corporate.bjornborg.com/sv) or by e-mail to stamma@bjornborg.com. When notifying the company, please include your name, personal identification or company registration number, address, telephone number and the names of those accompanying you.

Proxies and representatives of legal entities are advised to submit authorization documents well in advance of the meeting. A proxy template is available through Björn Borg's website (address above).

Shareholders whose shares are registered in the name of a nominee must temporarily re-register the shares in their own names with Euroclear Sweden AB to be entitled to participate in the meeting. For re-registration to be completed by Friday, May 5, 2017, shareholders must inform nominees well in advance of this date.

**2017 CALENDAR**

| | |
|---|---|
| Annual General Meeting 2017 | May 11, 2017 |
| Interim report January-March 2017 | May 11, 2017 |
| Interim report, January-June 2017 | August 18, 2017 |
| Interim report, January-September 2017 | November 16, 2017 |

**FINANCIAL REPORTS**

Financial reports can be downloaded from the company's website www.bjornborg.com
or ordered by telephone +46 8 506 33 700
or by e-mail info@bjornborg.com.

**SHAREHOLDER CONTACT**

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**IMAGES IN THE ANNUAL REPORT**

The images used in the annual report were obtained from Björn Borg's fall and winter 2017 collection.

Concept, design and production: Wirtén Design Group AB.
Photography: Björn Borg's image archive and Karl Johan Larsson.


BJÖRN BORG


BORG


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