



BJÖRN BORG 

CORPORATE GOVERNANCE REPORT 2016



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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 Lövestedt, as Chairman of the Nomination Committee, and the reason for this noncompliance was that the Nomination Committee felt that Fredrik Lövestedt, 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 Lövestedt, 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 Lövestedt, 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 Lövestedt 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 Lövestedt, Martin Bjäringer and Heiner Olbrich and elected Petra Stenqvist, Christel Kinning and Lotta de Champs as new Directors. Fredrik Lövestedt 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 Lövestedt, was not considered independent in relation to the company's major shareholders due to his shareholding. Fredrik Lövestedt 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 Lövestedt 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 Lövestedt 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 Lövestedt 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 Lövestedt	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 Löfstedt	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





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