BJÖRN BORG

ANNUAL REPORT 2018

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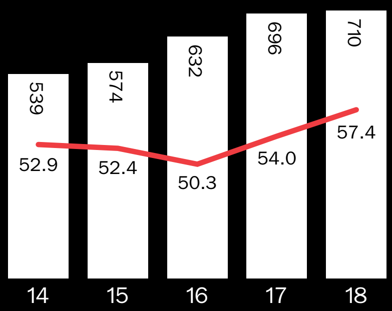
“We implemented several activities in 2018, and I especially want to mention *Chase your Exerhighs*, where we swapped drugs for our sportswear.”

Henrik Bunge

BJÖRN BORG IN BRIEF

NET SALES, SEK MILLION
GROSS PROFIT MARGIN (%)



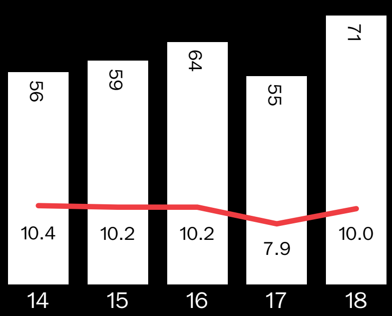
THE NUMBER OF BJÖRN BORG STORES AT YEAR-END WAS 36, 31 OF WHICH ARE GROUP-OWNED

36

DISTRIBUTION OF SEK 2.00 PER SHARE

2.00

OPERATING PROFIT, SEK MILLION
OPERATING MARGIN (%)



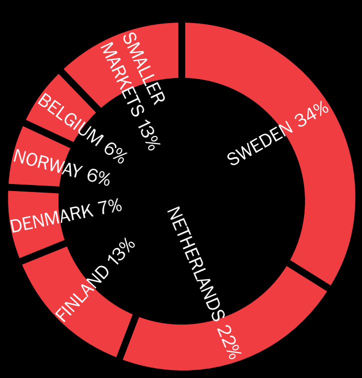
THE OPERATING MARGIN WAS 10.0 PERCENT

10.0

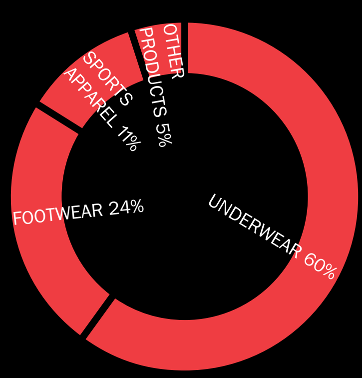
THE GROSS PROFIT MARGIN WAS 57.4 PERCENT

57.4

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, eyewear and home products (bedding and towels). 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, Finland, the Netherlands, Belgium and Germany as well as footwear in Sweden, Finland and the Baltic countries.

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

THE YEAR IN NUMBERS

- The Group's net sales rose 1.9 percent to SEK 709.6 million (696.5). Excluding currency effects, the increase was 1.6 percent.
- The gross profit margin was 57.4 percent (54.0).
- Operating profit amounted to SEK 71.0 million (55.4).
- Profit after tax amounted to SEK 59.5 million (37.4).
- Earnings per share before and after dilution amounted to SEK 2.39 (1.48).
- 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

Brand sales rose year-over-year to SEK 1,603 million (1,542). Excluding currency effects, brand sales increased minimally. (See definitions on page 89.)

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 apparel market in the first half of the 1990s and today has a strong position in its established markets, particularly for the largest product group, underwear.

MARKETS

- Björn Borg is represented in around 20 markets, the largest of which are Sweden and the Netherlands.
- Björn Borg has acquired its 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.

NEW STORES

No new stores were opened during the year, while five stores have been closed: two in Sweden, one in Finland, one in the Netherlands and one in Norway. At year-end there were a total of 36 (41) Björn Borg stores, 31 (35) of which are Group-owned.

A WORD FROM THE CEO

2018 was the year that the digital transformation really took off. Never before had we spent so much time on our mobile phones. *Mobile first* is a concept that's here to stay. More than four of ten Nordic e-commerce consumers made at least one monthly purchase by mobile phone in 2018. Our changing habits have had a big effect on the way we shop, and in 2018 all growth in durable goods sales in Sweden was online. During the year we invested in a new enterprise system and a point of sale system to maximize growth in a changing market. But even in this new world it's still our employees and our culture that make the difference.

PEOPLE MAKE THE DIFFERENCE

In 2018 we continued to focus on building a culture around feeling good. Creating an environment where everyone can be their best, with a compulsory exercise hour, fitness tests, sleep school and stress management. Internally the world's best workplace and externally a brand that inspires. Our work has had a big impact and we have never been stronger or sold more. In particular, our exercise hour generated a positive international response in 2018, with visits and subsequent coverage in the *Harvard Business Review*, *Bloomberg* and the *BBC*. We are convinced that physical well-being is directly tied to peak performance.

OUR BRAND IS OUR MOST IMPORTANT ASSET

We want our brand to inspire consumers to understand that by exercising they can be their best. During the year we increased our recognition as a sports fashion brand by 16 percent, while at the same time maintaining our position as a leader in men's underwear. Our focus is to consistently drive this shift and strengthen consumer awareness of our sports fashion collection. In 2018 we implemented several activities, and I especially want to mention *Chase your Exerhighs*, where in fall 2018 we encouraged people to swap drugs for our sportswear. At the beginning of the year we also repeated the *Dear rival* campaign, which was originally run in 2017, again with very good results. We increased awareness of Björn Borg as a sports fashion brand by over 100 percent during the campaign, which was seen by 14 million consumers. We finished the year by announcing a collaboration with the artist Robyn, which has been covered by, among others, *Vogue.*

UPDATED BUSINESS PLAN AND CHANGING MARKETPLACE

Our business plan, *Northern Star*, was launched in 2014, in connection with which we announced two goals for 2019: SEK 1 billion in sales and an operating margin of 15 percent. With 2018 in the books, I can report that we are behind schedule on both metrics. In the latter part of 2018 we carefully evaluated our work and decided to reformulate the long-term goals to *annual sales growth of at least 5 percent* with an *annual operating margin of at least 10 percent*. We will continue to focus on sports apparel and sportswear distribution and the vertical integration of our previous distributors. We also concluded that we have to even better understand our target group. This is very important, since it is clear that the market is changing more rapidly than before. Old truths are being replaced by a new reality, a clear example of which is holiday shopping. Throughout my professional career, December has been by far the most important sales month. HUI Research now reports that December retail sales in the Sweden have fallen SEK 4 billion in the last five years. If this trend continues, November, with promotions such as *Black Friday*, could be the year's highest sales month as soon as 2019.

SALES

We increased net sales in 2018 to SEK 709.6 million, or by 1.9 percent compared with 2017. During the year we terminated our footwear wholesale business in Denmark, and as of January 1, 2018 footwear sales in the country are managed by an outside partner. This reduced net sales by SEK 10.5 million. Adjusted for this, we grew just over 3 percent compared with 2017. I am very pleased with our development in Sweden, +27.1 percent, and with our own e-commerce business, +20 percent. England is also developing well. Sports apparel and performance underwear generated good growth during the year, and underwear is also growing. In the Netherlands and Belgium, we are developing weakly, and that applies as well to our distributor markets, where both Norway and Denmark lost ground year-over-year. The stores we manage ourselves are performing well, with comparable stores in Sweden growing 4 percent and in Finland 10.6 percent compared with the previous year. At the same time we are seeing a continued drop in store traffic, which in turn is due to the changes in consumption patterns. We have to maintain our

focus on the customer and customer experience in stores and on the connection to our digital offering. We also saw price pressure continue in 2018, mainly due to increased price transparency through digitization and growing international competition. A clear sign of our brand's strength is that we reduced price cutting in our own e-commerce and own stores.

PROFITABILITY

The gross profit margin for 2018 increased to 57.4 percent (54.0). Adjusted for currency effects and expense reclassifications, the margin was 55.9 percent. We have continued to maintain good cost control. Operating expenses rose SEK 14.5 million compared with 2017, but SEK 12.7 million of this is due to increased marketing investments, of which SEK 7.5 million relates to reclassifications of expenses that previously affected the margin but which more correctly have been used to build the brand. Increased sales with an improved gross profit margin raised our operating profit 28 percent to SEK 71.0 million (55.4), despite increased operating expenses.

SUSTAINABLE BUSINESS MODEL AND GROWTH

A sustainable business model is critical to me personally, our owners, all employees, our customers, and to achieve our financial goals. A sustainable business model is an acknowledgement that we all have to be better at taking responsibility. This means using more sustainable materials in our collections and having less impact on our shared environment. During the year we had several product launches with a sustainability focus. We also continue to reduce shipments by air compared with previous years.

AMBITION

We finished 2018 strongly and succeeded in our aim to always be better than yesterday as all our key performance indicators – sell-through, employee engagement, sales and profitability – improved year-over-year. Again, we closed the year stronger than we began it, and it is especially gratifying that so many more people are choosing to buy and wear our sports apparel. Lastly, I would add that building a global sports fashion company cannot be done quickly or easily, but with 2018 in the books, we are one step closer to our long-term goal: *To be the No. 1 SPORTS FASHION BRAND for people who want to feel active and attractive.*

Let's go!
Henrik Bunge
Head Coach

VISION, BUSINESS CONCEPT, GOALS AND STRATEGY

WE ARE WORKING TOWARD A SHARED GOAL THROUGH A FRAMEWORK WHERE WE ANSWER FIVE QUESTIONS: WHERE ARE WE GOING? WHERE ARE WE? WHAT TO DO? HOW DO WE DO THINGS? WHY DO WE DO THIS?

We also want to honor our values. These values aren't drafted by consultants, but by us, through our convictions and drive to succeed. Our carrot is to inspire people to be their best, since we know that anyone can become anything.

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.

THE SECOND QUESTION IS:
WHERE ARE WE?

For the most part our annual report describes exactly this, i.e. our current status. It is important to us to understand where we are and have the courage to face reality. This is not only done for the company as a whole, but broken down to each department and each individual.

THE THIRD QUESTION IS:
WHAT TO DO?

Our business plan *Northern Star* describes our focus on three strategic directions; winning the consumer at the point of sale, creating a winning team, and building one sports fashion brand.

- *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.
- *Build one Sports Fashion Brand*
  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?

Our values create a stable foundation from which we can navigate in our rapidly changing world. These core values drive our culture and shape how we live our brand.

- *Passion*
  Energy literally sparks from our bodies in our constant charge forward. Not because someone forces us to, but because we love it. Sports is the power that gives us adrenaline and confidence, and our hearts lead the way. We are driven by passion for what we do, whatever we do.
- *Multiplying*
  We care about others and we prove it. We have a strong belief in personal growth and that anyone can go beyond their limitations. That's why we push each other forward because we are all stronger when we give each other power. That's why we believe that one plus one equals not just three, but even more.
- *Winning attitude*
  We aim high to reach high. Winning is in our genes and we never accept losing. If we are alone, we aim to win. If we are in a team, we aim to win for that team. We never give up and never stop believing that we have the power to win.
- *Bold*
  We don't believe in norms – we believe in following our own vision with clear determination. We stand up for what we believe in, no matter the consequences. That is why we always do things our own way and fight on the frontline against any norm, ideal or tradition that prevents people from reaching their full potential.
- *Magnetic*
  We always put on a smile in everything we do and have confidence enough to not take ourselves too seriously. Some people call it aura, others attraction. We call it magnetic. A special glow that comes from within, a combination of looks, appearance and expression.

THE FIFTH QUESTION DESCRIBES WHAT INSPIRES AND MOTIVATES US:
WHY DO WE DO THIS? (OUR MISSION)

We inspire people to be more, through our belief that sports can make our minds, souls and bodies become something more than what we are today, and that anyone can become anything.

FINANCIAL OBJECTIVES

Björn Borg's long-term financial goals for the company, that were concluded 2015 for the period 2015-2019, have been updated early 2019 and are as follows:

- Annual sales growth of minimum 5 percent
- Annual operating margin of minimum 10 percent
- An annual dividend of at least 50 percent of net profit
- The equity/assets ratio should not fall below 35 percent (before IFRS 16 takes effect).

THE BJÖRN BORG BRAND

BRAND DEVELOPMENT

The Björn Borg trademark was registered in the late 1980s and established in the Swedish apparel 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 more on the 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 branding platform was developed in 2018 and serves as a basis for future design and marketing communications. It reflects the brand's sporty identity with 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 such as 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 in order 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 that 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 2018

During the year Björn Borg continued to position itself in sports apparel through a number of campaigns, events and PR activities.

BJÖRN BORG'S DEAR RIVAL CAMPAIGN

In mid-February Björn Borg presented a campaign based on research showing that rivalries can help you perform better. Rivals can push you to run faster, play better and reach new heights – in the same way that Björn Borg and John McEnroe made each other better. With the theme *Dear Rival*, we challenged people to show their rivals some love. It began with a social media campaign where millions of people followed our social media ambassadors as they challenged their rivals wearing Björn Borg's spring/summer collection.

The campaign also utilized outdoor advertising in Amsterdam and Stockholm as well as at gyms and events around the Nordic region, the Netherlands and Belgium. We increased awareness of Björn Borg as a sports apparel brand by over 100 percent during the campaign, which was seen by over 14 million consumers.

MARRIAGE UNBLOCKED

Björn Borg teamed up with the blockchain company Superblocks to create a digital platform that allows same-sex couples to get married on the blockchain – even when it is illegal in their home countries. In this global campaign, Björn Borg took a stand on the right to love anyone you want just in time for the FIFA World Cup, where Russia and Saudi Arabia, two countries that do not allow same-sex marriage, faced off in the opening match.

Saudi Arabia and Russia aren't the only countries to prohibit same-sex marriage, however, which is currently illegal in 87 percent of the world's countries. The campaign received widespread coverage online and in the media, generating PR value of 64 MSEK

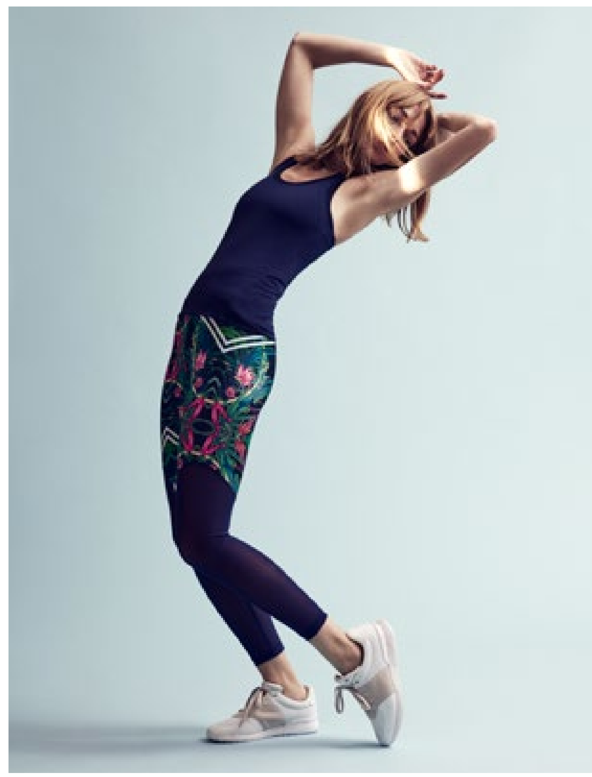
BJÖRN BORG'S COLLABORATION WITH NAITO

Naito is one of the world's most widely recognized print designers. Adidas, Mont Blanc and The Kooples are just a few of the brands he has worked with. In late April 2018 Björn Borg was proud to present a collaborative collection with Naito spanning all our product categories. The collection was part of an integrated campaign that proved to be a bestseller in Björn Borg's own channels, while also generating wide exposure through a combination of paid, earned PR and own channels.

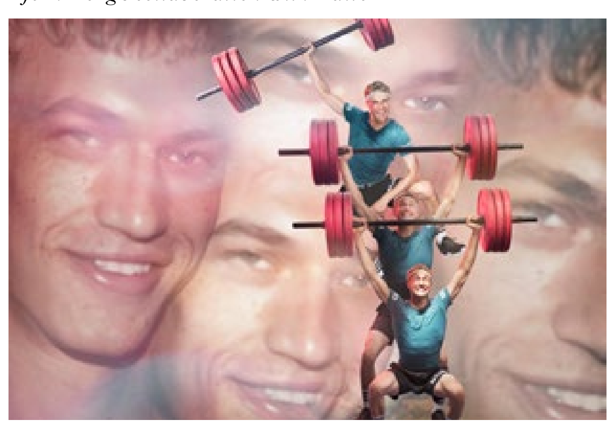
CHASE THE EXERHIGHS

Many people see exercise as hard and boring. Björn Borg's aim is to change that with a campaign called *Chase the Exerhighs*, which instead focuses on the joy and euphoria that comes with working out, which not only strengthens the body and mind but also has a chemical reaction not unlike the one from psychedelic drugs. By focusing on pleasure, the goal is to get more people moving and to stand out from the usual sportswear advertising. *Chase the Exerhighs* kicked off with films, images and moving content showing Exerhigh extremes and was rolled out in all Björn Borg's markets: in-store, outdoors and digitally. The campaign reached 19 million consumers and increased the emotional connection to Björn Borg as a sports apparel brand by 14 percent.

Dear Rival campaign



Björn Borg's collaboration with Naito



Chase the Exerhighs

PRODUCT DEVELOPMENT

BRAND AND PRODUCTS

Björn Borg is a sports apparel brand offering athleisure wear, underwear (fashion and performance), swimwear, socks and loungewear.

Björn Borg's products are sporty yet fashionable. Wearing them should make customers feel active and attractive. To ensure a uniform, contemporary design expression, clear guidelines are in place. The feeling and expression in our clothing is detailed in a modern design platform, complemented by specific guidelines for each season. They are followed by Björn Borg's internal design department and external licensees for bags, footwear, eyewear, homewear and fragrances.

IMPORTANT EVENTS IN 2018

The largest product area in terms of sales is still underwear, but the product category that is growing the fastest is sports apparel.

In 2018 the share of sustainable products accelerated, and since late fall this has also been communicated on products and the website. The company's sustainable initiatives and products fall under the umbrella of *B. Tomorrow*. Customers can now find information on the initiative and navigate to products that are better alternatives for the environment in-store and online.

A priority in 2018 was assuring product and production quality, which over time results in a higher quality and sustainable product.

The *Björn Borg Performance* collection for urban athletes grew strongly during the year and we are now seeing a broader product range reach the consumer.

In spring 2018 *Björn Borg Swimwear* was relaunched with colorful patterns and robust sell-through.

In the *Sports Apparel* category, the *Archive Collection* was launched in late fall. Inspired by the company's history, the concept will live on for several more seasons with creative interpretations of Björn Borg's prime.

The number of Co-labs is accelerating. In spring 2018 a Co-lab was launched with the Japanese artist Naito and in spring and fall it was underwear created together with Ryan Hawaii, beginning a series of Co-labs designed to ignite brand heat.

FOCUS GOING FORWARD

In 2018 the focus was on initiatives to build the brand and stimulate sales. They will reach the market and customers in 2019. The priority is maintaining a #1 position in men's underwear in mature markets, further developing performance underwear and successfully establishing our sports apparel in the right channels. We will be more innovative and the number of collaborations, concept collections and quick-to-market offers will increase. Cost control and sustainable alternatives are critical.

New strategic plans will be formulated in 2019 around categories and sustainability in order to set the direction for the new business plan.

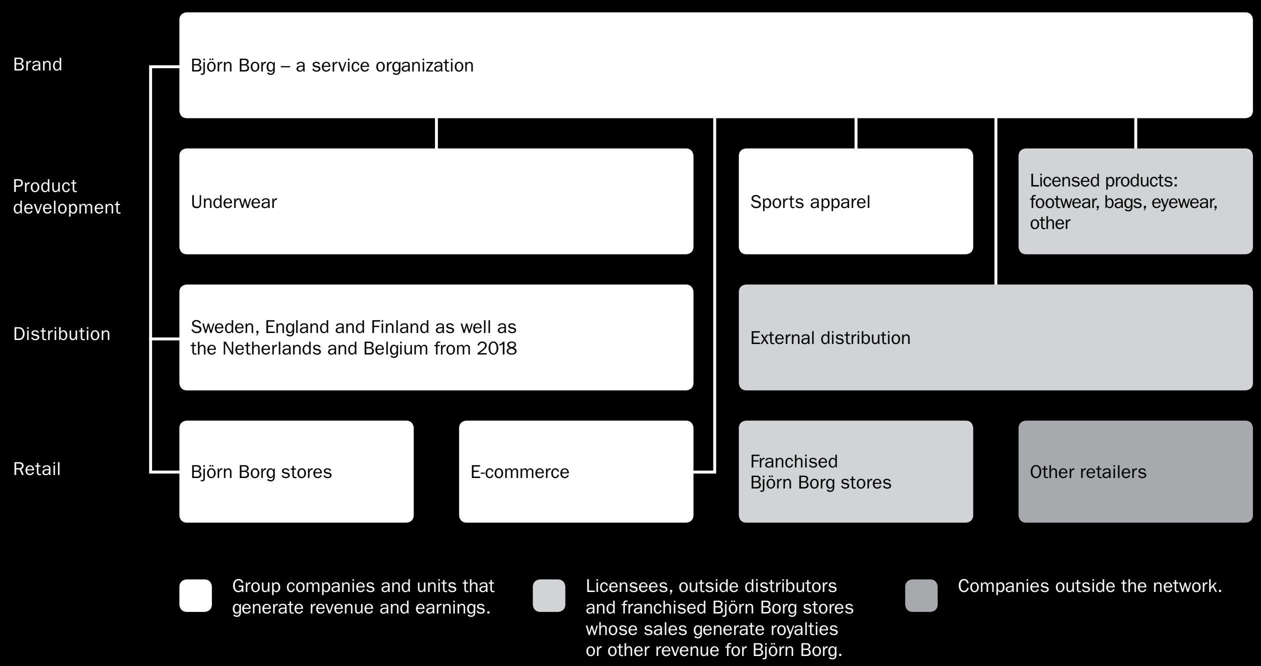
OPERATIONS

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 external 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 either by 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 the business model with a network of its own units and independent partners, Björn Borg can be involved in key parts of the value chain and develop the brand internationally with a compact organization and limited financial investment and risks. The part of the business model that relies on external partners is relatively capital efficient for the company, 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.




BORG
SINCE 1984
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 of 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 various 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 its own branding specialists. Since acquiring the Björn Borg trademark in 2006, the Group has been responsible for trademark registration and protection. Björn Borg devotes significant resources to combating the sale of counterfeit products.

PRODUCT AREAS

The largest and strategically most important product areas, underwear and sports and performance apparel, are owned and managed by the Group. Design and product development of sports and performance apparel were moved from the Netherlands to Sweden in 2014, and since 2015 have been managed from the Swedish head office. The fall 2016 collection was the first sports and performance apparel collection designed 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 licensed, 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 mostly outsourced 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.


BORG
BORG

DISTRIBUTION

Wholesale operations and product distribution to retailers are 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, the Netherlands, Belgium, Germany and England.

Björn Borg's partners in the network are established players with experience in underwear or fast-moving consumer goods rather than fashion, and which have an extensive 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 and sports and performance apparel, Björn Borg is responsible for distribution in Sweden, England, the Netherlands, Belgium, Germany and Finland with its own sales organizations in these markets. Distribution of footwear in Sweden, Finland, Denmark and the Baltic countries is also managed by the Group.

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 sell-through 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.

The agreement with the Danish distributor extends through December 31, 2020.

RETAIL

Björn Borg products are sold in department stores, chains and independent retailers as well as through Group-owned and franchised Björn Borg stores and factory outlets. A growing share 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, 540 in Denmark, 660 in the Netherlands, 640 in Norway, 240 in Belgium, 260 in England and 440 in Finland. In smaller markets, around 900 retailers sell these products. Björn Borg products are sold through a total of around 4,600 retailers.

Apparel and sporting goods chains and 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 both established and new markets. The Group's own stores, along with e-commerce, are expected to continue to play a central role in Björn Borg's business model in new as well as 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. Sports apparel was again given more weight in 2018, although underwear still accounts for a majority of sales. Sales from Björn Borg's own e-commerce increased during the year, and it still sees good growth opportunities. Going forward e-commerce will continue to be a priority sales channel.

Sales through e-tailers continue to rise in both Björn Borg's own markets and markets where distribution is managed by external partners. Total sales from Björn Borg's own e-commerce and e-tailers amounted to SEK 141 million (113) during the year. Björn Borg will maintain a strong focus on e-tailers and virtual marketplaces going forward.

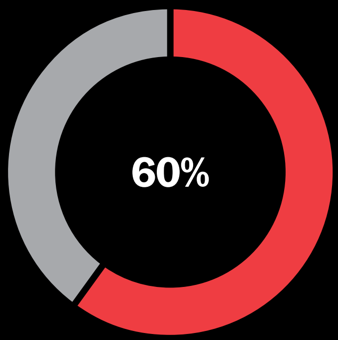
BJÖRN BORG STORES AS OF DEC. 31, 2018

	Group-owned	Franchises
Sweden	10	–
Netherlands	9	–
Belgium	5	–
Finland	6	–
Norway	–	5
England	1	–
Total	**31**	**5**

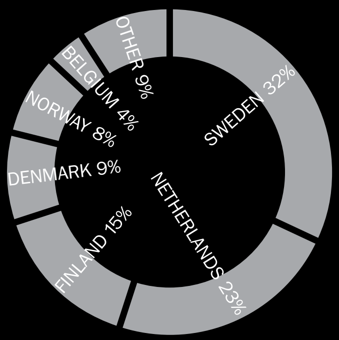
PRODUCT AREAS

UNDERWEAR

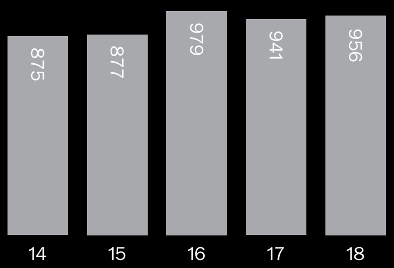
**UNDERWEAR,
SHARE OF TOTAL BRAND SALES 2018**



**UNDERWEAR,
BRAND SALES BY COUNTRY 2018**



**UNDERWEAR, SALES TREND
2014-2018, 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 performance underwear collection and several models of bras.

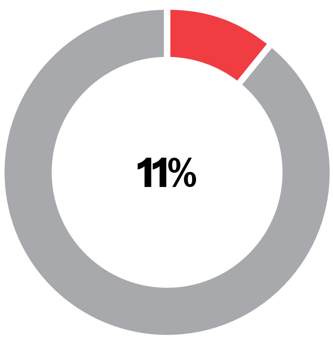
Björn Borg underwear is sold by independent retailers, apparel and sporting goods chains, department stores, Björn Borg stores, and our own and external e-commerce. Product development is managed within the Björn Borg Group.

Brand sales in underwear increased in 2018 to SEK 956 million (941) and the product area accounted for 60 percent of total brand sales. Among large markets, Sweden, the Netherlands and Finland grew during the year, while Denmark, Norway and Belgium declined. Smaller focus markets such as England reported good growth, while Germany decreased slightly.

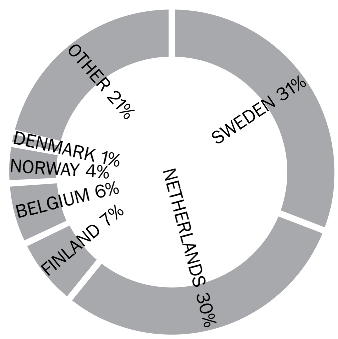

BJÖRN BORG
BJÖRN BORG

SPORTS APPAREL

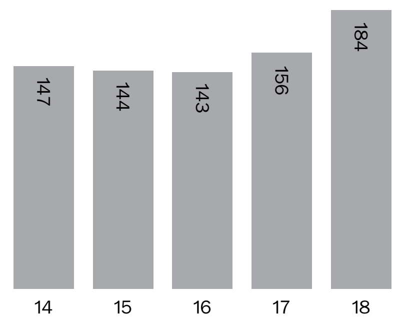
SPORTS APPAREL, SHARE OF TOTAL BRAND SALES 2018



SPORTS APPAREL, BRAND SALES BY COUNTRY 2018



SPORTS APPAREL, SALES TREND 2014-2018, SEK MILLION



Björn Borg offers clothing collections for both women and men, mainly fashionable performance 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 ten markets. Retailers include sports apparel and sporting goods chains, department stores, Björn Borg stores and e-tailers.

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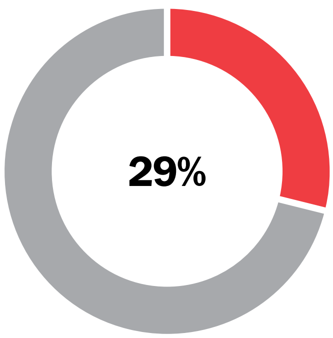
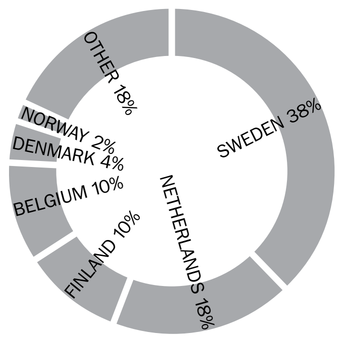
OTHER PRODUCTS

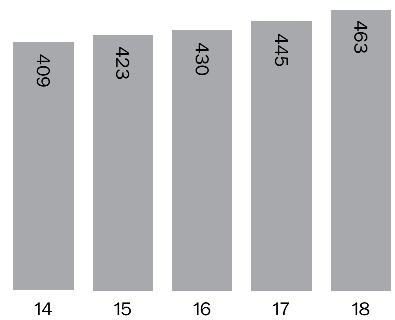
OTHER PRODUCTS, SHARE OF TOTAL BRAND SALES 2018



OTHER PRODUCTS, SALES BY COUNTRY 2018



OTHER PRODUCTS, SALES TREND 2014-2018, 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 2018 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.

HOME

In late 2016 Björn Borg reached agreement with a licensee, Sky Brands A/S, to begin manufacturing and distributing linens, towels and throws. The products are manufactured and distributed by the licensee as of 2017. Distribution in 2018 was primarily through specialty retailers.

OTHER PRODUCTS IN 2018

Total brand sales of other products amounted to SEK 463 million in 2018, an increase of 4 percent compared with 2017. As a whole, other products accounted for 29 percent of total brand sales.

The footwear product area reported an increase of 7 percent to SEK 387 million, or 24 percent of brand sales. Other product areas – mainly bags and eyewear – saw an aggregate sales decrease of 9 percent to SEK 76 million. Together, they accounted for 5 percent of brand sales.

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 34 percent of total brand sales. Björn Borg products are sold by about 900 retailers around the country, through Björn Borg's ten stores, two of which are 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 21 percent in 2018 compared with the previous year.

NETHERLANDS

The Netherlands was the Björn Borg brand's second largest market in 2018, with 22 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 660 retailers and nine Björn Borg stores. Björn Borg products from every product area are sold in the Dutch market, where brand sales decreased 4 percent during the year.

As of January 2, 2017 Björn Borg AB owns the former Benelux distributor. The acquisition of the Benelux company is an important step to accelerate 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 13 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. Distribution is mainly through external retailers, around 440, but there are also six Björn Borg stores in Finland, one of which is a factory outlet. Brand sales in Finland decreased 10 percent during the year.

DENMARK

Björn Borg was launched in Denmark in 1992, and today it accounts for 7 percent of total brand sales. Björn Borg products are sold exclusively through around 540 external retailers. There are currently no Björn Borg stores in the country. Every product area is represented in Denmark. In 2018 brand sales fell 11 percent compared with 2017.

NORWAY

The brand was launched in the Norwegian market in the early 1990s. Norway today accounts for 6 percent of total brand sales. Products are sold through about 640 retailers around the country and in five Björn Borg stores. All product groups are represented in Norway. Brand sales in the Norwegian market fell 19 percent year-on-year.

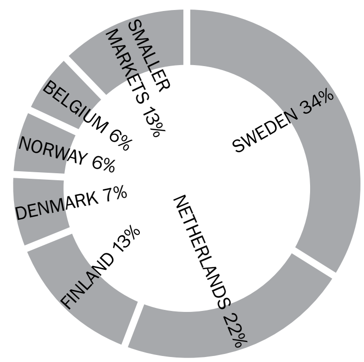
BELGIUM

Björn Borg was launched in Belgium during the second half of the 1990s. Today Belgium is Björn Borg's sixth largest market, with 6 percent of total brand sales. Underwear dominates the Belgian market, although all the 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 fell 17 percent compared with 2017.

SMALLER MARKETS

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

BRAND SALES BY COUNTRY



ENGLAND

Björn Borg was established in England in 2006 through 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. In addition to external retailers, Björn Borg also has its own factory outlet in England, where brand sales rose 44 percent in 2018 and accounted for 5 percent of total brand sales.

OTHER SMALLER MARKETS

Brand sales are decreasing in many smaller markets with the exception of Austria, where sales are on the rise. Björn Borg has chosen to focus more on what it considers its key markets, i.e., Northern Europe.

BJÖRN BORG'S SUSTAINABILITY WORK

Running any type of global business comes with responsibilities, but as a player in the world's second most contaminated industry after the oil industry we have an especially big responsibility.

The collective name *B. Tomorrow* represents all our sustainability initiatives and our journey to a more sustainable future. It represents every step we take in the organization to contribute to this shared objective, but also our hope to inspire others to do likewise. It stands for the idea that together we can make a difference. In brief, it is a both vision and an approach: Let's all contribute to a better future. *Let's B. Tomorrow!*

B. Tomorrow is a way for us to express our conviction that a sustainable approach to products and partners is necessary to stay relevant as a brand to future consumers.

We have divided our sustainability work into three focus areas with clearly defined goals, down to the smallest area of operations: *Responsible Production*, *Reduced Climate Impacts* and *Driving Sustainable Consumption*.

A large part of our sustainability work involves finding and introducing sustainable materials and manufacturing processes for our products, store interiors, packaging and reducing our climate impact through more efficient logistics. We work continuously with social responsibility and environmental issues, including by setting strict requirements in supplier agreements, code of conduct and chemical restrictions that our suppliers must follow.

We use a limited number of suppliers, which facilitates a continuous dialogue and monitoring. Björn Borg has been a member since January 2008 of the trade organization Amfori and applies Amfori BSCI's code of conduct. These rules follow the UN's principles on trade and human rights and the International Labour Organisation's conventions and declarations. Unannounced inspections are periodically conducted by independent audit firms to ensure compliance with the code.

Björn Borg's products are free from hazardous chemicals. Our suppliers follow the EU's chemical regulation (REACH) and other specific requirements we set ourselves, which regulate the maximum levels for specific chemicals.

Björn Borg is also a member of the Sweden Textile Water Initiative (STWI), whose vision is to catalyze a global change toward more sustainable textile and leather manufacturing. Textile manufacturing consumes vast amounts of water and at Björn Borg we work actively to reduce our consumption through new innovative production methods and new materials.

In 2016 a foundation was laid for the rollout of *Björn Borg's Sustainability Roadmap* with targets and activities for each year during the period 2016-2019. From a starting point of essentially zero in 2015, we have greatly increased our sustainable product line in recent years, and will continue on the same path. During the year we began work on a new plan with goals for 2022, which will be introduced in 2019 and include a completely sustainable product range by 2022, 100 percent sustainable and recyclable packaging and store interiors, and use of 100 percent renewable energy.

Our vision and overarching goal for 2022 are ambitious and without question will require hard work to achieve. We are convinced, however, that it is not only vital that we all contribute to a better future, it is also critical to adapt to our customers' and consumers' future demands.

More information on Björn Borg's sustainability work can be found in our sustainability report, which can be downloaded from our website: https://corporate.bjornborg.com/en/section/sustainability/.

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 wants 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 apparel 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 strong 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*, *Winning Attitude*, *Bold* and *Magnetic*. 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 product, sales, finance and digital 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. Employees are offered various options to develop their professional and personal skills, where leadership, self-leadership and health are priority areas.

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 the coming years. 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 maximize focus, development and 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, which are tracked through individual tests a couple of times a year in cooperation with a professional personal trainer. Mental health is measured as well, with a focus on stress and work-life balance. Based on the outcomes, goals and action plans are set each year both at a group level and for each individual. Each employee also has personal sustainability goals in order to contribute to Björn Borg's sustainability work, with a focus on reducing climate impacts.

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 213 in 2018, compared with 212 in 2017.

The average age was 36, and 68 percent were women and 32 percent men. Biologically, their average age is 26, ten years younger than their physical age, according to a fitness test of endurance, strength, flexibility and perceived well-being that all employees underwent during the year with a professional personal trainer, who also helped them set personal goals.

Employee engagement in the organization is high (78 percent) and increased during the year in line with current goals. All departments have been involved in setting their own goals for coming years.

BJÖRN BORG BY THE NUMBERS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FINANCIAL REPORTS

FIVE-YEAR SUMMARY

FIVE-YEAR SUMMARY

SEK thousands	2018	2017	2016	2015	2014
Income statement in summary					
Operating revenue	716,781	704,255	638,570	584,498	544,497
Operating profit	71,003	55,367	64,196	58,592	55,950
Profit after financial items	74,028	51,398	63,470	57,560	63,148
Profit for the year	59,886	37,372	46,897	41,643	47,572
Balance sheet in summary					
Intangible assets	232,234	228,353	208,492	209,336	211,187
Tangible non-current assets	15,390	15,392	9,277	10,076	12,334
Other long-term receivables	–	–	10,700	8,900	9,800
Deferred tax assets	23,228	22,530	13,452	35,315	31,713
Inventory	139,564	109,770	67,477	75,851	40,381
Current receivables	144,112	111,534	153,913	107,395	85,973
Short-term investments	–	500	26,167	80,909	133,147
Cash & cash equivalents	36,388	52,620	48,948	50,643	85,080
Total assets	**590,916**	**540,699**	**538,426**	**578,425**	**609,613**
Equity	281,705	277,398	289,103	290,675	285,708
Non-current liabilities	3,824	22,925	17,273	174,832	201,030
Deferred tax liabilities	42,892	42,949	35,418	41,969	38,350
Current liabilities	262,495	197,427	196,632	70,949	84,524
Total equity and liabilities	**590,916**	**540,699**	**538,426**	**578,425**	**609,613**
Key ratios [1]					
Gross profit margin, %	57.4	54.0	50.3	52.4	52.9
Operating margin, %	10.0	7.9	10.2	10.2	10.4
Profit margin, %	10.4	7.4	10.0	10.0	11.7
Return on capital employed, %	18.4	13.2	16.3	14.8	14.8
Return on average equity, %	21.5	13.1	16.3	15.6	17.2
Profit attributable to Parent Company's shareholders	60,128	37,099	47,361	45,062	48,835
Equity/assets ratio, %	47.7	51.3	53.7	50.3	46.7
Equity per share, SEK	11.20	11.03	11.50	11.56	11.36
Investments in intangible non-current assets	7,264	4,921	–	301	1,428
Investments in tangible non-current assets	6,486	7,868	5,231	4,746	1,353
Investments in financial assets	–	–	–	–	1,410
Depreciation/amortization for the year	–8,877	–9,906	–6,797	–6,592	–8,877
Average number of employees	213	212	133	132	129
Data per share					
Earnings per share, SEK	2.39	1.48	1.88	1.79	1.94
Earnings per share (after dilution), SEK	2.39	1.48	1.88	1.77	1.94
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	25,148,384	25,148,384	25,604,384	25,148,384

1 For definitions of key ratios, see page 89.

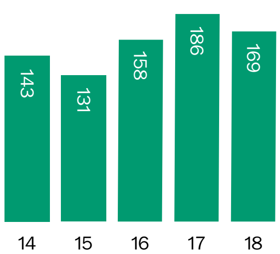
QUARTERLY DATA FOR THE GROUP

QUARTERLY DATA FOR THE GROUP

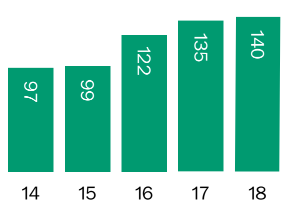
SEK thousands	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net sales	196,898	203,132	140,341	169,204	170,269	205,712	134,844	185,657
Gross profit margin, %	55.5	57.7	59.9	57.1	58.3	56.3	52.1	48.9
Operating profit	16,033	36,999	2,888	15,085	16,905	32,012	–290	6,741
Operating margin, %	8.1	18.2	2.1	8.9	9.9	15.6	–0.2	3.6
Profit after financial items	16,081	35,633	3,216	19,099	15,683	31,028	–2,078	6,765
Profit margin, %	8.2	17.5	2.3	11.3	9.2	15.1	–1.5	3.6
Earnings per share, SEK	0.58	1.15	0.06	0.60	0.43	0.98	–0.11	0.18
Earnings per share after dilution, SEK	0.58	1.15	0.06	0.60	0.43	0.98	–0.11	0.18
Number of Björn Borg stores at end of period	36	37	38	39	41	40	39	39
of which Group-owned Björn Borg stores	31	32	34	34	35	34	33	33
Brand sales	453,784	443,527	294,022	411,661	359,775	474,201	270,824	436,957

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

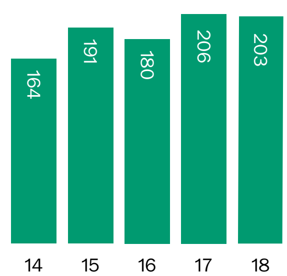
NET SALES 2014-2018, Q1, SEK MILLION



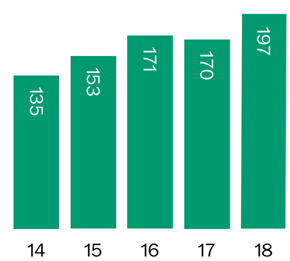
NET SALES 2014-2018, Q2, SEK MILLION



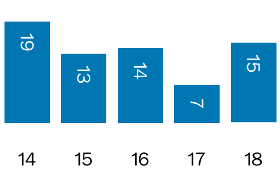
NET SALES 2014-2018, Q3, SEK MILLION



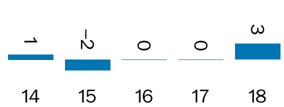
NET SALES 2014-2018, Q4, SEK MILLION



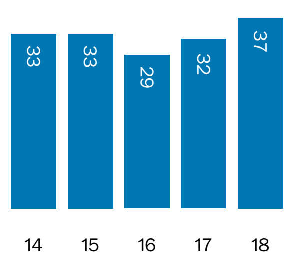
OPERATING PROFIT 2014-2018, Q1, SEK MILLION



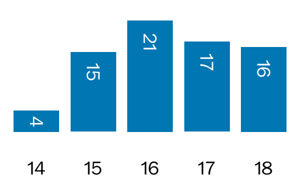
OPERATING PROFIT 2014-2018, Q2, SEK MILLION



OPERATING PROFIT 2014-2018, Q3, SEK MILLION



OPERATING PROFIT 2014-2018, 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 2018.

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, eyewear and home products. 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, Finland, the Netherlands, Belgium and Germany as well as footwear in Sweden, Finland and the Baltic countries.

BJÖRN BORG SHARE AND OWNERSHIP STRUCTURE

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 8,009 shareholders at year-end. The largest shareholder as of December 28, 2018 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 three-year, SEK 150 million loan agreement signed 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 bank has the option of terminating the agreement.

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 17, 2018 in Stockholm resolved to re-elect Christel Kinning, Fredrik Lövstedt, Mats H Nilsson and Heiner Olbrich as Directors, and elected Göran Carlson and Alessandra Cama as new Directors. The total number of Directors remains six. Martin Bjäringer and Lotta de Champs declined re-election. The AGM resolved to re-elect Heiner Olbrich as Chairman of 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 2018 the Board held five scheduled meetings, four of which were in connection with the quarterly financial reports and one by circulation in connection with the preparations for the AGM. 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 92. Note that the corporate governance report is a separate report, not part of the Board of Directors' report.

FINANCIAL OBJECTIVES

Björn Borg's long-term financial goals, which were most recently established in 2015 for the period 2015–2019, have been updated early 2019 and are as follows:

- Annual sales growth of minimum 5 percent.
- Annual operating margin of minimum 10 percent.
- An annual dividend of at least 50 percent of net profit.
- The equity/assets ratio should not fall below 35 percent (before IFRS 16 takes effect).

Comment on the financial objectives

Sales growth is expected to mainly come from sports apparel, although other product groups are also expected to grow.

DIVIDEND

The Board of Directors has decided to propose to the Annual General Meeting 2019 a distribution of SEK 2.00 (2.00) per share for the financial year 2018, corresponding to 85 percent (136) of net income. 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 share will then automatically be redeemed for SEK 2.00 per share. Payment for the redemption share, contingent on the approval of the AGM, is expected to be made around June 18, 2019.

The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50.3 million (50.3).

EVENTS IN 2018

Organization

The 25% minority share in Björn Borg Finland Oy was acquired in the first quarter for EUR 300,000. Ove Asplund, who was recruited as CEO of Björn Borg Finland Oy in January 2013, remains with the Finnish subsidiary.

During the year Jörn Walther was recruited as the new Country Manager in Germany.

In the fourth quarter Jens Nyström took over as the company's global CFO. He succeeded Daniel Grohman, who remains with the company and assumed the role of Global Business Development Director. Jens has many years of experience from similar roles, most recently as CFO of the outdoor clothing company Haglöfs.

Markets
On January 1 we transferred footwear distribution in Denmark to an external partner. Björn Borg also signed a new agreement with a distributor in Africa during the year and terminated the agreement with the distributor in Canada.

Björn Borg stores
No new stores were opened during the year, while five stores were closed: two in Sweden, one in Finland, one in Netherlands and one in Norway. At year-end there were 36 (41) Björn Borg stores, 31 (35) of which are Group-owned.

THE GROUP'S DEVELOPMENT

Net sales
The Group's net sales for the full-year 2018 amounted to SEK 709.6 million (696.5), an increase of 1.9 percent. Excluding currency effects, sales were down 1.6 percent.

As of January 1, 2018 footwear distribution in Denmark is managed by the licensee, which has negatively affected net sales by about SEK 10.5 million. Adjusted accordingly, net sales rose about 3.4 percent for the full-year.

The Swedish wholesale underwear and apparel business is developing very well and grew year-over-year by 27 percent. Growth is driven by higher sales in the sports apparel distribution segment. The Finnish company that distributes underwear and apparel declined compared with the previous year. The first quarter of 2017 was very strong in Finland thanks to a number of large new customers, which accounted for the growth. Sell-through by these customers did not kept pace with selling-in in 2017, which led to lower sales in 2018. The wholesale footwear business stopped distribution in Denmark on January 1, 2018. Distribution in Denmark is instead managed by an external partner, which led to a decrease in net sales of about SEK 10.5 million, while the Swedish, Finnish and Baltic businesses saw good growth. Retail sales in Sweden fell compared with 2017 due to two fewer stores. Sales for comparable stores rose 4.0 percent. E-commerce generated good growth of 20 percent, mainly thanks to better conversion of website traffic than the previous year. The Benelux companies reported a net sales decline of 10.3 percent compared with the previous year at both the wholesale and retail levels. The Group's own stores are down both in total and for comparable stores. The product company's external sales decreased year-over-year due to poorer performance in the Danish and Norwegian markets. External royalties increased compared with the previous year.

Profit
The gross profit margin for the full-year 2018 increased to 57.4 percent (54.0). A strong EUR combined with a slightly weaker USD during the period positively affected the margins. Adjusted for currency effects, the gross profit margin would have been 57.0 percent. Aside from currencies, the gross profit margins were positively affected by about SEK 7.5 million by changes in expense classifications, due to which more expenses are recognized as other external expenses and less as costs of goods sold. Adjusted for both currency effects and the changes in classifications, the gross profit margin was 55.9 percent. The remaining year-over-year improvement is mainly because the previous year's gross profit margin was charged with one-offs in connection with the Benelux acquisition.

Other operating revenue amounted to SEK 7.2 million (7.8) and mainly related to unrealized gains on accounts receivable in foreign currency and positively affected profit.

Operating expenses rose SEK 14.5 million compared with the previous year with the changes in expense classifications accounting for an increase of SEK 7.5 million.

Increased sales combined with the improved gross profit margin and increasing operating expenses raised operating profit to SEK 71.0 million (55.4). The operating margin was 10.0 percent (7.9).

Net financial items amounted to SEK 3.0 million (–4.0). The improvement mainly relates to the revaluation of assets and liabilities in foreign currency. Profit before tax rose to SEK 74.0 million (51.4).

Investments and cash flow
The Group's cash flow from operating activities amounted to SEK 22.8 million (53.2) in 2018. The year-over-year decrease comes from significantly higher capital tied up in inventory and accounts receivable and negatively affected cash flow for the period. Before the change in working capital, cash flow

FIVE-YEAR SUMMARY

	2018	2017	2016	2015	2014
Net sales, SEK million	709.6	696.5	631.6	574.3	538.8
Operating profit, SEK million	71.0	55.4	64.2	58.6	56.0
Operating margin, %	10.0	7.9	10.2	10.2	10.4
Profit before tax, SEK million	74.0	51.4	63.5	57.6	63.1
Profit for the year, SEK million	59.9	37.4	46.9	41.6	47.6
Earnings per share, SEK	2.39	1.48	1.88	1.79	1.94
Earnings per share after dilution, SEK	2.39	1.48	1.88	1.77	1.94
Equity/assets ratio, %	47.7	51.3	53.7	50.3	46.7
Equity per share, SEK	11.20	11.03	11.50	11.56	11.36

increased compared with the previous year.

Cash flow from investing activities was negative at SEK –15.6 million (15.5). The decrease was primarily because in 2017 the company divested the holding of corporate bonds it had previously managed. The main investments were in an existing store, development of the e-commerce platform and the company's enterprise system, as well as the acquisition of the 25% minority share in Björn Borg Finland Oy for about SEK 3 million. Total investments in tangible and intangible non-current assets amounted to SEK 13.8 million (12.8) for the period.

Financing activities generated a negative cash flow of SEK –25.3 million (–65.8). The negative flow comes from the company's distribution to shareholders of SEK 50.3 million (50.3).

The Group's cash flow for the year 2018 was negative at SEK –18.1 million (2.9) and cash & cash equivalents amounted to SEK 36.4 million (52.6) at the end of the period.

Financial position and liquidity

The Björn Borg Group's cash & cash equivalents and investments amounted to SEK 36.4 million (53.1) at the end of the period with interest-bearing liabilities of SEK 168.2 million (142.3). The company's net debt thereby amounts to SEK 131.8 million (89.2).

In April 2012 the company issued a bond loan that expired and was repaid in the second quarter of 2017. The bond loan was replaced by a three-year, SEK 150 million revolving credit from Danske Bank.

The bond portfolio that the company previously managed due to the surplus liquidity which arose from the bond loan has now been fully divested.

In addition to the revolving credit of SEK 150 million, Björn Borg has an overdraft facility of SEK 90 million from Danske Bank.

Commitments and contingent liabilities

As a commitment for the overdraft facility and three-year revolving credit, the company has pledged to ensure that the ratio between the Group's net debt and rolling 12-month operating profit before depreciation and amortization does not exceed 3.00 on the last day of each quarter. Moreover, the Group will maintain an equity/assets ratio of at least 35 percent.

As of December 31, 2018 the ratio was 1.65 (1.37) and the equity/assets ratio was 47.7 percent (51.3).

No changes were otherwise made with regard to pledged assets and contingent liabilities compared with December 31, 2017.

Transactions with related parties

No significant transactions with related parties were executed during the period.

SEGMENTS

Licensing

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

The segment's operating revenue amounted to SEK 83.8 million (52.0) for the full-year 2018. External operating revenue decreased to SEK 15.4 million (18.6) because the previous year included one-off revenue of about SEK 4.1 million related to the Benelux acquisition. Adjusted for the above, sales rose 6 percent with bags decreasing while footwear and eyewear grew from the previous year.

Operating profit decreased to SEK 13.4 million (16.3) for the full-year 2018. The decline is a result of the lower external sales in the segment.

Distributors

The segment's operating revenue amounted to SEK 494.0 million (474.2) for the full-year 2018. External operating revenue decreased to SEK 49.1 million (58.3), or by 16 percent from the previous year. Lower sales to both of our major distributor markets, Norway and Denmark, are the reason for the decrease.

Operating profit fell to SEK 14.8 million (18.3) due to the lower external sales in the segment. The gross profit margin declined slightly from the previous year. Operating expenses are lower due to the lower sales.

Wholesale

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

The segment's operating revenue amounted to SEK 468.6 million (464.2) for the full-year 2018. External operating revenue increased to SEK 466.5 million (441.4), or by 5.7 percent. One change from the previous year in the segment is that the Group no longer manages a wholesale footwear business in Denmark, which as of 2018 falls under the Licensing segment. Adjusted for Danish footwear distribution, external sales rose about 8.2 percent. Growth in the segment is largely driven by sales to e-tailers, which primarily sell online. Growth in the e-tail segment was 27 percent for the full-year 2018 and amounted to SEK 92.1 million (72.3). The Swedish wholesale business grew year-over-year in apparel, underwear and footwear. Benelux and England also rose from the previous year. Finland lost ground from the previous year, but the comparable period in 2017 was very strong thanks to a number of large new customers, which accounted for the growth. Sell-through by these customers did kept pace with selling-in in 2017, which led to lower sales in the first part of 2018. Smaller markets also lost ground compared with the previous year.

Operating profit amounted to SEK 45.6 million (34.6). The improvement is mainly due to higher gross profit margins. The previous year had lower gross profit margins because gross profit was pushed back in connection with the Benelux acquisition. Currencies also had a positive effect on margins with a stronger EUR and a weaker USD than the previous year.

Consumer Direct

The segment consists of revenue and expenses associated with the Björn Borg Group's direct sales to consumers. The Björn Borg Group owns and operates a total of 31 stores and factory outlets in Sweden, Finland, the Netherlands, Belgium and England with sales of underwear, sports apparel, adjacent products and other licensed products. In addition, Björn Borg sells online through www.bjornborg.com.

Operating revenue in the segment amounted to SEK 185.8 million (188.2) for the full-year 2018. External operating revenue amounted to SEK 185.8 million (186.0), a decrease of 0.1 percent. The decrease is due to a weak retail business, which lost 6 percent, while we are seeing strong e-commerce sales, which grew 21 percent compared with the previous year. Total sales at the retail level in Sweden fell 12 percent year-over-year due to fewer stores, while comparable stores grew 4 percent. The Benelux stores performed weakly and sales were down 7 percent both in total and for comparable stores. The Finnish stores grew 11 percent both in total and for comparable stores. The store in England was down year-over year. In total, sales for comparable stores decreased 1 percent.

The operating loss for the full-year 2018 was SEK 2.9 million, against a year-earlier loss of SEK 13.8 million. The improvement was due to higher gross profit margins than the previous year. The previous year had lower margins because gross profit was pushed back in connection with the Benelux acquisition. External operating expenses increased year-over-year mainly due to higher distribution and marketing expenses in e-commerce.

Intra-Group sales

Intra-Group sales for 2018 amounted to SEK 515.4 million (474.2).

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 percent. 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, 2017, 478,000 convertibles had been subscribed for SEK 18.2 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, 2017, 480,000 warrants had been subscribed for SEK 1.2 million.

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

The average number of employees for the full-year was 213 (212), of whom 68 (67) percent are women.

REMUNERATION GUIDELINES FOR THE CEO AND OTHER SENIOR EXECUTIVES

The Annual General Meeting on May 17, 2018 resolved that remuneration for the CEO and other members of senior management will 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 not exceed the base salary. If terminated by the company, the notice period will not exceed 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

Sustainability is a philosophy at Björn Borg, not a project. We live and operate in an industry which, by its nature, adversely affects the environment, and we have a responsibility to keep our impact as low as possible. Not just the environment but people are obviously important, and we work actively to ensure fair labor conditions for the people who manufacture our products in various parts of the world.

Sustainability is integrated in our core business and is a key element in the product development strategy. The goal is to close the circle and minimize environmental impacts through every product's lifecycle. In close collaboration with the Group's suppliers, we work continuously with social responsibility and environmental issues, including by specifying requirements through supplier agreements, a code of conduct and chemical restrictions which our suppliers must follow.

Few suppliers are used, which facilitates a regular dialogue and monitoring. 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 occupational health and safety guidelines for suppliers. Unannounced inspections are periodically conducted by independent auditing firms to ensure compliance with the code of conduct. BSCI provides participants with a common set of requirements covering working and labor standards, among other things, which makes it easier for members and suppliers to achieve improvements.

Björn Borg's products are free from hazardous chemicals. Our suppliers follow the EU's chemical regulation (REACH) and other specific requirements set by the Group, which regulate the maximum levels for specific chemicals.

Björn Borg is also a member of the Sweden Textile Water Initiative (STWI), whose vision is to catalyze a global change toward more sustainable textile and leather manufacturing. Textile manufacturing consumes vast amounts of water and at Björn Borg we are working actively to reduce our consumption through new innovative production methods.

In 2016 a foundation was laid for the rollout of Björn Borg's Sustainability Roadmap with targets and activities for each year during the period 2016-2019. One of the main targets is to manufacture 70 percent of Björn Borg's product range with sustainable fibers by 2019. No products will be made with conventional cotton. All packaging will be certified by the Forest Stewardship Council (FSC) and/or be made of recyclable material, and a maximum of 2 percent of the company's shipments will be sent by air.

In 2017 Björn Borg's first sustainable collections reached stores. With more internal training for affected employees in sustainable materials and production methods we will work diligently to further increase our share of sustainable clothing.

More information on Björn Borg's sustainability work can be found in our sustainability report and in a separate climate 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 and comprehensive 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 2018
As a policy, the company does not issue earnings forecasts.

PARENT COMPANY
Björn Borg AB (publ) is primarily engaged in intra-Group activities. During the period the company acquired the 25% minority share in Bjorn Borg Finland Oy for EUR 300,000. As of December 31, 2018 the company also owns 100 percent of the shares in Björn Borg Brands AB, Björn Borg Footwear AB, Björn Borg Inc., Björn Borg Services AB, Björn Borg UK and Bjorn Borg Finland Oy. It also owns 75 percent of the shares in Björn Borg (China) Ltd.

The Parent Company's net sales for the year amounted to SEK 106.5 million (95.8).

Profit before tax amounted to SEK 113.9 million (51.3) for the period. Cash & cash equivalents and investments amounted to SEK 2.1 million (10.8) as of December 31, 2018.

PROPOSED DISTRIBUTION OF PROFIT

The following unappropriated earnings are at disposal of the Annual General Meeting:	
Retained earnings, SEK	46,138,232
Profit for the year, SEK	100,474,768
	146,613,000
The Board proposes that:	
Shareholders receive a distribution of SEK 2.00 per share, totaling SEK	50,296,768
Carried forward, SEK	96,316,232
	146,613,000

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 2018 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 84 percent of profit after tax for the financial year 2018. Accordingly, the repayment is in line with the company's financial goals and dividend policy.

After the proposed repayment, the company has full coverage for restricted equity. The unrestricted equity in the company after the repayment and bonus issue amounts to SEK 96,316,232. Total equity after the repayment amounts to SEK 150,991,652 for the company and SEK 231,408,612 for the Group.

The Group's profit after tax for 2018 improved compared with 2017 and amounted to SEK 59,886 thousand (37,372). At the same time cash flow from operating activities declined year-over-year, mainly due to higher capital tied up in inventory and accounts receivable. The Group's cash flow from operating activities for the full-year 2018 amounted to SEK 22,763 thousand (53,179). In 2017 the company repaid its bond loan, which was refinanced by divesting the bond portfolio and through financing from Danske Bank, with which the company signed a three-year, SEK 150 million revolving credit in combination with an overdraft facility of SEK 90 million.

In the judgment of the Board of Directors, the company's and the Group's cash flow over time remains strong. 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 2019
Björn Borg AB (publ)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

SEK thousands	Note	2018	2017
Net sales		709,576	696,482
Other operating revenue		7,205	7,773
Operating revenue	4, 5	**716,781**	**704,255**
Goods for resale		–302,555	–320,211
Other external expenses		–192,161	–173,967
Staff costs		–136,761	–138,763
Depreciation/amortization of tangible/intangible non-current assets		–8,877	–9,906
Other operating expenses		–5,424	–6,041
Operating profit	4, 6, 8, 10, 11, 12, 18, 19	**71,003**	**55,367**
Total financial income	12, 14	6,715	2,213
Total financial expenses	12, 14	–3,690	–6,182
Profit after financial items		**74,028**	**51,398**
Profit before tax		**74,028**	**51,398**
Tax on profit for the year	16	–14,142	–14,026
Profit for the year		**59,886**	**37,372**
Profit for the year attributable to:			
Parent Company's shareholders		60,128	37,099
Non-controlling interests	30	–242	273
Earnings per share before dilution, SEK	17	2.39	1.48
Earnings per share after dilution, SEK	17	2.39	1.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK thousands	Note	2018	2017
Profit for the year		**59,886**	**37,372**
Components that may be reclassified to profit or loss			
Translation difference for the year		–2,312	1,220
Total other comprehensive income for the year [1]		**–2,312**	**1,220**
Total comprehensive income for the year		**57,574**	**38,592**
Total comprehensive income for the year attributable to			
Parent Company's shareholders		58,635	37,829
Non-controlling interests		–1,061	763

[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, 2018	Dec. 31, 2017
ASSETS			
Non-current assets			
Intangible assets	18		
Goodwill		34,746	35,755
Trademarks		187,532	187,532
Other intangible assets		9,956	5,066
		232,234	**228,353**
Tangible non-current assets	19		
Property, plant and equipment		15,390	15,392
		15,390	**15,392**
Deferred tax assets	16	23,228	22,530
		23,228	**22,530**
Total non-current assets		**270,852**	**266,275**
Current assets			
Inventory	21		
Trading book		132,811	104,493
Advance payments		6,753	5,277
		139,564	**109,770**
Current receivables			
Accounts receivable	22, 24	130,487	91,479
Tax assets		–	2,366
Other current receivables		2,876	2,119
Prepaid expenses and accrued income	23	10,749	15,571
		144,112	**111,534**
Short-term investments			
Short-term investments	3	–	500
		–	**500**
Cash & cash equivalents			
Cash and bank balances	7, 24	36,388	52,620
		36,388	**52,620**
Total current assets		**320,064**	**274,424**
TOTAL ASSETS		**590,916**	**540,699**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK thousands	Note	Dec. 31, 2018	Dec. 31, 2017
EQUITY AND LIABILITIES			
Equity			
Share capital		7,859	7,859
Other paid-in capital		182,145	182,145
Reserves		–7,529	–6,036
Retained earnings		105,092	92,939
Equity attributable to Parent Company's shareholders		**287,567**	**276,907**
Non-controlling interests	30	–5,862	491
Total equity		**281,705**	**277,398**
Non-current liabilities			
Deferred tax liabilities	16	42,892	42,949
Non-current liabilities to credit institutions	27	150,000	125,000
Other non-current liabilities	24	3,824	22,925
		196,716	**190,874**
Current liabilities			
Accounts payable		37,646	20,452
Current tax liabilities		11,051	–
Other current liabilities	24, 27	31,075	15,094
Accrued expenses and prepaid income	28	32,723	36,881
		112,495	**72,427**
Total liabilities		**309,211**	**263,301**
TOTAL EQUITY AND LIABILITIES		**590,916**	**540,699**

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, 2017		**7,859**	**182,145**	**–6,766**	**106,137**	**–272**	**289,103**
Total comprehensive income for the year		–	–	730	37,099	763	38,592
Transactions with shareholders							
Distribution for 2016 through share redemption	25	–3,929	–	–	–46,368	–	–50,297
Bonus issue		3,929	–	–	–3,929	–	–
Total transactions with shareholders		**0**	**–**	**–**	**–50,297**	**–**	**–50,297**
Closing balance, December 31, 2017		**7,859**	**182,145**	**–6,036**	**92,939**	**491**	**277,398**
Opening balance, January 1, 2018		**7,859**	**182,145**	**–6,036**	**92,939**	**491**	**277,398**
Total comprehensive income for the year		–	–	–1,493	60,128	–1,061	57,574
Transactions with shareholders							
Distribution for 2017 through share redemption	25	–3,929	–	–	–46,368	–	–50,297
Bonus issue		3,929	–	–	–3,929	–	–
Correction of minority share		–	–	–	4,026	–4,026	–
Acquisition of non-controlling interest		–	–	–	–1,704	–1,266	–2,970
Total transactions with shareholders		**0**	**–**	**–**	**–47,975**	**–5,292**	**–53,267**
Closing balance, December 31, 2018		**7,859**	**182,145**	**–7,529**	**105,092**	**–5,862**	**281,705**

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK thousands	Note	2018	2017
OPERATING ACTIVITIES			
Profit after tax		59,886	37,372
Income tax expensed through profit or loss		14,142	14,026
Financial expenses and income recognized through profit or loss		–3,025	3,969
Depreciation/amortization of tangible/intangible non-current assets		8,877	9,906
Other non-cash items		544	1,289
Interest received		75	2,213
Interest paid		–2,984	–4,612
Taxes paid		–829	–2,763
Cash flow from operating activities before changes in working capital		**76,686**	**61,400**
Changes in working capital			
Change in inventory		–32,230	19,348
Change in accounts receivable		39,008	–46,290
Change in other receivables		–74,037	27,709
Change in accounts payable		–17,194	–6,655
Change in other current liabilities		30,530	–2,333
Change in working capital		**–53,923**	**–8,221**
Cash flow from operating activities		**22,763**	**53,179**
INVESTING ACTIVITIES			
Acquisition of subsidiary, cash and & cash equivalents		–	2,868
Acquisition of minority share		–2,970	–
Investments in intangible assets	18	–7,264	–4,921
Investments in tangible non-current assets	19	–6,486	–7,868
Sale of short-term investments		1,112	25,417
Cash flow from investing activities		**–15,608**	**15,496**
FINANCING ACTIVITIES			
Newly raised loan		50,000	157,151
Amortization of loans		–25,000	–37,136
Bond loan repurchase		–	–135,470
Distribution	25	–50 297	–50,297
Cash flow from financing activities	32	**–25 297**	**–65,752**
CASH FLOW FOR THE YEAR		**–18 142**	**2,923**
Cash & cash equivalents at beginning of the year		52,620	48,948
Translation differences in cash & cash equivalents		1,910	749
Cash & cash equivalents at year-end		**36,388**	**52,620**
Increase/decrease in cash & cash equivalents		**16,232**	**–3,672**

PARENT COMPANY'S FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

SEK thousands	Note	2018	2017
Net sales		106,506	95,805
Other operating revenue		815	5,040
Operating revenue	5	**107,321**	**100,845**
Goods for resale		–5	–22
Other external expenses		–62,271	–54,493
Staff costs		–35,475	–35,718
Depreciation/amortization of tangible/intangible non-current assets		–1,741	–1,396
Other operating expenses		–629	–228
Operating profit	6, 7, 8, 10, 11, 18, 19	**7,200**	**8,988**
Result from shares in subsidiaries	13	50,300	48,452
Group contributions received		58,458	11,623
Total financial income	14	6,877	3,501
Total financial expenses	14	–8,344	–21,272
Profit after financial items		**114,491**	**51,292**
Appropriations	15	–609	–
Profit before tax		**113,882**	**51,292**
Tax on profit for the year	16	–13,407	–572
Profit for the year		**100,475**	**50,720**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK thousands	Note	2018	2017
Profit for the year		**100,475**	**50,720**
Other comprehensive income		**–**	**–**
Total comprehensive income for the year		**100,475**	**50,720**

PARENT COMPANY BALANCE SHEET

SEK thousands	Note	Dec. 31, 2018	Dec. 31, 2017
ASSETS			
Non-current assets			
Intangible assets	18		
Retained expenditures		5,610	1,520
		5,610	**1,520**
Tangible non-current assets	19		
Property, plant and equipment		481	1,431
		481	**1,431**
Financial non-current assets			
Deferred tax assets		16	316
Shares in Group companies	20	344,106	341,137
		344,122	**341,453**
Total non-current assets		**350,213**	**344,404**
Current assets			
Current receivables			
Accounts receivable	21	70	39
Receivables from Group companies		684,330	557,280
Tax assets		937	504
Investments	3	–	500
Other current receivables		–	24
Prepaid expenses and accrued income	23	4,787	3,669
		690,124	**562,016**
Cash & cash equivalents			
Cash and bank balances	27	2,143	10,267
		2,143	**10,267**
Total current assets		**692,267**	**572,283**
TOTAL ASSETS		**1,042,480**	**916,687**

PARENT COMPANY BALANCE SHEET

SEK thousands	Note	Dec. 31, 2018	Dec. 31, 2017
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		7,859	7,859
Share premium reserve		46,817	46,817
		54,676	**54,676**
Unrestricted equity			
Retained earnings		46,137	45,714
Profit for the year		100,475	50,720
		146,612	**96,434**
Total equity		**201,288**	**151,110**
Untaxed reserves	26	609	–
Non-current liabilities			
Non-current liabilities to credit institutions	27	150,000	125,000
Other non-current liabilities	27	3,824	22,925
		153,824	**147,925**
Current liabilities			
Accounts payable		8,570	2,203
Due to Group companies		640,514	601,130
Other current liabilities		32,108	2,193
Accrued expenses and prepaid income	28	5,567	12,126
Total current liabilities		**686,759**	**617,652**
Total liabilities		**840,583**	**765,577**
TOTAL EQUITY AND LIABILITIES		**1,042,480**	**916,687**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK thousands	Note	Share capital	Statutory reserve	Retained earnings	Total equity
Opening balance, January 1, 2017		**7,859**	**46,817**	**96,012**	**150,687**
Distribution for 2016 through share redemption	25	–3,929	–	–46,368	–50,297
Bonus issue		3,929	–	–3,929	–
Total comprehensive income for the period		–	–	50,720	50,720
Closing balance, December 31, 2017		**7,859**	**46,817**	**96,435**	**151,110**
Opening balance, January 1, 2018		**7,859**	**46,817**	**96,435**	**151,110**
Distribution for 2017 through share redemption	25	–3,929	–	–46,368	–50,297
Bonus issue		3,929	–	–3,929	–
Total comprehensive income for the period		–	–	100,475	100,475
Closing balance, December 31, 2018		**7,859**	**46,817**	**146,613**	**201,288**

PARENT COMPANY STATEMENT OF CASH FLOWS

SEK thousands	Note	2018	2017
OPERATING ACTIVITIES			
Profit after tax		100,475	50,720
Income tax expensed through profit or loss		13,407	572
Financial expenses and income recognized through profit or loss	14	1,467	17,771
Dividend from subsidiary recognized through profit or loss		–	–10,197
Depreciation/amortization of tangible/intangible non-current assets	18, 19	1,741	1,396
Impairment of shares in/receivables from subsidiaries		–	12,045
Appropriations	15	609	–
Group contributions received, unpaid		–58,458	–11,623
Dividend received from subsidiary		–	10,197
Dividends received, unpaid	13	–50,300	–50,300
Interest received		467	2,739
Interest paid		–2,852	–4,052
Taxes paid		–698	–662
Cash flow from operating activities before changes in working capital		**5,858**	**18,606**
CHANGES IN WORKING CAPITAL			
Change in accounts receivable		–31	581
Change in other receivables		–35,162	–71,560
Change in accounts payable		6,367	–574
Change in other current liabilities		46,860	81,758
Change in working capital		**18,034**	**10,205**
Cash flow from operating activities		**23,892**	**28,811**
INVESTING ACTIVITIES			
Acquisition of minority share	20	–2,970	–
Investments in tangible non-current assets	19	–192	–306
Investments in intangible non-current assets	18	–4,689	–1,542
Sale of short-term investments	3	1,112	25,417
Cash flow from investing activities		**–6,738**	**23,569**
FINANCING ACTIVITIES			
Loan proceeds		50,000	157,151
Amortization		–25,000	–26,764
Bond loan repurchase		–	–135,470
Distribution	25	–50,297	–50,297
Cash flow from financing activities	32	**–25,297**	**–55,380**
CASH FLOW FOR THE YEAR		**–8,143**	**–3,000**
Cash & cash equivalents at beginning of the year		10,267	13,330
Translation differences		–19	63
Cash & cash equivalents at year-end		**2,143**	**10,267**
Increase/decrease in cash & cash equivalents		**8,143**	**3,000**

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 OMX in Stockholm. A list of the largest individual shareholders as of December 31, 2018 is provided on page 95 of this annual report. The annual report was approved by the Board of Directors and the CEO on April 15, 2019 and adopted by the Annual General Meeting of the Parent Company on May 14, 2019.

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, 2018. 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 (SEK), 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 2018

Björn Borg applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* as of 1 January 2018. These new standards replace IAS 39 *Financial Instruments* and IAS 18 *Revenue*, respectively.

IFRS 15 introduces a new model for revenue recognition (five-step model) based on when control of a good or a service is conveyed to the customer. Björn Borg applied IFRS 15 retroactively for 2017, but the transition did not have a material effect on revenue recognition or the financial statements compared with previous periods.

IFRS 9 contains new rules on classification and impairment of financial assets as well as hedge accounting. Financial assets are classified based on the business model that the asset is managed in and its cash flow characteristics. The new classification does not entail any material differences compared with IAS 39 with respect to recognition and measurement. The new impairment model for financial assets is based on expected losses instead of actual losses, but the transition to the new impairment rules has not had a material effect on the financial statements since Björn Borg does not apply hedge accounting. Björn Borg has chosen not to apply IFRS 9 retroactively for 2017.

Other changes in IFRS standards or statements from IFRIC that are applied for the financial year 2018 have not affected the Group's financial reports either.

NEW ACCOUNTING PRINCIPLES AS OF 2019

The Group applies IFRS 16 *Leases* as of January 1, 2019. IFRS 16 introduces a "right of use" model and for the lessee means that practically all leases will be recognized in the statement of financial position. As a result, leases will not be classified as operating or finance. Depreciation of the asset and interest expenses on the liability are recognized through profit or loss. An analysis of leases within Björn Borg was completed in 2018. The leases largely relate to properties and vehicles. The Group intends to apply the simplified transition approach, modified retroactivity, and will not restate comparative amounts. Furthermore, right-of-use assets will be measured at an amount corresponding to the lease liability (adjusted for prepaid and accrued lease fees). The Group has applied the recognition exemption for short-term leases and for low-value assets. In cases where property leases within the Group contain an extension option, an assessment is made on a lease-by-lease basis whether it is reasonably certain the option will be utilized. All relevant facts and circumstances that create an economic incentive are weighed in the assessment, e.g., contract terms for extensions compared with market interest rates, significant leasehold improvements that have been made (or are expected to be made), costs that arise when the lease is terminated, such as negotiating costs and relocation costs, and the importance of the underlying asset to the company's operations. The Group's assets and liabilities are expected to increase by about SEK 150 million as of January 1, 2019 due to IFRS 16. Prepayments have decreased the liabilities with 5.3 MSEK resulting in higher assets than liabilities.

Other new or revised IFRS standards or statements from IFRIC are not expected to affect the Group's financial statements when applied for the first time.

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 20.

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 measurement 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 remeasured 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 FROM CONTRACTS WITH CUSTOMERS

The Group primarily recognizes revenue from the sale of Björn Borg products. Revenue is recognized based on the contract with the customer and measured as the consideration the company expects to have the right to in exchange for the transfer of promised services, excluding amounts which are received on behalf of third parties. Revenue is recognized when control of the goods has transferred to the customer.

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

1. *Revenue in the Distributor segment*
   The Group-owned product companies for the product areas 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, which is the point of time when controls transfers to the buyer. The distributors have no right to returns or significant volume discounts. Payment terms are normally 10 days.
2. *Revenue in the Consumer Direct segment*
   Group-owned Björn Borg stores and the web shop generate revenue for Björn Borg from sales to consumers. Retail purchases are usually made by credit or debit card. Revenue is recognized when the stores report their sales, which coincides with the point of time when control is transferred to the consumer. Provisions for returns are based on the Group's collective experience with returns and historical data.
3. *Revenue in the Wholesale segment*
   The Group-owned distribution companies for the product areas underwear and footwear generate revenue for Björn Borg from product sales to retailers. Revenue is recognized upon delivery to the retailer, which coincides with the point of time when control is transferred to the retailer. Björn Borg applies various discount structures such as key account discount and volume discount. General payment terms are 30 days, but also 60 and 90 days exist in specific cases. Björn Borg does not apply open purchase and the possibility of returns is not available.
4. *Revenue in the Licensing segment*
   Royalty revenue is generated through the sale 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 at the same time as the distributor's sale at the wholesale level.

INTEREST INCOME AND DIVIDEND REVENUE

Interest income is recognized applying the effective interest rate method. Dividend revenue is recognized when the right to receive payment has been determined.

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 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. Assets obtained through finance leases are depreciated as owned assets, with the exception of lease assets where it is unlikely Björn Borg will retain 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 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 an intangible asset and amortized over the 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 property, plant and 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.

FINANCIAL ASSETS AND LIABILITIES

Recognition in and derecognition from the statement of financial position

A financial asset or financial liability is recognized in the statement of financial position when the company becomes a party to the instrument's contractual terms. A receivable is recognized when the company has performed as agreed and there is a contractual obligation for the counterparty to pay, even if the invoice has not yet been received. Accounts receivable are recognized in the statement of financial position when the invoice has been issued. The liability is 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 statement of financial position 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 from the statement of financial position when the obligation in the agreement is fulfilled or otherwise discharged. The same applies to part of a financial liability. Acquisitions and sales of financial assets are recognized on the trade day. The trade day is the day when the company commits to buying or selling the asset.

Classification and measurement (IFRS 9 Financial instruments is applied as of January 1, 2018)
Financial assets are classified based on the business model that the asset is managed in and its cash flow characteristics. Björn Borg applies two different business models. Cash & cash equivalents, accounts receivable and other current receivables are included in the “hold to collect” model, which means that the purpose of the financial assets is to collect on contractual cash flows. Financial assets included in this business model are recognized at amortized cost. The expected maturity of accounts receivable is short, due to which they are carried at their nominal amount without discounting.

Short-term investments and derivatives are included in the business model “other,” which means that the holdings are held for trading purposes. Financial assets included in this business model are recognized at fair value through profit or loss.

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 are recognized at fair value through profit or loss if it is contingent consideration as defined by IFRS 3 Business Combinations, if it is held for trading purposes or if the liability is initially identified as a liability at fair value through profit or loss. Other financial liabilities are recognized at amortized cost.

Accounts payable are recognized at amortized cost. The expected maturity of accounts payable is short, due to which the liability is carried at the nominal amount without discounting. Interest-bearing bank loans, overdraft facilities and other loans are recognized at amortized cost according to the effective interest rate method. Any differences between the loan proceeds (net after transaction costs) and loan repayments or amortization are recognized over the life of the loans. Contingent consideration is classified and measured at fair value through profit or loss.

Impairment (IFRS 9 Financial Instruments)
The Group recognizes a loss reserve for expected credit losses on a financial asset at amortized cost or fair value through other comprehensive income, for a lease receivable and for a contract asset. On each reporting date the Group recognizes in profit or loss the change in expected credit losses since initial recognition.

Expected credit losses are measured in a way that reflects an objective and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money and reasonable verifiable information on current conditions and forecasts of future economic conditions.

For accounts receivable, simplifications allow the Group to directly recognize lifetime expected credit losses for the asset. For all other financial assets, the loss reserve amounts to 12-month expected credit losses. For financial assets for which there has been a significant increase in credit risk since initial recognition, a reserve is recognized based on lifetime credit losses for the asset.

The Group’s exposure to credit risk is primarily attributable to accounts receivable. The simplified approach is used to calculate credit losses on the Group’s accounts receivable. Expected credit losses are calculated through an individual assessment of each customer based on the customer’s solvency, expected future risk and the value of any collateral received. The expected credit losses for accounts receivable are calculated with the help of a provision matrix based on previous events, current conditions and forecasts of future economic conditions and the time value of money if applicable.

Impairment of accounts receivable and other receivables is recognized in operating expenses. Impairment of cash & cash equivalents and Other long-term securities holdings is recognized as a financial expense.

The Group defines defaults as cases where it is unlikely that the counterparty will meet its commitments, which is demonstrated through signs of financial difficulties such as missed payments. Regardless, an asset is considered in default if payment is overdue more than 90 days. The Group writes off a receivable when its assessment is that there is no reasonable further possibility of cash flows.

Classification and measurement (IAS 39 Financial Instruments) is applied through 31 December 2017.

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 primary purpose of selling or repurchasing in the short term. The Group’s financial assets held for trading consist of derivatives.

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. The expected 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 expected loss. Provisions for expected impaired receivables are based on an individual assessment of each customer given their solvency, estimated future risk and the value of any collateral received. Impairment of accounts receivable is recognized in operating expenses. Translations to SEK are based on closing day exchange rates.

Cash & cash equivalents
Cash & cash equivalents consist of cash and demand deposits. Cash and bank deposits are recognized at nominal amounts.

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 the nominal amount without discounting. Liabilities to credit institutions, funding, 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 expected maturity of more than one year, while current liabilities have a maturity of less than one year.

Amortized cost and effective interest rate
The amortized cost of a financial asset is the amount at which the financial asset is initially recognized less the principal, plus the cumulative amortization using the effective interest rate method of any difference between the principal and outstanding principal, adjusted for any impairment. The recognized gross value of a financial asset is amortized cost of a financial asset before adjustments for any loss reserves.

Financial liabilities are recognized at amortized cost using the effective interest rate method or at fair value through profit or loss. The effective interest rate is the rate at which the discounting of all future expected cash flows over their expected maturity results in the initial carrying amount of the financial asset or the 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.

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 January 1, 2018 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 are effective on or after January 1, 2019, are not expected to have a material effect on the Parent Company's results or financial position.

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, 2018 was SEK 23,228 thousand (22,530). The portion of the tax assets which refers to tax loss carryforwards in the balance sheet is the value that is dependent on future profits in the companies and markets with the historical losses. The valuation of this asset is based on management's assessment of the ability of these units to generate profits and, consequently, utilize the deductions. There are other tax loss carryforwards as well which are not recorded in the accounts but whose value could increase if these units perform better than expected or decrease if they underperform. For more information, see Note 16.

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 18. The carrying amount for trademarks and goodwill as of December 31, 2018 amounted to SEK 222,278 thousand (223,287).

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, i.e., 2017 was the first year that no contingent consideration was paid. The contingent consideration was divided into a fixed and a variable portion. The fixed portion, corresponding to SEK 7,800 thousand per year, was recognized as part of the cost because it could be reliably determined, while the variable portion was recognized as an operating expense on an annual basis. The variable portion was 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 was discounted to present value, because of which the total cost of the trademark amounted to SEK 187,532 thousand. 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.

Accounts receivable
Accounts receivable are assets with fixed payments. They are tied to the Group's deliveries of goods and services and are dependent on their quality, and are measured at amortized cost. The receivables are recognized at the amounts that are expected to be received after deducting impaired receivables. The value of impaired receivables is assessed individually by management together with the operations in question. The indicators used to assess the value of impaired receivables are age analysis, payment history, the counterparty's financial strength and the dialogue with the counterparty. Actual outcomes of future sales prices and costs to implement the sale may deviate from assessments and estimates that have been 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 and EUR, where USD affects the cost of goods, while EUR primarily affects sales and overhead. The Group's transaction risk arises because Björn Borg mainly sells in SEK and EUR and buys primarily in USD, but to some extent in EUR as well. About 6 percent (7) of the Group's sales is in USD, which eliminates a portion of the transaction risk. Björn Borg did not use any derivatives to manage this currency risk in 2018. Realized and unrealized exchange rate differences affected operating profit negatively by SEK 1,185 thousand (-145) during the year.

Financial transaction exposure refers to the exposure attributable to loans and investments in foreign currency. Björn Borg has previously invested in corporate bonds in foreign currency. Since the bond loan has been fully repaid and the bond portfolio fully divested, the remaining financial transaction exposure consists of cash & cash equivalents in foreign currency.

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, GBP and CNY. Björn Borg has chosen not to hedge the translation exposure. The exposure as of December 31, 2018 amounted to EUR –1,510 thousand (–2,050), USD –1,190 thousand (–1,190), GBP –4,420 thousand (–4,520) and CNY –5,130 (–4,720).

SENSITIVITY ANALYSIS
Commercial transaction exposure
In 2018 the Björn Borg Group was affected by both a stronger euro and a stronger dollar than in 2017.

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. The exposure to USD decreased year-over-year since the Björn Borg Group purchased a larger share in EUR in 2018 compared with 2017, because of which the commercial transaction exposure has changed fairly significantly from previous years. The effect of a change in the USD still has a marginal effect on sales, however, but a strong impact on operating profit and equity since the cost of goods sold is affected by the US dollar's fluctuation as about 61 percent (89) of purchases is in USD. The net effect of a change in EUR has a significant impact on sales since nearly half of the Group's sales is in EUR and a strong impact on operating profit and equity mainly thanks to higher sales. Several other factors also affect the transaction exposure going forward, including each operating segment's share of total sales, distribution and marketing costs and what the exchange rate is at the point when the products are shipped.

Björn Borg has not used 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

2018	%	Estimated effect on revenue, %	Estimated effect on operating profit, %	Estimated effect on equity, %
Stronger USD vs. SEK	10	0.4	–21.8	–4.3
Weaker USD vs. SEK	–10	–0.4	21.8	4.3
Stronger EUR vs. SEK	10	4.6	15.5	5.9
Weaker EUR vs. SEK	–10	–4.6	–15.5	–5.9

ESTIMATED CURRENCY EFFECT

2017	%	Estimated effect on revenue, %	Estimated effect on operating profit, %	Estimated effect on equity, %
Stronger USD vs. SEK	10	0.7	–42.9	–6.7
Weaker USD vs. SEK	–10	–0.7	42.9	6.7
Stronger EUR vs. SEK	10	5.1	40.6	9.2
Weaker EUR vs. SEK	–10	–5.1	–40.6	–9.2

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

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

2018	%	Estimated effect on profit, SEK thousands	Estimated effect on equity, SEK thousands
EUR	+/–10	+/–2,376	+/–1,853
USD	+/–10	+/–59	+/–46
GBP	+/–10	+/–643	+/–502
NOK	+/–10	+/–1	+/–0

ESTIMATED CURRENCY EFFECT

2017	%	Estimated effect on profit, SEK thousands	Estimated effect on equity, SEK thousands
EUR	+/–10	+/–1,555	+/–1,213
USD	+/–10	+/–104	+/–81
GBP	+/–10	+/–274	+/–214
NOK	+/–10	+/–33	+/–26

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

2018	%	Estimated effect on equity, SEK thousands
EUR	+/–10	+/–2,000
USD	+/–10	+/–1,000
GBP	+/–10	+/–5,000
CNY	+/–10	+/–1,000

ESTIMATED CURRENCY EFFECT

2017	%	Estimated effect on equity, SEK thousands
EUR	+/–10	+/–2,000
USD	+/–10	+/–1,000
GBP	+/–10	+/–5,000
CNY	+/–10	+/–1,000

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). Since the entire bond portfolio, where Björn Borg had investments of SEK 500 thousand as of December 31, 2017, has been divested, there is no price risk in the Group.

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 from funding in the form of bond loans and overdraft facilities.

As of December 31, 2018 interest-bearing assets in the form of bank balances amounted to SEK 36,388 thousand (52,620). 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.

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 +/–350 thousand (480) on the closing day, based on average interest-bearing assets in 2018. The effect on equity would have been about SEK +/–270 thousand (270).

Moreover, there is an interest rate risk associated with the credit facility of SEK 150 million and overdraft facility of SEK 90 million Björn Borg obtained from Danske Bank. The interest rate is variable and corresponds to the 3-month STIBOR plus a margin. As of December 31, 2018 Björn Borg had utilized SEK 150 million of its credit facilities. An increase in the 3-month STIBOR of 1 percentage point, all else being equal, would increase Björn Borg's interest expenses by SEK 1,500 thousand per year (1,250). A decrease of 1 percentage point would result in a corresponding decrease given that STIBOR is not negative. Equity would be affected correspondingly by about SEK +/–1,170 thousand (975).

In addition to the above credit facilities, 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 181 thousand (172). As a result, the Group's total interest expense would be affected by a one percentage point change by SEK 1,681 thousand (1,422) and equity by SEK 1,311 thousand (1,109).

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. The following table shows the Björn Borg Group's credit risks as of December 31, 2018.

THE BJÖRN BORG GROUP'S OUTSTANDING CREDIT RISK AS OF DEC. 31, 2018

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Accounts receivable	130,487	91,479	70	39
Other current receivables	2,876	2,119	–	24
Investments	–	500	–	500
Cash and bank balances	36,388	52,620	2,143	10,267
	169,751	**146,718**	**2,213**	**10,830**

Björn Borg has divested its entire bond portfolio and therefore no longer has any holdings, as indicated in the following table.

THE BJÖRN BORG GROUP'S OUTSTANDING CREDIT QUALITY AS OF DEC. 31, 2018

	BBB	BB	B	Nonrated	Total
Företagsobligationer	–	–	–	–	–
Derivatinstrument	–	–	–	–	–
	–	**–**	**–**	**–**	**–**

THE BJÖRN BORG GROUP'S OUTSTANDING CREDIT QUALITY AS OF DEC. 31, 2017

	BBB	BB	B	Nonrated	Total
Företagsobligationer	–	–	–	500	500
Derivatinstrument	–	–	–	–	–
	–	**–**	**–**	**500**	**500**

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 previous bond loan, which has now been fully divested, has been replaced by a three-year revolving credit of SEK 150 million with Danske Bank. In addition to the revolving credit, Björn Borg has an overdraft facility of SEK 90 million with Danske Bank. As a commitment for the overdraft facility and the three-year revolving credit, the company has pledged 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. Further, the Group shall at any given time maintain an equity/assets ratio of at least 35 percent.

Maturity structure of the Björn Borg Group's outstanding receivables and liabilities as of Dec. 31, 2018 (contractual and undiscounted cash flows):

MATURITY STRUCTURE OF THE BJÖRN BORG GROUP'S OUTSTANDING ASSETS AND LIABILITIES AS OF DEC. 31, 2018

Dec. 31, 2018	Up to 3 mos.	3–12 mos.	1–5 yrs.	Over 5 yrs.
Accounts receivable	130,487	–	–	–
Other receivables	2,876	–	–	–
Investments	–	–	–	–
Cash and bank balances	36,388	–	–	–
Other liabilities	–	74,849	–3,824	–
Accounts payable	–37,646	–	–	–
Non-current liabilities to credit institutions	–	–	–150,000	–
Total	**132,105**	**74,849**	**–153,824**	**–**

MATURITY STRUCTURE OF THE BJÖRN BORG GROUP'S OUTSTANDING ASSETS AND LIABILITIES AS OF DEC. 31, 2017

Dec. 31, 2017	Up to 3 mos.	3–12 mos.	1–5 yrs.	Over 5 yrs.
Accounts receivable	91,479	–	–	–
Other receivables	2,119	–	–	–
Investments	–	–	500	–
Cash and bank balances	52,620	–	–	–
Other liabilities	–	–51,975	–22,925	–
Accounts payable	–20,452	–	–	–
Non-current liabilities to credit institutions	–	–	–125,000	–
Total	**125,765**	**–51,975**	**–147,425**	**–**

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 components included in the reserves are shown in consolidated statement of changes in equity. See also Notes 17 (Earnings per share), 24 (Financial assets and liabilities) and 25 (Dividend per share).

As a commitment for the overdraft facility and the three-year revolving credit, the company has pledged 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. Further, the Group shall at any given time maintain an equity/assets ratio of at least 35 percent. As of December 31, 2018 the ratio was 1.65 (1.40) and the equity/assets ratio was 47.7 percent (51.3).

NOTE 4 SEGMENT REPORTING

SEK thousands	Wholesale	Consumer Direct	Distributors	Licensing	Total	Eliminations	Group
Revenue							
External sales	466,485	185,788	49,102	15,406	716,781	–	716,781
Internal sales	2,136	13	444,907	68,363	515,419	–515,419	–
Total revenue	**468,621**	**185,801**	**494,010**	**83,769**	**1,232,200**	**–515,419**	**716,781**
Operating profit	**45,646**	**–2,867**	**14,797**	**13,426**	**71,003**	**–**	**71,003**
Total financial income							6,715
Total financial expenses							–3,690
Profit before tax							**74,028**
Non-current assets	427,062	98,827	45,309	13,384	584,582	–313,730	270,852
Inventory	141,479	35,489	–	–	176,968	–37,404	139,564
Other current assets	2,333,530	547,370	210,649	39,298	3,130,847	–2,950,348	180,500
Total assets	**2,902,072**	**681,685**	**255,958**	**52,682**	**3,892,397**	**–3,301,482**	**590,915**
Other liabilities	2,344,934	530,698	204,886	34,276	3,114,795	–2,805,584	309,211
Total liabilities	**2,344,934**	**530,698**	**204,886**	**34,276**	**3,114,795**	**–2,805,584**	**309,211**
Investments in tangible and intangible non-current assets	6,146	7,179	384	121	13,831	–80	13,751
Depreciation/amortization	–4,216	–4,919	–147	–43	–9,325	448	–8,877

SEK thousands	Wholesale	Consumer Direct	Distributors	Licensing	Total	Eliminations	Group
Revenue							
External sales	441,414	185,973	58,292	18,575	704,255	–	704,255
Internal sales	22,756	2,194	415,859	33,435	474,243	–474,243	–
Total revenue	**464,170**	**188,167**	**474,151**	**52,010**	**1,178,497**	**–474,243**	**704,255**
Operating profit	**34,647**	**–13,841**	**18,266**	**16,294**	**55,367**	**–**	**55,367**
Total financial income							2,213
Total financial expenses							–6,182
Profit before tax							**51,398**
Non-current assets	411,621	98,253	56,305	16,295	582,474	–316,199	266,275
Inventory	105,399	35,806	–	–	141,204	–31,435	109,769
Other current assets	1,935,635	465,496	249,017	43,239	2,693,388	–2,528,734	164,654
Total assets	**2,452,654**	**599,556**	**305,322**	**59,533**	**3,417,065**	**–2,876,368**	**540,699**
Other liabilities	1,976,169	457,167	244,061	37,022	2,714,418	–2,451,118	263,301
Total liabilities	**1,976,169**	**457,167**	**244,061**	**37,022**	**2,714,418**	**–1,996,203**	**263,301**
Investments in tangible and intangible non-current assets	3,560	9,007	176	56	12,800	–	12,800
Depreciation/amortization	–4,588	–6,101	–176	–42	–10,908	1,002	–9,906

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.

Björn Borg changed its segment reporting as of the first quarter of 2018. The reason for the change is that the company has become much more integrated after the Benelux acquisition, which made the previous reporting method obsolete. The new segments correspond to the company's primary revenue sources: Wholesale, Consumer Direct, Distributors and Licensing, which is also how the business is monitored internally in the Group. Comparative figures for 2017 have been restated and are comparable with the new segmentation.

WHOLESALE

The segment consists of revenue and expenses associated with the Björn Borg Group's wholesale operations. The Group has wholesale operations in Sweden, Finland, the Netherlands, Belgium, Germany and England for apparel and underwear as well as in Sweden, Finland and the Baltic countries for footwear.

CONSUMER DIRECT

The segment consists of revenue and expenses associated with the Björn Borg Group's direct sales to consumers through its own concept stores and outlets as well as online.

DISTRIBUTORS

The Distributors segment mainly consists of revenue and expenses associated with sales to external distributors of product groups developed by the company.

LICENSING

The Licensing segment mainly consists of royalty revenue from licensees and expenses for the Group associated with the licensing operations.

RECONCILIATION BETWEEN OPERATING PROFIT AND PROFIT FOR TAX PURPOSES

The difference between operating profit for segments for which information is disclosed, SEK 71,003 thousand (55,367), and profit before tax, SEK 74,028 thousand (51,398), is net financial items, SEK 3,025 thousand (–3,969).

INTERNAL PRICING

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

ELIMINATIONS

The column for eliminations refers strictly to internal transactions.

GEOGRAPHICAL AREAS

	Sweden		Netherlands		Finland		Other		Group	
SEK thousands	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	264,686	225,315	175,933	168,770	114,608	123,371	154,349	179,026	709,576	696,482
Assets	211,759	167,630	140,753	125,562	91,691	91,785	123,485	133,192	567,688	518,169
Investments	5,833	5,328	6,185	6,079	953	773	779	620	13,751	12,800

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

NOTE 5 REVENUE DISTRIBUTION

NET SALES AND OTHER OPERATING REVENUE

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Goods	694,170	677,362	–	–
Trademarks/royalties	15,406	19,120	–	–
Other operating revenue	7,205	7,773	107,321	100,845
Total revenue	**716,781**	**704,255**	**107,321**	**100,845**

The Parent Company includes other operating revenue of SEK 815 thousand (5,040), largely consisting of re-invoicing of expenses.

NOTE 6 OTHER EXTERNAL EXPENSES

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Premises	48,146	48,376	10,262	10,451
Selling expenses	46,097	37,841	3,403	2,797
Marketing expenses	59,437	46,737	32,345	26,168
Administrative expenses	27,532	30,419	12,630	12,372
Other	10,949	10,594	3,631	2,705
	192,161	**173,967**	**62,271**	**54,493**

NOTE 7 CASH AND CASH EQUIVALENTS

	Group	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Cash and bank balances 2018 2017	36,388	52,620
	36,388	**52,620**

The company has cash and cash equivalents in Swedish banks with a rating of at least A. The credit reservation is calculated according to the general model assuming low credit risk. Given the short maturity and stable counterparties, the expected future losses are immaterial and therefore no reserve for future losses is reported.

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	2018	2017	2018	2017
Wages, salaries and other compensation	100,865	105,672	21,393	20,890
Social security contributions	23,861	21,387	7,497	8,851
Pension costs	8,827	7,251	3,013	2,892
Total	**133,553**	**134,310**	**31,903**	**32,633**

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

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Board, CEO and other senior executives	13,476	12,427	12,240	11,223
Other employees	87,389	93,246	9,153	9,667
Total	**100,865**	**105,673**	**21,393**	**20,890**

AVERAGE NUMBER OF EMPLOYEES [1]

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Women	143	143	24	21
Men	70	69	8	8
Total	**213**	**212**	**32**	**29**

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

GENDER DISTRIBUTION AMONG DIRECTORS AND SENIOR EXECUTIVES

Koncernen	2018		2017	
SEK thousands	Men	Women	Men	Women
Board	4	2	4	2
Other senior executives	5	3	4	3
Total	**9**	**5**	**8**	**5**

COMPENSATION AND OTHER BENEFITS TO DIRECTORS

	2018		2017	
SEK thousands	Board fees	Other compensation	Board fees	Other compensation
Chairman of the Board				
Heiner Olbrich	410	82	375	82
Other Directors:				
Mats H Nilsson	175	96	150	96
Alessandra Cama	175	–	–	–
Fredrik Lövstedt	175	–	150	–
Martin Bjäringer	–	–	150	–
Christel Kinning	175	55	150	55
Lotta De Champs	–	–	150	–
Göran Carlsson	175	–	–	–
Total	**1,285**	**233**	**1,125**	**233**

COMPENSATION AND OTHER BENEFITS TO SENIOR EXECUTIVES 2018

SEK thousands	Base salary	Variable compensation	Pension	Severance	**Total**
CEO	3,760	330	913	206	**5,209**
Other senior executives	7,228	640	1,432	202	**9,502**
Total	**10,988**	**970**	**2,345**	**408**	**14,711**

COMPENSATION AND OTHER BENEFITS TO SENIOR EXECUTIVES 2017

SEK thousands	Base salary	Variable compensation	Pension	Severance	**Total**
CEO	3,631	65	892	181	**4,769**
Other senior executives	6,972	401	1,368	131	**8,871**
Total	**10,603**	**466**	**2,260**	**312**	**13,640**

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 1,518 thousand (1,358) in 2018. The Chairman received SEK 410 thousand (375), while other Directors received SEK 175 thousand (150) 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 (43) in 2018 and the members of the Audit Committee received a total of SEK 190 thousand (190). All compensation is pursuant to the Board compensation resolved by the AGM.

Compensation to the CEO
Björn Borg's CEO received salary and other remuneration of SEK 3,760 thousand (3,631), in addition to variable compensation of SEK 330 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 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 Heiner Olbrich and Mats H Nilsson, and approved by the Board. The CEO's holding of shares and warrants is described below.

Compensation to other senior executives
Senior executives refer to the Group Management. Aside from the CEO, Group Management consisted of seven other executives in 2018. The average number of other senior executives during the year excluding the deputy CEO was seven. Base salaries paid to senior executives amounted to SEK 7,228 thousand (6,972) in 2018, in addition to which they receive variable compensation if the Group's sales and results exceed the Board's established budget. Variable compensation for 2018 amounted to SEK 640 thousand (401). One senior executive receives commission-based variable compensation that can exceed base salary, which is an exception to the established guidelines. 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 2018 amounted to SEK 1,432 thousand (1,368). 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, 2018

SEK thousands	No. of shares
Fredrik Lövstedt	1,050,040
Mats H Nilsson	1,638,440
Christel Kinning	–
Göran Carlson	73,500
Heiner Olbrich	–
Alessandra Cama	–
CEO	100,000
Other senior executives	39,273
Total number of shares	**2,901,253**

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 2018 amounted to SEK 8.8 million (7.3).

CONVERTIBLE DEBENTURES
Björn Borg issued convertible debentures on June 16, 2015 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 2018 was SEK 257.9 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 456,000, 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 remeasured 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, 2018. The distribution between the liability portion and the equity portion is as follows:

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Nominal value convertible debentures	18,155	18,155
Less equity portion	–1,209	–1,209
Accrued interest	1,521	1,179
Paid interest	–489	–478
Recognized liability	**17,978**	**17,647**

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 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 1.9 percent. Björn Borg has received market-rate consideration for the warrants of SEK 2.50 per warrant, corresponding to total proceeds received of SEK 1,209 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 issued warrants.

WARRANTS

	2018		2017	
	No. of warrants	Average exercise price in SEK per warrant	No. of warrants	Average exercise price in SEK per warrant
As of January 1	**520,000**	**37.96**	**520,000**	**37.96**
Issued	–	–	–	–
Forfeited	–	–	–	–
Exercised	–	–	–	–
Expired	–	–	–	–
As of December 31	**520,000**	**37.96**	**520,000**	**37.96**

NOTE 9 RELATED PARTY TRANSACTIONS

In 2015 Björn Borg introduced a warrant program for senior management and a convertible program for all employees. 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 2018.

PARENT COMPANY'S TRANSACTIONS WITH SUBSIDIARIES

	Group	
SEK thousands	2018	2017
Sales to subsidiaries	106,124	96,000
Purchase from subsidiaries	2,908	3,168

The parent company's sales to subsidiaries mainly consist of remuneration to cover common costs for rents, central administration, common systems and marketing services.

The parent company's purchases from subsidiaries mainly consist of marketing products.

NOTE 10 AUDITORS' FEES

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Deloitte AB				
Statutory audit	1,668	1,321	589	589
Other attestation services	200	200	200	200
Tax advisory services	55	167	55	167
Other services	14	40	–	–
	1,937	**1,728**	**844**	**956**
Other accounting firms				
Statutory audit	83	92	–	–
	83	**92**	**–**	**–**
Total	**2,021**	**1,820**	**844**	**956**

NOTE 11 OPERATING LEASES

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Rental and lease expenses during the year amount to	46,419	46,551	9,325	10,240
Future lease fees amount to				
– within 1 year	44,536	46,762	9,496	10,145
– later than 1 year but within 5 years	186,445	195,952	39,763	42,474
Total	**277,400**	**289,265**	**58,584**	**62,859**

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 2018 and 2017 was immaterial.

As of the closing day, December 31, 2018 and December 31, 2017, the Björn Borg Group had no finance leases.

NOTE 12 NET PROFIT/LOSS FOR EACH CATEGORY OF FINANCIAL INSTRUMENT

	Group	
SEK thousands	2018	2017
Accounts and loans receivable	–	–295
Assets at amortized cost	7,435	–
Financial assets at fair value through profit or loss	–	914
Financial assets at fair value through profit or loss (financial income)	612	–
Financial liabilities at amortized cost	–	–889
Financial liabilities at amortized cost (financial expenses)	–275	–
Total	**7,772**	**–270**

NOTE 13 RESULT FROM SHARES IN SUBSIDIARIES

SEK thousands	Parent Company 2018	2017
Anticipated dividend	50,300	50,300
Dividend from subsidiary	–	10,197
Impairment of shares and receivables in subsidiaries	–	–12,045
	50,300	**48,452**

NOTE 14 NET FINANCIAL ITEMS

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Change in exchange rates	6,028	–	1,846	–
Interest income [1]	75	1,299	4,419	2,587
Other financial income [2]	612	914	612	914
Total financial income	**6,715**	**2,213**	**6,877**	**3,501**
Change in exchange rates	–	–1,038	–	–
Interest expenses [1]	–3,640	–5,011	–8,294	–21,235
Other financial expenses [2]	–50	–133	–50	–37
Total financial expenses	**–3,690**	**–6,182**	**–8,344**	**–21,272**
Net financial items	**3,025**	**–3,969**	**–1,467**	**–17,771**

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 2 million (1,144) related to assets measured at fair value.

2 Of which SEK 612 thousand (914) relates to unrealized changes in short-term investments at fair value through profit or loss.

NOTE 15 APPROPRIATIONS

SEK thousands	Parent Company 2018	2017
Appropriations		
Change in accelerated depreciation/amortization	–609	–
	–609	**–**

NOTE 16 TAXES

TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
SEK thousands	2018	2017	20187	2017
Current tax on profit for the year	–14,136	–4,575	–13,106	–757
Deferred tax expense	–6	–9,451	–301	185
Total recognized tax expense	**–14,142**	**–14,026**	**–13,407**	**–572**

TAX RATE RECONCILIATION

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Recognized profit before tax	74,028	51,398	113,882	51,292
Tax according to current tax rate in Sweden	–16,286	–11,308	–25,054	–11,284
Tax effect of:				
Non-deductible expenses	–1,586	–2,934	–580	–2,829
Tax-exempt income	2,862	2,051	11,992	13,541
Effect of tax rates in other countries	83	575	–	–
Effect of unrecognized tax loss carryforwards	–35	–2,670	–	–
Utilized tax loss carry-forwards where undeferred tax is taken into account	527	260	–	–
Tax related to previous years	293	–	235	–
Recognized tax expense	**–14,142**	**–14,026**	**–13,407**	**–572**

DEFERRED TAXES

SEK thousands	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Deferred tax assets recognized in the balance sheet				
Short-term investments	–	447	–	316
Property, plant and equipment	131	–	16	–
Finland	–	–256	–	–
Internal gain on inventory	9,036	7,607	–	–
License	2,144	3,306	–	–
Tax loss carryforwards	11,917	11,426	–	–
Total deferred tax assets	**23,228**	**22,530**	**16**	**316**
Deferred tax liabilities recognized in the balance sheet				
Trademarks	41,256	41,256	–	–
Short-term investments	–	131	–	–
Finland	435	447	–	–
Untaxed reserves	1,201	1,115	–	–
Total deferred tax liabilities	**42,892**	**42,949**	**–**	**–**

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 11,917 thousand (11,426). The taxable value of these tax loss carryforwards is SEK 48,030 thousand (46,150). The expiration dates for the previous losses fall between 2021 and 2026. The taxable value of tax loss carryforwards for which deferred tax assets have not been recognized in the balance sheet amounts to SEK 144,790 thousand (142,047) as of December 31, 2018 and is attributable to the operations in the US, the Netherlands, Belgium, Finland and the UK. No deferred tax assets have been recognized for these tax loss carryforwards because these units have historically recognized tax losses and 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 23,426 thousand (26,073). The majority of these deficits do not expire.

NOTE 17 EARNINGS PER SHARE

SEK thousands	Earnings per share 2018	Earnings per share 2017	Earnings per share after dilution 2018	Earnings per share after dilution 2017
Earnings				
Earnings attributable to Parent Company's shareholders	60,128	37,099	60,128	37,099
Weighted average number of common shares for calculation of earnings per share after dilution	**25,148,384**	**25,148,384**	**25,148,384**	**25,148,384**
Earnings per share	**2.39**	**1.48**	**2.39**	**1.48**

SEK thousands	2018	2017
Earnings per share, SEK	2.39	1.48
Earnings per share, SEK (after dilution)	2.39	1.48
Number of shares	25,148,384	25,148,384
Number of shares, weighted average	25,148,384	25,148,384
Effect of dilution	–	–
Number of shares, weighted average (after dilution)	25,148,384	25,148,384

Earnings per share before dilution is calculated by 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 18 INTANGIBLE ASSETS

GROUP

SEK thousands	Note	Dec. 31, 2018	Dec. 31, 2017
Goodwill			
Accumulated cost			
Opening balance		35,755	19,292
Acquisition of subsidiary		–	15,890
Adjustment acquisition price Baseline	31	–1,829	–
Translation differences for the year		820	573
Carrying amount at year-end		**34,746**	**35,755**

Cont. Note 18

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Trademarks		
Accumulated cost		
Opening balance	187,532	187,532
Carrying amount at year-end	**187,532**	**187,532**
Licenses		
Accumulated cost		
Opening balance	1,448	1,407
Investments	–	–
Translation differences for the year	–	41
Closing balance	**1,448**	**1,448**
Accumulated amortization		
Opening balance	–1,448	–1,110
Amortization for the year	–	–276
Translation differences for the year	–	–62
Closing balance	**–1,448**	**–1,448**
Carrying amount at year-end	**–**	**–**
Tenancy rights		
Accumulated cost		
Opening balance	1,725	1,725
Closing balance	**1,725**	**1,725**
Accumulated amortization		
Opening balance	–1,725	–1,725
Closing balance	**–1,725**	**–1,725**
Carrying amount at year-end	**–**	**–**

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Capitalized expenditure for software		
Accumulated cost		
Opening balance	15,044	8,375
Reclassification	–	–328
Acquisition of subsidiary	–	2,024
Investments	7,264	4,932
Disposals and discontinued operations	–	–
Translation differences for the year	427	41
Closing balance	**22,735**	**15,044**
Accumulated amortization		
Opening balance	–9,978	–7,004
Reclassification	–	328
Disposals and discontinued operations	–	–
Amortization for the year	–2,460	–2,898
Translation differences for the year	–341	–404
Closing balance	**–12,779**	**–9,978**
Carrying amount at year-end	**9,956**	**5,066**

PARENT COMPANY

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Capitalized expenditure for software		
Accumulated cost		
Opening balance	3,733	2,191
Investments	4,692	1,542
Disposals and discontinued operations	–	–
Closing balance	**8,425**	**3,733**
Accumulated amortization		
Opening balance	–2,213	–1,998
Amortization for the year	–602	–215
Disposals and discontinued operations	–	–
Closing balance	**–2,815**	**–2,213**
Carrying amount at year-end	**5,610**	**1,520**

IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS

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

There are also intangible non-current assets in the form of trademarks where the cash-generating unit is Björn Borg Brands AB. The distribution is as follows:

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Goodwill		
Björn Borg Brands AB	9,330	9,330
Björn Borg Clothing AB	657	657
Björn Borg Footwear AB	3,956	3,956
Björn Borg Finland OY	5,688	5,922
Baseline BV	15,115	15,890
	34,746	**35,755**
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. The 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 2019 for each unit. Cash flows are subsequently based on annual growth projections for revenue and costs over a five-year period. Management bases the growth projections in the forecast period on previous outcomes and discussions with subsidiaries, distributors and licensees on their future expectations. Impairment tests conducted as of December 31, 2018 applied approximately an 8 percent (8) discount rate after tax and assumed annual growth of 1 percent (1) for the period beyond the forecast horizon. This growth rate is a cautious assumption as of December 31, 2018 based on current economic conditions in the markets mainly in Europe where Björn Borg has operations. The forecast period stretches from 2019 to 2023, i.e., a five-year period.

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 for both trademarks and goodwill items in the above table. The assumed discount rate and projected growth in free cash flow in the forecast period are presented in the table below.

If the assumed growth rate beyond the forecast horizon 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 for trademarks or goodwill either.

2018	Trade-marks	Brands	Clothing	Footwear	Finland	Baseline
Forecast period, years	5	5	5	5	5	5
WACC after tax, %	8	8	8	8	8	8
WACC before tax, %	10	10	10	10	10	10
Growth in free cash flow, %	4	4	3	3	-3	3

2017	Trade-marks	Brands	Clothing	Footwear	Finland	Baseline
Forecast period, years	5	5	5	5	5	5
WACC after tax, %	8	8	8	8	8	8
WACC before tax, %	10	10	10	10	10	10
Growth in free cash flow, %	5	5	3	3	-8	3

NOTE 19 TANGIBLE NON-CURRENT ASSETS

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Accumulated cost				
Opening balance	48,660	38,078	11,214	10,912
Reclassification	–	–1,352	–	–4
Acquisition of subsidiary	–	4,707	–	–
Investments	6,486	7,868	189	306
Sales and disposals	–544	–2,736	–	–
Translation differences for the year	3,221	2,095	–	–
Closing balance	**57,823**	**48,660**	**11,403**	**11,214**
Accumulated depreciation				
Opening balance	–33,268	–28,801	–9,783	–8,606
Reclassification	–	1,352	–	4
Sales and disposals	–	2,717	–	–
Depreciation for the year	–6,417	–6,732	–1,139	–1,181
Translation differences for the year	–2,748	–1,804	–	–
Closing balance	**–42,433**	**–33,268**	**–10,922**	**–9,783**
Carrying amount at year-end	**15,390**	**15,392**	**481**	**1,431**

NOTE 20 FINANCIAL NON-CURRENT ASSETS

SHARES IN SUBSIDIARIES

	Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Opening cost	341 136	353 182
Acquisition of subsidiary	2 970	0
Impairment losses	–	–12 045
Closing accumulated cost	**344 106**	**341 137**

In 2018 Björn Borg acquired the remaining 25 percent in Björn Borg Finland OY for EUR 300 thousand.

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
Baseline BV	34268432	Tilburg	90,000	100	0
Björn Borg Netherlands B.V	34215227	Tilburg	90,000	100	
Dutch Brand Management BV	34215236	Tilburg	50,000	100	
Dutch Brand Management Retail BV	17169366	Tilburg	500,000	100	
Belgian Brand Management BVBA	884801039	Antwerp	1,500	100	
Belgian Brand Management Retail BVBA	810366902	Antwerp	186	100	
Björn Borg Services AB	556537-3551	Stockholm	5,000	100	262,088
Björn Borg Finland OY	2126188-3	Helsinki	100	100	8,681
Björn Borg Limited (China) Limited CR	1671008	Hong Kong	7,500	75	
Björn Borg (Shanghai) Trading Co. Ltd	310000400680797	Shanghai	n/a	100	
					344,106

NOTE 21 INVENTORY

The net selling price consists of the estimated sales price less direct selling expenses. Internal gains that have arisen on intra-Group sales are deducted from inventory's carrying amount.

INVENTORY

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Finished goods and goods for resale	132,811	104,493	–	–
Work in progress	6,753	5,277	–	–
	139,564	**109,770**	**–**	**–**

Impairment losses for obsolescence of finished goods of SEK 5,399 thousand (6,069) are included in the opening inventory balance. Total expenses for obsolescence amounted to SEK -669 thousand (690) during the year.

The inventory amount expensed during the period amounted to SEK 349,731 thousand (320,211).

NOTE 22 ACCOUNTS RECEIVABLE

The credit quality of financial assets that have neither fallen due for payment nor are considered impaired 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, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Accounts receivable, gross	131,887	93,714	70	39
Reserve for impaired receivables	–1,400	–2,235	–	–
Total accounts receivable, net after reserve for impaired receivables	**130,487**	**91,479**	**70**	**39**

As of December 31, 2018 the Group and the Parent Company had recognized SEK 1,400 thousand (2,235) in impaired receivables.

The age of these receivables is distributed as follows:

OVERDUE RECEIVABLES

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Not overdue	97,997	70,782	23	23
1–30 days	29,585	14,010	–	16
31–90 days	2,056	6,207	–	–
91–180 days	1,661	1,469	–	–
>180 days	588	1,246	47	–
Total	**131,887**	**93,714**	**70**	**39**

As of December 31, 2018 the Group had SEK 32,490 thousand (20,697) in overdue receivables that were not considered impaired. These overdue receivables relate to a number of customers that 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	2018	2017	2018	2017
Not overdue		70,782	23	23
1–30 days	29,585	14,010	–	16
31–90 days	2,056	5,191	–	–
91–180 days	1,651	1,459	–	–
>180 days	–802	37	47	–
Total	**130,487**	**91,479**	**70**	**39**

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

EXPECTED CREDIT LOSS – RECONCILIATION

	Group		Parent Company	
SEK thousands	2018	2017	2018	2017
Provisions at beginning of the year	–2,235	–2,390	–	–
Reversed provisions for the period	372	1,343	–	–
Provisions for the period	–1,400	–2,235	–	–
Established losses	1,863	1,047	–	–
	–1,400	**–2,235**	**–**	**–**

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

NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Accrued interest income	1,184	–	1,184	–
Prepaid interest	163	313	163	313
Prepaid rents	5,847	6,335	2,515	2,404
Prepaid insurance	161	121	130	82
Prepaid leasing	591	1,093	–	–
Prepaid marketing expenses	627	1,077	–	180
HR-related items	708	480	291	339
Other	1,468	6,152	504	351
	10,749	**15,571**	**4,787**	**3,669**

NOTE 24 FINANCIAL ASSETS AND LIABILITIES

GROUP 2018

SEK thousands	Measured at fair value through profit or loss	Accounts and loans receivable	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total assets
Accounts receivable	–	130,487	–	130,487	130,487	–	130,487
Cash and bank balances	–	36,388	–	36,388	36,388	–	36,388
Total financial assets	**–**	**166,875**	**–**	**166,875**	**166,875**	**–**	**166,875**
Other non-current liabilities	–	–	3,824	3,824	3,824	–	3,824
Non-current liabilities to credit institutions	–	–	150,000	150,000	150,000	–	150,000
Other current liabilities	–	–	–	–	–	31,075	31,075
Accounts payable	–	–	37,646	37,646	37,646	–	37,646
Total financial liabilities	**–**	**–**	**191,470**	**191,470**	**191,470**	**31,075**	**222,545**

Cont. Note 24

GROUP 2017

SEK thousands	Measured at fair value through profit or loss	Accounts and loans receivable	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total assets
Accounts receivable	–	91,479	–	91,479	91,479	–	91,479
Investments	500	–	–	500	500	–	500
Cash and bank balances	–	52,620	–	52,620	52,620	–	52,620
Total financial assets	**500**	**144,099**	**–**	**144,599**	**144,599**	**–**	**144,599**
Other non-current liabilities	–	–	22,925	22,925	22,925	–	22,925
Non-current liabilities to credit institutions	–	–	125,000	125,000	125,000	–	125,000
Other current liabilities	–	–	–	–	–	15,094	15,094
Accounts payable	–	–	20,452	20,452	20,452	–	20,452
Total financial liabilities	**–**	**–**	**168,376**	**168,376**	**168,377**	**15,094**	**183,471**

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 2018	Level 1	Level 2	Level 3
Securities held for trading	–	–	–
Derivatives held for trading	–	–	–
Contingent consideration (liability)	–	–	–
Total assets/liabilities	**–**	**–**	**–**

SEK thousands, Group 2017	Level 1	Level 2	Level 3
Securities held for trading	500	–	–
Derivatives held for trading	–	–	–
Contingent consideration (liability)	–	–	–
Total assets/liabilities	**500**	**–**	**–**

NOTE 25 DIVIDEND PER SHARE

The Annual General Meeting on May 17, 2018 approved a distribution of SEK 50,296,768 for the financial year 2017, 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 2018. 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 18, 2019. The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50,297 thousand (50,297).

NOTE 26 UNTAXED RESERVES

	Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Untaxed reserves		
Accumulated accelerated depreciation/amortization	609	–
	609	**–**

NOTE 27 LIABILITIESR

NON-CURRENT AND CURRENT INTEREST-BEARING LIABILITIES

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Non-current liabilities to credit institutions	150,000	125,000	150,000	125,000
Unutilized credit facility	–	25,000	–	25,000
Overdraft facilities	90,000	90,000	90,000	90,000
Total available credit lines	**240,000**	**240,000**	**240,000**	**240,000**
Unused credit lines	**90,000**	**115,000**	**90,000**	**115,000**

OTHER NON-CURRENT LIABILITIES

The bond loan issued by the company in April 2012 expired in April 2017 and has been repaid. The remaining liability from the bond loan was repaid in the second quarter of 2017. The bond loan has been replaced by a three-year revolving credit of SEK 150 million from Danske Bank.

In addition to the SEK 150 million revolving credit, Björn Borg has an overdraft facility of SEK 90 million from Danske Bank.

As of December 31, 2018, SEK 150 million (125) of the revolving credit limit of SEK 150 million had been utilized, while the overdraft facility had not been utilized.

As a commitment for the overdraft facility and three-year revolving credit, the company has pledged to ensure that the ratio between the Group's net debt and rolling 12-month operating profit before depreciation and amortization does not exceed 3.00 on the last day of each quarter. Moreover, the Group will maintain an equity/assets ratio of at least 35 percent.

As of December 31, 2018 the ratio was 1.65 (1.40) and the equity/assets ratio was 47.7 percent (51.3). No changes were otherwise made with regard to pledged assets and contingent liabilities compared with December 31, 2017.

NOTE 28 ACCRUED EXPENSES, DEFERRED INCOME AND PROVISIONS

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
HR-related items	12,646	17,341	3,775	6,125
Freight and customs	6,216	4,350	–	–
Audit expenses	452	–	–	–
Marketing expenses	1,999	6,200	1,200	5,500
Rent expenses	143	–	–	–
Inventory reserve	886	–	–	–
Deferred income	5,919	4,856	–	–
Financial expenses	1,184	–	–	–
Other	3,278	4,133	592	501
	32,723	**36,881**	**5,567**	**12,126**

NOTE 29 PLEDGED ASSETS AND CONTINGENT LIABILITIES

PLEDGED ASSETS

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Shares in subsidiaries	201,031	201,036	58,216	58,216
	201,031	**201,036**	**58,216**	**58,216**

CONTINGENT LIABILITIES

	Group		Parent Company	
SEK thousands	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Rental guarantee and other guarantees	9,095	8,886	–	–
	9,095	**8,886**	**–**	**–**

See also Note 20.

NOTE 30 NON-CONTROLLING INTERESTS

INFORMATION ON NON-CONTROLLING INTERESTS

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Opening balance	491	–272
Share of profit for the year	–242	273
Share of total comprehensive income for the year	–819	490
Adjustment of minority share	–4,026	
Change as a result of acquisition of shares from non-controlling interests	–1,266	–
Closing balance	**–5,862**	**491**

The Björn Borg Group has a subsidiary in which, as of December 31, 2018, there are significant non-controlling interests, Björn Borg China Ltd. The company has been dormant since 2014.

Cont. Note 30

SUBSIDIARIES

SEK thousands	Result distributed to non-controlling interests 2018	2017	Cumulative holdings of non-controlling interests 2018	2017
Björn Borg Finland Oy	–185	763	–185	491
Other non-controlling interests	–876	–	–5,677	–
Total	**–1,061**	**763**	**–5,862**	**491**

CONDENSED FINANCIAL INFORMATION

The financial information below shows the values prior to eliminations.

INCOME STATEMENT

SEK thousands	Björn Borg Finland 2018	2017
Revenue	92,280	105,631
Expenses	–90,885	–104,331
Profit/loss for the year	**1,395**	**1,300**
Other comprehensive income	–	–
Total comprehensive income for the year	**1,395**	**1,300**

STATEMENT OF FINANCIAL POSITION

SEK thousands	Björn Borg Finland Dec. 31, 2018	Dec. 31, 2017
Non-current assets	2,117	2,462
Current assets	23,273	14,598
Total assets	**25,390**	**17,060**
Equity	2,641	1,379
Current liabilities	22,750	15,681
Total liabilities	**22,750**	**15,681**
Total equity and liabilities	**25,391**	**17,060**

CASH FLOWS

SEK thousands	Björn Borg Finland 2018	2017
From operating activities	1,531	–1,336
From investing activities	–205	–535
From financing activities	–	–
Total cash flow	**1,326**	**–1,871**

NOTE 31 BENELUX ACQUISITION

On December 8, 2016 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 and retail operations through twelve Björn Borg concept stores and outlets.

The acquisition closed on January 2, 2017. Björn Borg paid about SEK 5.3 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 receivable) 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 are no earn-out payments.

Direct acquisition expenses amounted to about SEK 1.7 million and were charged to other external expenses in the fourth quarter of 2016.

The Benelux acquisition 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. This is expected to create more growth opportunities for Björn Borg in Benelux in the long term. In terms of efficiency improvements, future synergies are expected mainly in procurement.

Through the consolidation of Baseline in the Björn Borg Group, where sales at the distributor level are replaced by sales at the wholesale and retail levels, net sales rose about SEK 85 million in 2017. Operating profit decreased due to later sales arising as an accounting effect now that sales in the Benelux market are realized at the wholesale and consumer levels rather than the distributor level. As a result, the entire gross profit from the spring/summer season at the distributor level in Benelux was pushed back to the financial year 2018. At the same time the earn-out payments to the former owner of the Björn Borg brand ended in 2017, which positively impacted EBIT by SEK 22 million, largely compensating for the negative short-term effect of the delayed gross profit.

The 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 the final acquisition analysis. This table has changed since the year-end report for 2017, as the acquisition price decreased by SEK 1.8 million after an agreement with the sellers of Baseline. As a result, goodwill has decreased by a corresponding amount, SEK 1.8 million.

Cont. Note 31

ACQUIRED NET ASSETS

SEK thousands	Verkligt värde
Preliminary acquisition price	11,980
Adjustment net assets	–4,829
Adjustment acquisition price	–1,829
Acquisition price	**5,322**
Acquired net assets	
Intangible and tangible assets	6,731
Financial non-current assets	11,081
Inventory	61,640
Other current receivables	12,334
Non-current interest-bearing liabilities	–21,072
Current non-interest-bearing liabilities	–79,452
Total acquired assets and liabilities	**–8,739**
Goodwill	14,061
Total net assets	**5,322**
Acquisition payments fall due as follows:	
2018	–
2019	–
2020	3,558
Total acquisition payments	**5,322**

The acquisition analysis was done based on the FX rate at the time of the acquisition.

NOTE 32 CASH FLOW

GROUP

				Non-cash items			
SEK thousands	12/31/17	New loans	Amortization	Reclassification from long to short	Capitalized interest	Change in impairment	12/31/18
Long-term loans	125,000	50,000	–25,000	–	–	–	150,000
Other non-current liabilities	22,925	–	–	–17,647	375	–1,829	3,824
Short-term loans	–	–	–	17,647	331	–	17,978
Total loans from financial activities	**147,925**	**50,000**	**–25,000**	**–**	**706**	**–1,829**	**171,802**

Short-term loans of 17,978 constitute part of other current liabilities in the consolidated balance sheet.

Cont. Note 32

PARENT COMPANY

SEK thousands	12/31/17	New loans	Amortization	Non-cash items: Reclassification from long to short	Non-cash items: Capitalized interest	Non-cash items: Change in impairment	12/31/18
Long-term loans	125,000	50,000	–25,000	–	–	–	150,000
Other non-current liabilities	22,925	–	–	–17,647	375	–1,829	3,824
Short-term loans	–	–	–	17,647	331	–	17,978
Total loans from financial activities	**147,925**	**50,000**	**–25,000**	**–**	**706**	**–1,829**	**171,802**

Short-term loans of 17,978 constitute part of other current liabilities in the parent company's balance sheet.

GROUP

SEK thousands	12/31/16	New loans	Amortization	Non-cash items: Acquisitions	Non-cash items: Capitalized interest	Non-cash items: Change in impairment	12/31/17
Long-term loans	–	150,000	–25,000	–	–	–	125,000
Other non-current liabilities	17,273	7,151	–1,764	–	265	–	22,925
Short-term loans	137,092	–	–145,842	10,372	–	–1,622	–
Total loans from financial activities	**154,365**	**157,151**	**–172,606**	**10,372**	**265**	**–1,622**	**22,925**

PARENT COMPANY

SEK thousands	12/31/16	New loans	Amortization	Non-cash items: Acquisitions	Non-cash items: Capitalized interest	Non-cash items: Change in impairment	12/31/17
Long-term loans	–	150,000	–25,000	–	–	–	125,000
Other non-current liabilities	17,273	7,151	–1,764	–	265	–	22,925
Short-term loans	137,092	–	–135,470	–	–	–1,622	–
Total loans from financial activities	**154,365**	**157,151**	**–162,234**	**–**	**265**	**–1,622**	**147,925**

NOTE 33 EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since the end of the reporting period.

NOTE 34 PROPOSED DISTRIBUTION OF PROFIT

The following unappropriated earnings are at disposal of the Annual General Meeting:	
Retained earnings, SEK	46,138,232
Profit for the year, SEK	100,474,768
	146,613,000
The Board proposes that:	
Shareholders receive a distribution of SEK 2.00 per share, totaling SEK	50,296,768
Carried forward, SEK	96,316,232
	146,613,000

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 15, 2019

Heiner Olbrich
Chairman

Alessandra Cama
Board member

Göran Carlson
Board member

Christel Kinning
Board member

Fredrik Lövstedt
Board member

Mats H Nilsson
Board member

Henrik Bunge
CEO

Our audit report was submitted on April 15, 2019
Deloitte AB

Didrik Roos
Authorized Public Accountant

This is an English translation of the Swedish annual report.
In case of discrepancies between the English translation and the Swedish annual report, the Swedish annual report shall prevail.


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 and consolidated accounts of Björn Borg AB (publ) for 2018-01-01–2018-12-31. The annual accounts and consolidated accounts of the company are included on pages 40-80 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Act and present fairly, in all material respects, the financial position of Parent Company as of December 31, 2018 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, 2018 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 therefor recommend that the general meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor´s Responsibilities section. We are independent of the Parent Company and the Group in accordance with the professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgement, 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

The company recognized inventory of SEK 140 million on December 31, 2018. 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 the 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 44 and the Group´s accounting principles on page 58.

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 the participating in a selection of audits of various warehouses.

Revenue Recognitions

The group´s net sales amounted to SEK 709 million as of December 31, 2018. Net sales consist of four revenue streams, which are described in the company´s accounting principles on page 57. 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 the customer-specific agreements which could impact revenue recognition.

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 applies 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 1-39, 85-91 and 97-100. 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 material 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 preparations of the annual accounts and the 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 intent to liquidate the company to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with IAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exits. 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 ISA, we exercise professional judgement 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 a 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 heather 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 or 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 decencies 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 administration of the Board of Directors and the Chief Executive Officer of Björn Borg AB (publ) for 2018-01-01–2018-12-31 and the proposed appropriations of the company´s profit or loss.

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 responsibility under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company ant 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 and loss. At the proposal of 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 a 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.

Deloitte AB, was appointed auditors of Björn Borg AB by the general meeting of the shareholders on the 2018-05-17 and has been the company's auditor since 2005-05-20.

Stockholm, April 15, 2019
Deloitte AB

Didrik Roos
Authorized Public Accountant


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 28, 2018 was SEK 19.39, giving Björn Borg a market capitalization of about SEK 488 million. A total of 6,084,084 shares were traded in 2018 at a value of approximately SEK 148 million. The average daily turnover was 24,336 shares. The share price decreased during the year by SEK 8.71, or by 31.0 percent from the previous year. The share reached a high of SEK 30.15 and fell to a low of SEK 19.00.

INCENTIVE SCHEME

Björn Borg issued convertible debentures on June 16, 2015, which on December 31, 2018 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 2018 was SEK 257.9 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 1.90 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. 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, 2018.

The distribution between the liability portion and the equity portion is as follows:

SEK thousands	Dec. 31, 2018	Dec. 31, 2017
Nominal value convertible debentures	18,155	18,155
Less equity portion	–1,209	–1,209
Accrued interest	1,521	1,179
Paid interest	–489	–478
Recognized liability	**17,978**	**17,647**

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. As of December 31, 2017, 480,000 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 2.07 percent. Björn Borg has received market-rate consideration for the warrants of SEK 2.50 per warrant, corresponding to total proceeds received of SEK 1,200 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.

DIVIDEND POLICY

According to Björn Borg's long-term financial goals, 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 2018, corresponding to 85 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 18, 2019.

The Board of Directors' proposal corresponds to a transfer to shareholders of SEK 50.3 million (50.3). For the financial year 2017 a distribution of SEK 2.00 was paid per share, corresponding to 136 percent of net income.

SHAREHOLDERS

As of December 28, 2018 Björn Borg had 8,009 shareholders (8,376), according to Euroclear, after shareholder grouping by the company. Björn Borg's ten largest shareholders owned shares corresponding to 51.8 percent (50.4) 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
Fourth Swedish National Pension Fund	1,684,534	6.7
Mats Nilsson	1,638,440	6.5
Fredrik Lövstedt	1,050,040	4.2
Vilhelm Schottenius	1,023,520	4.1
Lazard Frères Banque	985,000	3.9
Avanza Pension	877,798	3.5
Nordnet Pension	606,702	2.4
Stiftelsen Vin och Sprithist muséet	500,000	2.0
Total, largest shareholders	**13,026,122**	**51.8**
Total, other	**12,122,262**	**48.2**
Total number of shares	**25,148,384**	**100.0**

According to share register on December 28, 2018, shareholders grouped by the company.

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

SHAREHOLDER STRUCTURE

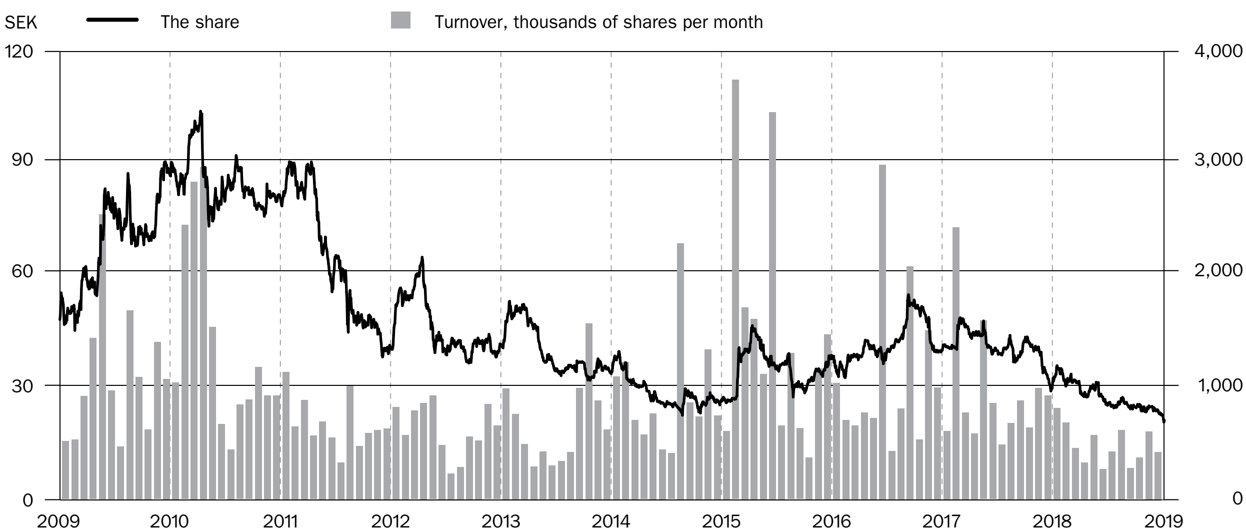
Size of holding	No. of shareholders	No. of shares	Capital and votes, %
1 – 500	5,584	807,481	3.2
501 – 1.000	1,000	856,639	3.4
1.001 – 5.000	1,094	2,587,608	10.3
5.001 – 10.000	164	1,254,943	5.0
10.001 – 15.000	44	545,285	2.2
15.001 – 20.000	40	718,855	2.9
20.001 –	83	18,377,573	73.1
Total	**8,009**	**25,148,384**	**100.0**

Source: Euroclear Sweden AB on December 28, 2018, shareholders grouped by the company.

DATA PER SHARE

	2018	2017	2016	2015	2014
Earnings per share before dilution, SEK	2.39	1.48	1.88	1.79	1.94
Earnings per share after full dilution, SEK	2.39	1.48	1.88	1.77	1.94
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	25,148,384	25,148,384	25,604,384	25,148,384

SHARE PRICE PERFORMANCE



Källa: 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.

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.

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.

BOARD OF DIRECTORS AND AUDITORS

Heiner Olbrich
Chairman of the board since 2017.
Board member between 2015-2017
Born: 1965
BSc Econ and PhD in economics, St. Gallen, Switzerland
Other assignments: Advisory Board member of SPORT 2000 International GmbH, Warsteiner Brauerei Haus Cramer KG, Yourstyle/Dee GmbH
Previous assignments: Chief Marketing and Sales Officer at Miele, Senior Vice President Global Sales at Adidas
Shares in Björn Borg: 0

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

Alessandra Cama
Director. Director since 2018
Born: 1967
L.U.I.S.S. (Libera Università degli Studi Sociali), Rome. LICEO SCIENTIFICO "Leonardo da Vinci", Reggio Calabria
Other assignments: CEO of Zertus and ZRT Fr. Meyers Sohn Holding
Previous assignments: Managing Director Marketing & Sales at Warsteiner Brauerei, member of the Managing Board at GfK, partner at Roland Berger Strategy Consultants
Shares in Björn Borg: 0

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

Göran Carlson
Director. Director since 2018
Born: 1957
MBA at the HEC in Paris (Haute études commercial), School of Economics at the University of Gothenburg
Other assignments: Chairman of Actic Group AB, deputy chairman of Svenskt Tenn
Previous assignments: Director of Haldex AB and Budbee AB, CEO and owner of Departments & Stores, founder and deputy chairman of pharmacy chain Medstop and chairman of the public listed company Haldex AB
Shares in Björn Borg: 73,500

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

Christel Kinning
Director. Director since 2016
Born: 1962
Studies at Gothenburg School of Economics, Business and Marketing
Other assignments: Own consultancy within Soldränkta Tomater AB, Chairman of Lagerhaus, director of Zound Industries International AB, Reima, Stadium, Venue Retail Group and Vasakronan
Previous assignments: Director of e.g. HOPE, Mio, MQ, Hemtex, SATS, Melon Fashion Group, CEO and Group CEO of RNB Retail and Brands AB and CEO of Polarn o Pyret AB
Shares in Björn Borg: 0

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

Fredrik Lövstedt
Director since 2017. Chairman 2005-2017.
Director 2004-2005
Born: 1956
MSc Eng, KTH Royal Institute of Technology; MBA, INSEAD
Other assignments: Founder AlertSec Inc. CEO and major owner of Durator AB
Previous assignments: Deputy CEO 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 as well as from major shareholders.

Mats H Nilsson
Director. Director since 1998
Born: 1955
BSc Econ, Stockholm School of Economics
Other assignments: Director of Credelity Capital AB and SevenDay Finans AB
Previous assignments: 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.

Auditors
Deloitte AB
Didrik Roos, Authorized Public Accountant

Shareholdings as of December 31, 2018.

SENIOR MANAGEMENT

Henrik Bunge
CEO
Born: 1973
Recruited 2014
LLB from University of Uppsala; Sales Management at Harvard
Previous assignments: 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. Business Development Director as of December
Born: 1975
Recruited 2015
MBA
Previous assignments: CFO & Buying Director at Efva Attling, Nordic Finance Director at adidas Group Nordic
Shares in Björn Borg: 3,796
Convertibles in Björn Borg: 10,000
Warrants in Björn Borg: 40,000

Jens Nyström
CFO as of December
Born: 1973
Recruited 2018
MBA
Previous assignments: CFO of Haglöfs, Nordic Finance Director at Sanofi Pasteur MSD, Nordic Finance Director at SC Johnson
Shares in Björn Borg: 0
Convertibles in Björn Borg: 0
Warrants in Björn Borg: 0

Mija Nideborn
Design & Product Development Director
Född: 1972
Recruited 2016
Bachelor of Fine Arts in Fashion and Design, Borås textilhögskola
Previous assignments: 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
Born: 1972
Recruited 2014
BSc Econ, HR Management at Stockholm School of Economics
Previous assignments: 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
Born: 1975
Recruited: 2012
MSc in Business Economics, MA in Design Futures
Previous assignments: 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
Born: 1975
Recruited 2015
Previous assignments: 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

Lisa Udd
Management Assistant
Född: 1961
Recruited: 2014
Distribution/Office & Language at Stockholm University
Previous assignments: 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, 2018.

CORPORATE GOVERNANCE REPORT 2018

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 solution it has adopted instead and state the reasons for doing so. During the year Björn Borg had no instances of noncompliance with the Code.

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 or warrants, the AGM may authorize the Board to take decisions.

Annual General Meeting 2019

The next AGM will be held in Stockholm on May 14, 2019. 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 2018

The 2018 AGM was held in Stockholm on May 17, 2018. The AGM resolved, among other things, to reelect Directors Christel Kinning, Fredrik Lövstedt, Mats H Nilsson and Heiner Olbrich, and elected Göran Carlson and Alessandra Cama as new Directors. Martin Bjäringer and Lotta de Champs had 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 2018 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, 2018 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 October 2018, consisted of the following members for the 2019 AGM:

- Heiner Olbrich, Chairman of the Board
- Bo Jungner, appointed by Martin Bjäringer
- Mats H Nilsson, shareholder
- Marianne Flink, appointed by Swedbank Robur
- Thomas Ehlin, appointed by the Fourth Swedish National Pension Fund

Bo Jungner was named Chairman of the Nomination Committee. According to the resolution of Björn Borg's 2018 AGM, the Nomination Committee's mandate is to propose to the 2019 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, a resolution on the Nomination Committee, the Chairman of the AGM and the election of the auditors and their remuneration. The Nomination Committee has held three meetings at which minutes were taken since the 2018 AGM, 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 2018 AGM reelected Directors Christel Kinning, Fredrik Lövstedt, Mats H Nilsson and Heiner Olbrich, and elected Göran Carlson and Alessandra Cama as new Directors. Martin Bjäringer and Lotta de Champs had declined re-election. Heiner Olbrich was reelected 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 2018 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.

An annual board review, one of the aims of which is to analyze the Board's work and whether the Board's composition is appropriate for the company's needs, was conducted within the company in 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 90 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 as well as for appointing the 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 16, 2018, define the principles for Board work, the delegation between the Board and the CEO, and the financial reporting.

Board work
In 2018 the Board held five scheduled meetings, four of which were in connection with the quarterly financial reports and one by circulation in connection with the preparations for the AGM. 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 Heiner Olbrich and Mats H Nilsson to prepare proposals on remuneration and other terms of employment for senior executives. The Committee held one meeting at which minutes were kept leading up to the 2019 AGM, in addition to informal meetings and other contacts. During the year the Compensation Committee, which is only a drafting committee (i) prepared the Board's resolutions on remuneration principles, remuneration and other employment terms for company management, (ii) monitored and evaluated current and expiring remuneration schemes for management, and (iii) monitored and evaluated the application of the remuneration guidelines for senior executives as resolved by the AGM as well as current remuneration structures and remuneration levels in the company.

Audit Committee
Björn Borg's Board of Directors has established an Audit Committee consisting of Chairman Heiner Olbrich, Mats H Nilsson and Christel Kinning. The Audit Committee supports the Board in its 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 2018, all in connection with the quarterly reports. All of the Committee's members attended these meetings, except for the November meeting, which Mats H Nilsson did not attend. In 2018 the CEO attended the meetings as a co-opted member. The Audit Committee is a drafting committee.

CEO
The Board has established an instruction for the CEO's work and role, which in its current wording was adopted on August 16, 2018. 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 91 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 2018 AGM elected the

DIRECTORS' ATTENDANCE IN 2018

	Feb 22	Apr 9*	May 17	Aug 16	Nov 15
Martin Bjäringer**	1	1	1	–	–
Alessandra Cama***	–	–	–	1	1
Göran Carlson***	–	–	–	1	1
Lotta de Champs**	1	1	–	–	–
Christel Kinning	1	1	1	1	1
Fredrik Lövstedt	1	1	1	1	1
Mats H Nilsson	1	1	1	1	1
Heiner Olbrich	1	1	1	1	1
No. of attendees	**6 (of 6)**	**6 (of 6)**	**5 (of 6)**	**6 (of 6)**	**6 (of 6)**

* Meeting held by circulation with all members participating in the decisions.
** The individual in question left the Board at the 2018 AGM.
*** the individual in question was appointed as a board member at the 2018 AGM.

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 2019 AGM.

Further information on the auditors can be found on page 90 in the annual report. Information on the auditors' fee can be found in Note 10.

REMUNERATION TO DIRECTORS AND SENIOR EXECUTIVES

Remuneration to the Chairman and other Directors is resolved by the AGM. According to the resolution of the 2018 AGM, the Chairman received of SEK 410,000 and other Directors received SEK 175,000. For committee work in 2018 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 2018 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 metrics 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, 480,000 warrants and 478,000 convertibles were transferred. The convertibles and warrants that were not subscribed cannot be subscribed after the 2016 AGM.

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 958,000 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 assured through 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 2018 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, 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 procurement and revenue processes, where the valuation of inventory and accounts receivable is a key element of the balance sheet analysis. 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 8,009 shareholders (8,376) at year-end. The largest shareholder as of December 28, 2018 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, 2018

	No. of shares	%
Martin Bjäringer	2,450,000	9.7
Swedbank Robur Small Cap Fund	2,210,088	8.8
Fourth Swedish National Pension Fund	1,684,534	6.7
Mats Nilsson	1,638,440	6.5
Fredrik Lövstedt	1,050,040	4.2
Vilhelm Schottenius	1,023,520	4.1
Lazard Frères Banque	985,000	3.9
Avanza Pension	877,798	3.5
Nordnet Pension	606,702	2.4
Stiftelsen Vin och Sprithist muséet	500,000	2.0
Total, largest shareholders	**13,026,122**	**51.8**
Total, other	**12,122,262**	**48.2**
Total number of shares	**25,148,384**	**100.00**

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders in Björn Borg AB (publ)
corporate identity number 556658-0683

ENGAGEMENT AND RESPONSIBILITY
It is the board of directors who is responsible for the corporate governance statement for the financial year 2018-01-01–2018-12-31 on pages 92-95 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT
Our examination has been conducted in accordance with FAR's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

OPINIONS
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, April 15, 2019
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 Tuesday, May 14, 2019 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 8, 2019 and must notify the company of their intention to participate by this date (Friday, May 8, 2019) in writing to Björn Borg AB, Tulegatan 11, SE-113 53 Stockholm, Sweden, by telephone to +46 8 506 33 700, 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 8, 2019, shareholders must inform nominees well in advance of this date.

2019 CALENDAR

The Annual General Meeting 2019 will be held at 5:30 pm (CET) on May 14, 2019.

The interim report for January-March 2019 will be released at 5:30 pm (CET) on May 14, 2019.

The interim report for January-June 2019 will be released on August 16, 2019.

The interim report for January-September 2019 will be released on November 15, 2019.

The year-end report for 2019 will be released on February 21, 2020.

FINANCIAL REPORTS FINANSIELLA RAPPORTER

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 spring/summer, high summer and fall/winter 2019 collections.

Concept, design and production: Wirtén Design Group.


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