



Husqvarna
Group



Annual Report 2016



This is Husqvarna Group

Husqvarna Group is a global leading producer of outdoor power products and innovative solutions for forest, park and garden care. Products include chainsaws, trimmers, robotic lawn mowers and ride-on lawn mowers. The Group is also the European leader in garden watering products and a global leader in cutting equipment and diamond tools for the construction and stone industries. The Group's products and solutions are sold under brands including Husqvarna, Gardena, McCulloch, Poulan Pro, Weed Eater, Flymo, Zenoah and Diamant Boart via dealers and retailers to consumers and professionals in more than 100 countries. Net sales in 2016 amounted to SEK 36bn and the Group has around 13,000 employees in 40 countries.



3,218

Operating income, SEKm



8.9

Operating margin, %



-13

CO₂ intensity, %

50%

Share of Group net sales

HUSQVARNA DIVISION

The Husqvarna Division manufactures and sells a broad range of products and solutions for professionals and prosumers including chainsaws, trimmers, robotic lawn mowers, ride-on and walk-behind lawn mowers as well as accessories under the brands Husqvarna, Zenoah, Jonsered and Klippo. Products are mainly distributed through a network of servicing dealers in more than 100 countries.

GARDENA DIVISION

Gardena is the brand for passionate gardeners, offering products for a wide range of gardening needs ranging from watering products to lawn care, tree and shrub care products as well as garden tools. Products and solutions are sold at leading retail stores and online, mainly in Europe.

14%

Share of Group net sales



CONSUMER BRANDS DIVISION

The Consumer Brands Division manufactures and sells a wide range of products for the broad mass consumer segments including garden tractors, lawn mowers, chain-saws and trimmers under the brands PoulanPro, McCulloch, Flymo and Weed Eater. Products are sold mainly at leading retail outlets in North America and Europe.

CONSTRUCTION DIVISION

The Construction Division manufactures equipment and diamond tools for sawing, drilling and grinding in concrete, stone, masonry, tile and asphalt under mainly two brands: Husqvarna and Diamant Boart for the stone industry. The products are used in the construction and stone industry by professional contractors and crafts-people worldwide.

25%

Share of Group net sales

11%

Share of Group net sales

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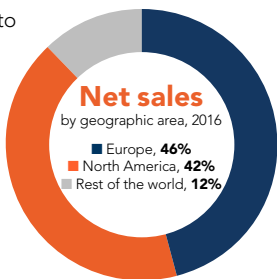
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The formal Annual Report and the consolidated accounts are included on pages 44–109.

The year in brief

- Net sales amounted to SEK 35,982m, which was an unchanged level adjusted for changes in exchange rates.
- Operating income increased by 8 percent to SEK 3,218m (2,980) excluding items affecting comparability,* despite unfavorable currency impacts of approximately SEK -430m.
- The higher operating income was to a large extent driven by a more favorable mix and efficiency improvements.
- Operating margin rose by 0.7 percentage points to 8.9 percent (8.2) excluding items affecting comparability.*
- Earnings per share after dilution rose to SEK 3.66 (3.28).
- Return on equity increased to 15.2 percent (14.6).
- The Board of Directors proposes a dividend of SEK 1.95 per share (1.65) for 2016.

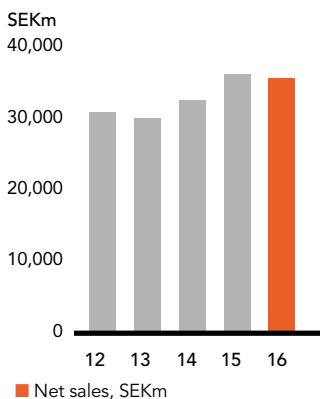


Key figures

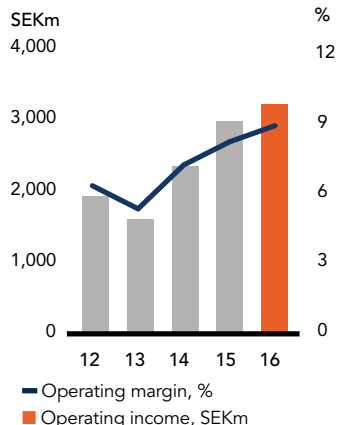
SEKm	2016	2015	2014 ¹	2013	2012 ²
Net sales	35,982	36,170	32,838	30,307	30,834
Gross margin, %	30.8	28.1	28.5	26.5	26.9
EBITDA*	4,382	3,980	3,315	2,586	2,737
Operating income	3,218	2,827	1,581	1,608	1,675
Operating income, excl. items affecting comparability*	3,218	2,980	2,348	1,608	1,931
Operating margin, %	8.9	7.8	4.8	5.3	5.4
Operating margin, excl. items affecting comparability*, %	8.9	8.2	7.2	5.3	6.3
Net income	2,104	1,888	824	916	1,027
Earnings per share, SEK	3.66	3.28	1.43	1.60	1.78
Dividend per share, SEK ³	1.95	1.65	1.65	1.50	1.50
Return on capital employed, %	13.7	12.4	7.6	7.7	7.4
Return on equity, %	15.2	14.6	6.7	8.1	8.8
Capital turnover rate, times	1.7	1.7	1.7	1.6	1.5
Operating cash flow ⁴	1,666	1,732	1,274	1,411	1,499
Average number of employees	12,704	13,572	14,337	14,156	15,429
Net Promoter Score (NPS) ⁵	1	-5	-6	-24	-20

¹ 2014 has been restated due to a correction.
² 2012 has been restated due to the amended IAS 19.
³ The dividend for 2016 as proposed by the Board.
⁴ Hedges related to financing have been moved from operations to financing activities (SEK -64m for 2015, SEK 151m for 2014, SEK 402m for 2013 and SEK -355m for 2013). The equivalent amount has impacted the operating cash flow.
⁵ I.e. Would you recommend a friend to work for Husqvarna Group?
 * Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Net sales



Operating income and margin¹



Strategic partnership with BMZ for battery technology leadership

In 2016, Husqvarna Group and BMZ GmbH, a system provider and specialist in intelligent battery solutions, entered into a strategic partnership agreement covering the development and manufacturing of future generation lithium-ion batteries for Husqvarna Group.

BMZ has established a leading position in the lithium-ion rechargeable battery market and is currently Husqvarna Group's largest supplier of battery packs. Combining the core areas of expertise of both companies, a joint development team will shorten time-to-market, increase innovation capability and help make the shift to a low-carbon product portfolio.



Launch of Gardena Smart System

In 2016, an important milestone for the new Gardena Smart System was reached when the first pallets with sold products left the Ulm distribution center on their way to retailers in Germany, Austria, Switzerland, the Netherlands and Belgium.



Digital innovation together with the Royal Institute of Technology in Stockholm

For the first time, Husqvarna Group has established an industrial PhD position in digital innovation. The aim is to create new insights and increase the Group's innovative capacity. The position is for four years and is a collaboration with the Royal Institute of Technology in Stockholm.

New financial and sustainability targets

At the Capital Markets Day in September, new financial targets and new sustainability targets for the Group were announced. Read more about our targets on pages 8–9.



Diamond Tool Supply acquisition

In May, Husqvarna Group acquired Diamond Tool Supply Inc. out of Michigan, US, a leading producer of polishing and grinding diamond tools for concrete, stone and terrazzo.

"The acquisition reinforces our position as a market leader of complete solutions for the construction grinding and polishing industry."

Henric Andersson
President, Construction Division

Science Based Targets

Husqvarna Group is the first Swedish listed company and the world's first forest and garden company, to have its greenhouse gas emission reduction targets approved by the Science Based Targets initiative, a collaboration between WWF, UN Global Compact, CDP and WRI. The Initiative works with companies to set ambitious emission reduction targets, consistent with the global effort to keep temperature increases well below 2°C. Read more on page 41.



Launch of X-CUT – the Group's first own chainsaw chain

The performance of a chainsaw is dependent on the quality of its chain, which is why Husqvarna Group decided to start making chains itself. This allows users to increase productivity with a chain designed to maximize the performance of Husqvarna chainsaws. Read more about X-CUT on pages 22–23.



Capturing the potential in India

In 2016, the Husqvarna Division established a sales company in another dynamic and important emerging market – India. The establishment includes a new sales organization to market and sell products and services as well as to provide support and service to the dealer network throughout India.

Four gold medals at World Logging Championship

110 of the best loggers in the world gathered in Wisla, Poland, to compete in the World Logging Championship. Five disciplines were represented: tree felling, fitting another chain, bucking by combine cuts, precision bucking and limbing. Loggers using Husqvarna chainsaws won in four out of the five disciplines.



CEO statement

In 2016, we continued our aspirational journey that was started in 2014 – to achieve market leadership by 2020. Having delivered on the first promise to grow earnings and improve our margin, it's now time to shift our attention to profitable growth. A firm focus on customer-centric innovation and market development will be key going forward together with continued operational efficiency and reinforced sustainability efforts.

What attracted me to Husqvarna Group some years ago was the combination of a company with the qualities of a true leader, a fantastic heritage, strong brands and distribution partners, combined with world-leading products and innovation, to mention just a few things. A company that was still somewhat of a financial underperformer, but with much higher potential. This was a journey I really wanted to be a part of. And this is what we are doing right now.

If 2015 was a year of major change for the Group with the introduction of a new organization and the finalization of the Accelerated Improvement Program, 2016 has been a year of implementation. The divisions have started executing their business plans, laying the foundation for profitable growth. We are investing to create a platform for growth and at the same time pursuing cost and efficiency measures to finance these measures.

On Group level, two important and interlinked cornerstones of our 2020 market leadership ambition, excelling in digitization and battery-based technologies, promise to radically reduce the environmental impact of our products and help transform our business in many areas. These include commercial lawn and garden, robotic lawn mowing, connected gardens and business development concepts involving our trade partners.

Building the foundation for profitable growth

When developing our new organization, we aimed for a higher degree of end-user focus and further strengthening of the entrepreneurial spirit, faster decision-making coupled with empowerment, accountability and stronger business acumen.

Close to two years down the road, we see exactly this materializing. We have created the conditions for executing profitable growth. Three divisions are already in profitable growth mode while our Consumer Brands Division is successfully building on its profitable core and maintaining a strict profitability-first priority. But however much we have accomplished so far, including reaching the milestone of a break-even result for the Consumer Brands Division in 2016, the target of a 5 percent operating margin for the division by 2018 is a stretch given the negative currency developments in the last two years.

Earnings doubled in three years

While operating income doubled between 2013 and 2016, the operating margin has increased to 8.9 percent compared with 5.3 percent. The improvement has been accomplished primarily by reducing product cost and complexity as well as improving our product mix by focusing on core brands and product leadership positions, for example, in robotic lawn mowers. Focus and execution have been the key words in achieving these results.

Continued strong financial performance in 2016

To briefly summarize the developments over the past year, I am pleased to see that we continued the positive trend. Operating income for the Group increased to SEK 3,218m (2,980) excluding items affecting comparability, despite some SEK 430m in unfavorable currency impacts. That is quite an achievement, especially if you take into account that we have also added significant costs for our growth initiatives.

In the Husqvarna Division, sales grew by 2 percent adjusted for changes in exchange rates and the margin remained at a high level of 12.9 percent, partly driven by continued growth in Europe in general

and in robotic lawn mowers in particular.

The Gardena Division had a strong year, truly demonstrating its growth capability. Sales were up 8 percent this year following a successful geographic expansion and the introduction of many new innovative products, the most notable of which was the Gardena Smart System that combines automatic watering and robotic lawn mowing.

Construction fundamentally had a good year, primarily driven by the US market, but balanced by weak demand in the stone-related part of the business. In total, the division delivered margin expansion from an already high level.

In Consumer Brands, the dedicated and relentless cost and efficiency focus continued to yield results. As I said earlier, we managed to reach a break-even result for the year despite continued currency headwinds and a larger than expected weather-driven drop in sales volumes.

The Group's positive development is also reflected in our first public rating process where we received a BBB long-term corporate rating from Standard and Poor's. Furthermore, the proposal from the Board of Directors is that the dividend for 2016 be increased to SEK 1.95 per share (1.65), another reflection of the continuing good earnings trend.

New financial targets to support growth ambitions

In line with the strategy and priorities we presented in 2014, we are now taking the next step, which is to put stronger emphasis on profitable growth. For us, a profitable growth focus means increasing our sales by around 1 to 2 percentage points more than the average market growth. We also expect that profitable growth will lead to continuous improvement of the operating margin, which will be carried out in a capital-efficient way. These are our cornerstones for growing the value of the company, and we have adjusted our financial targets to reflect this.

Reinforcing leadership in robotic lawn mowers

We were the pioneer in the robotic lawn mowing market more than twenty years ago and today, we have a strong position that we are determined to maintain. The global market, which is still mainly a Western European one, is expected to grow by more than 20 percent per year and many countries still have low penetration rates. This is a fantastic opportunity and also a challenge as new competition enters the market.

Our mindset is to continue pioneering this market by investing to maintain our market position with the most innovative and reliable products. Following the success of the Husqvarna and Gardena brands, we will launch a McCulloch robotic mower targeting the broader consumer market. We are also investing in additional manufacturing capacity at our current site as well as expanding and building new capacity at an additional site.

Strategic partnership for battery-powered products

To further increase the competitiveness of our offering of battery-powered products, we signed a strategic partnership with BMZ, a leader in the field of battery technology.

Combining the core expertise of both companies will reduce time-to-market, increase innovation capability and capture an important part of the rapidly growing battery-powered market.



“ In line with the strategy and priorities we presented in 2014, we are now taking the next step, which is to put stronger emphasis on profitable growth.

Through this partnership, we will turn our current relationship into a strategic cooperation to claim a leadership position by developing differentiating technologies as well as cost-competitive, low-carbon, battery-powered products for our industry.

Contributing to sustainability in a changing world

As a global supplier of outdoor power products and solutions, we have an important role to play in addressing some of society's biggest challenges. Through our products, we can connect people with nature and through innovation, we can reduce the environmental impact of our products. As an employer and company, we can promote high standards of business ethics. The way we do business matters to people. It is important to our employees, customers, investors and the general public. We need to do our part to address the challenges that our society faces. We also know that our engagement in the sustainability agenda will have a growing impact on our bottom line.

In our sustainability strategy, Sustainovate, we have prioritized the most important issues and defined targets that are most relevant to our business. Tackling climate change is the biggest and most urgent challenge the world faces today. Our Carbon Challenge aims to reduce our emissions of CO₂ through the entire value chain, from product development to our suppliers, manufacturing and when our products are in use. With a climate target approved by the Science Based Target initiative, I am proud that we are fully committed to doing our fair share to limit global temperature increases to below 2°C compared with pre-industrial levels. In the future, I am convinced that we will be proud to tell our grandchildren that we understood what was going on and did our utmost to tackle it.

The Group's other priorities are the Team Challenge that aims to attract and retain the right people, the Supplier Challenge that aims

to gain an overview of and develop high sustainability standards at our suppliers, and the Safety Challenge that aims to continuously improve safety across the entire value chain. We also aim to strengthen our cooperation with local society initiatives.

Building a winning culture

Building a winning culture is fundamental to becoming a leader in the long term. Our core purpose and vision, our key behaviors and Sustainovate are all equally important to inspire us and define our direction to create value. The essence of why we exist as a Group is our core purpose: we turn technology into opportunity. Shaping great experiences is how we choose to apply our skills and resources: our vision. These are closely linked to our key behaviors, the way we act as individuals and as a company, always putting the customer first. Every great company owes its success to devoted people who are driven by a cause. The will to be part of something bigger. To act in a meaningful context. That is why I believe that our work with our core purpose, vision and key behaviors will build a winning culture that will support our ambitions and take us forward.

Aligning culture, strategy and targets brings clarity, meaning and excitement. At the same time, it is the way to create long-term value for the Group. I would like to say thank you to all of our employees who are making this their everyday life and I am looking forward to continuing this inspiring journey.

Stockholm, March, 2017

Kai Wörn, President and CEO



Strategy

The Husqvarna Group has been highly successful in improving its financial performance in recent years. By cutting product costs, improving the product mix and reducing complexity in the product offering, the operating margin rose to almost 9 percent in 2016. The Group is now taking the next step in its strategic development by putting a stronger emphasis on profitable growth and its financial targets have been adjusted to reflect this. Together with new sustainability ambitions and a strong vision, the course has been set to achieve the Group's 2020 market leadership aspiration.



OUR CORE PURPOSE

TURNING TECHNOLOGY INTO OPPORTUNITY

With a passion for innovation we create performance, pride and improved results for our customers.

OUR VISION

SHAPING GREAT EXPERIENCES

We make a difference to those who shape green spaces and urban environments through our leadership in sustainable, user-centered solutions.

OUR KEY BEHAVIORS

IT STARTS WITH ME

I take ownership and I ask myself: What can I do?

- Seek customer's point of view in all meetings and decisions.
- Demonstrate collaboration by giving and seeking support.
- Maintain focus and simplicity.

Financial and sustainability targets

Husqvarna Group's financial targets should direct and support the Group in delivering on its strategy. As the Group now shifts its focus from margin recovery to profitable growth, new financial targets have been set for 2017 and beyond. In addition, the Group established a sustainability strategy. Regarding the financial targets to 2016, the dividend and capital structure targets were reached. The operating margin improved from 7.8 percent to 8.9 percent, despite significant margin dilution due to changes in exchange rates and costs for investments in growth initiatives.

New financial targets from 2017

As announced in September 2016, the Group's new financial targets come into effect in 2017. Following the focus on and successful execution of the margin improvement in recent years, stronger emphasis will be placed on profitable growth. The Group aims to grow 1 to 2 percentage points more than the annual long-term market growth rate, which is estimated to be 2 to 3 percent. This target excludes the Consumer Brands Division, which will continue to have margin improvement as its first priority. The new financial targets, that are based on averages over the coming years, are outlined below:

Net sales growth

Between 3 and 5 percent annual currency-adjusted net sales growth, excluding the Consumer Brands Division.

3–5%

Operating margin

Operating margin of at least 10 percent.

≥ 10%

Operating working capital

Operating working capital in relation to net sales of a maximum 25 percent.

≤ 25%

Financial targets to 2016

Operating margin

Operating margin of more than 10 percent over the course of a business cycle.

> 10%

The operating margin increased to 8.9 percent (7.8) in 2016. The average operating margin was 6.5 percent from 2012 to 2016 and 6.8 percent from 2007 to 2016.

Goal achievement 2016

8.9%

Capital structure

Capital structure should meet the criteria for a long-term credit rating corresponding to at least BBB. It is considered that this requires a seasonally-adjusted net debt in relation to EBITDA not exceeding a multiple of 2.5 in the long term.

< 2.5x

Goal achievement 2016

1.6x

The seasonally-adjusted net debt/EBITDA was 1.6 (2.0) at year-end.

Dividend

The dividend shall normally exceed 40 percent (payout ratio) of net income for the previous year.

> 40%

Goal achievement 2016

53%

The Board proposes a dividend for 2016 of SEK 1.95 per share (1.65). The payout ratio for 2016 corresponds to 53 percent (50) of net income.



Sustainovate

The sustainability strategy is built on five areas where the Group can help tackle challenges society is facing and in doing so, create economic, social and environmental value for key stakeholders. Sustainovate is how the Group is integrating this thinking into its business.

These challenges are addressed in each division's business plan introducing targets to ensure that the Group is taking the right steps towards market leadership when it comes to sustainability. Read more about Sustainovate on pages 36–41.

The Carbon Challenge

Challenge: Decouple our business growth from carbon emissions.

Target 2020: 10% less CO₂ emissions intensity.

The Safety Challenge

Challenge: Lead our industry in safety across the value chain.

Target 2020: 35% reduction in new product incidents. 40% reduction in injury rate in operations.

The Team Challenge

Challenge: Be the best place to work.

Target 2020: A Team Survey Net Promoter Score (NPS) equal to or better than the peer group.

The Community Challenge

Challenge: Engage in the community and contribute to positive change.

Target 2020: Engage in two or more community projects.

The Supplier Challenge

Challenge: Inspire and build a sustainable supplier base.

Target 2020: 70% of the purchasing spend derives from suppliers audited and certified on their sustainability performance.

Strategy

Husqvarna Group has delivered on the first part of its promise to significantly improve profits and margins during the past few years. The next step for the Group is expansion and profitable growth that aims at outgrowing the market by 1 to 2 percentage points per year while continually improving the operating margin. The overall ambition is to achieve market leadership by 2020.

The Group operates on the principle of having strong, focused and empowered divisions with the functions needed to drive business towards their desired goals. Group strategic functions design the strategic framework to ensure alignment across the four divisions and secure important synergies, for example, in product platform management, lead-buy sourcing, supply chain and brand architecture. There are also overarching initiatives to secure success across the Group in the areas of digitization, the opportunity in battery-powered products and sustainability.

Market leader ambition 2020

Husqvarna Group's ambition is market leadership by 2020 in a wider perspective than just market share. Market leadership is defined as being the number one player or the number two player competing for the number one position. Furthermore, a market leader drives industry evolution in terms of innovation, customer focus, sustainability and operational excellence and it has the ability to capture the financial opportunities inherent in the market share position and innovation leadership.

Operating income doubled since 2013

Margin recovery has been the priority in recent years. The aim of the Accelerated Improvement Program launched in 2013 was to improve the operating margin through cost and complexity reduction and an increased focus on the areas where the Group has leadership positions. From an activity perspective, the program was closed at the end of 2015. By year-end 2016, the operating margin had increased to 8.9 percent compared with 5.3 percent in 2013, despite absorption of unfavorable currency impacts.

Profitable growth focus of the 2020 Strategy

The Husqvarna, Gardena and Construction divisions are all operating well above the Group's target of an operating margin of 10 percent, which means that these divisions have a profitable growth agenda. The Consumer Brands Division remains in turnaround mode and will maintain margin improvement as its priority.

The long-term ambition and detailing of the Group's strategy was set in 2014. The most distinctive change was the end-user-focused organization that was established in 2015. In the business plan of each division, the key initiatives to drive profitable growth or to improve margins have been detailed.

Customer segmentation is key

Knowing which end-user segments to target and how to effectively serve their needs and requirements determines success in the market. Understanding the different needs of end-user segments enables the Group to develop better offerings, a more balanced product mix, a differentiated channel approach, clear brand positioning and more targeted communication. The different brands play an important role as they are the direct link to end-users.

Business model differentiation

The key principle for defining the Group's four divisions is business model differentiation. In essence, this means each division targets its unique group of end-users and builds operations on the success factors necessary in each of these end-user segments. The Husqvarna Division shall be the preferred choice for professionals and prosumers in forestry, lawn and garden. Gardena aims to be the leading brand in the passionate gardener segment where gardening is a lifestyle, while the role of the Consumer Brands Division is to be the best alternative in the broad mass consumer segment. The Construction Division aims to be the preferred choice for professionals in several niche construction and stone industry segments.

Investments to drive profitable growth

To enable profitable growth initiatives, the Group has implemented a set of additional measures in 2016 and 2017 to reduce costs and increase efficiency. Successfully executing these measures will release the funds needed to finance the profitable growth initiatives of the three divisions in profitable growth mode. For Consumer Brands, the measures are essential since efficiency improvements and cost reductions are prerequisites for its margin improvement.

THE JOURNEY TOWARDS MARKET LEADERSHIP 2020

2013

Launch of AIP

- Accelerated Improvement Program to restore profitability

2014

Group strategy 2020

- Market, customer and technology studies
- Breadth and focus
- Goals and definitions

2015

New organization

- Growth and turnaround strategies
- AIP improvement program closed

2016

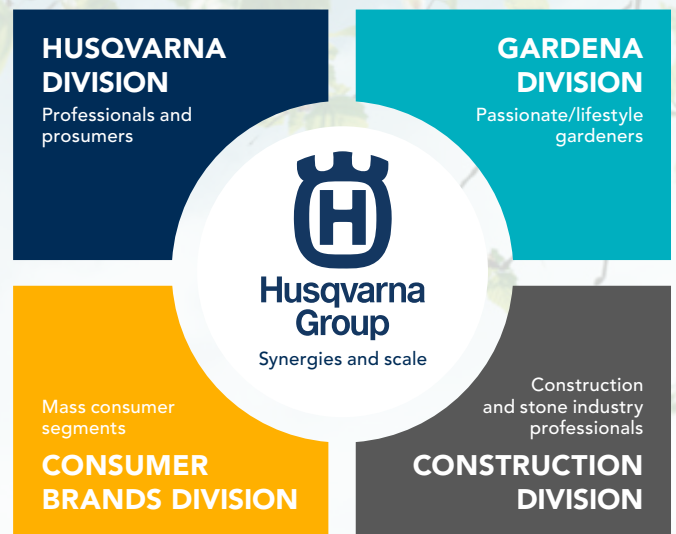
Launch of profitable growth initiatives

- Financing of growth initiatives
- Business plan implementation

STRENGTHS PROVIDING FOUNDATION FOR PROFITABLE GROWTH

- Leading market positions
- Strong brands
- Substantial R&D resources
- Global presence
- Flexible supply chain
- More than 325 years of experience

A STRONG CUSTOMER-FOCUSED ORGANIZATION



DIFFERENTIATED CUSTOMER FOCUS LEADING TO:

- Superior products and solutions
- Balanced product mix
- Differentiated channel approach
- Clear brand positioning
- Targeted communication

2017 →

Execution of profitable growth and profitability improvement strategies

Market leader ambition

- Number 1 or number 2 player competing for number 1
- Innovation and customer focus leader
- Capturing potential of profitable growth





Market

Husqvarna Group is one of the world's biggest producers of outdoor power products for forest, lawn and garden care. It is also one of the largest in niche segments in the light construction industry. As a global company, the Group is affected by several market trends that represent both opportunities and challenges. Dealing with these trends strategically is important to further strengthen the Group's market position.



A steadily growing market

The global forest and garden market is growing steadily. Over the last five years, its market value is estimated to have increased around three percent per year. The addressable market for forest and garden products in regions and segments where Husqvarna Group is active is estimated to be SEK 185bn. The addressable market for construction and stone industry products is around SEK 25bn with an estimated long-term growth rate of three percent.

The overall forest and garden market is attractive and can be characterized as mature with stable growth. Average growth has kept pace with gross domestic product (GDP) development at between 2 to 3 percent per year. Demand is driven mainly by general economic trends. Housing starts, employment levels, consumer purchasing power and consumer confidence are important indicators. New technology and product innovation are also important drivers of demand. Weather conditions may be important in a given year as they can impact the season and thus affect demand both positively and negatively. In addition a large portion of demand is estimated to be driven by replacement needs.

Europe and North America, where a significant part of the world's forest, park and garden areas are located, are the biggest markets. Combined, the two regions make up around 85 percent of the market in terms of value. Consumers in many of the larger markets outside of Europe and North America, such as China and Brazil, generally show less interest in gardening and there is a limited tradition of garden care among individuals, which explains the relatively small size of these markets. Demand in these markets is driven mainly by commercial end-users.

Lawn mowers are the largest product segment, electric the fastest growing

The wheeled product segment, which includes ride-on mowers and walk-behind lawn mowers, is the largest in terms of market value followed by the handheld segment, of which the largest categories are chainsaws and trimmers. The electric category, which covers corded and battery-powered products, is a relatively small segment but it is currently showing the strongest growth rate as new innovations and technology are being introduced into the market. Growth in electric products is being driven by battery-powered products such as robotic lawn mowers and handheld products such as trimmers, hedgecutters and chainsaws.

Construction market growing by about 3 percent

The long-term annual growth rate for the Group's product offering for the construction and stone industries is around 3 percent for construction products and slightly higher for stone products. Demand normally correlates strongly with activity in the construction industry, which is characterized by substantial cyclical variations.

Customers and distribution

The Group sells forest, park and garden products to more than 25,000 dealers and leading retailers worldwide, which in turn sell them to end-users. Dealers primarily sell products in the high performance segments to professional users and prosumers (demanding consumers) and offer product service, while retailers sell products in the low- to medium-price ranges, mainly targeting the consumer segments. The online channel, which is used both by dealers and retailers, is gaining in importance, but its share still represents less than 10 percent of the total market.

Construction and stone industry products are sold directly to end-users such as sawing and drilling contractors and quarry operators, to rental companies that lease the equipment to end-users and to dealers who sell to professional construction end-users.

Market demand in 2016

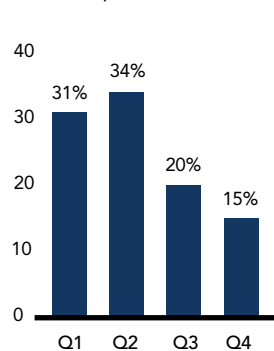
Demand for forest and garden products developed positively in Europe during 2016, driven by growing demand for robotic lawn mowers and other battery-powered products. North America, on the other hand, experienced a year with unfavorable weather conditions for forest and garden products during the peak season.

For construction industry products, demand increased in North America and was stable in Europe while it declined in the rest of the world. Demand for stone industry products decreased globally.

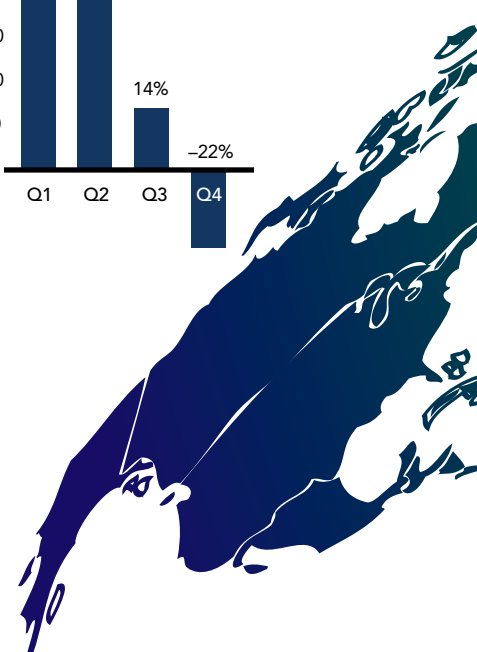
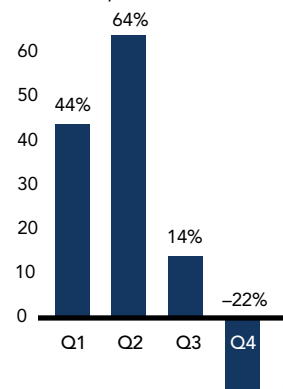
Seasonality

Forest and garden products, which represent almost 90 percent of the Group's total sales, are highly seasonal due to end-user buying patterns. Most equipment is sold during the spring and summer when the majority of lawn care and gardening activities take place. Because the main markets are located in the Northern hemisphere, sales are highest towards the end of the first quarter and during the second quarter. The third quarter generally marks the end of the garden season, given average weather patterns. The season for watering products is normally even shorter and often ends after the second quarter. Demand for forestry products tends to be somewhat higher during the second half of the year. For construction products, demand is fairly evenly distributed over the year.

Net sales, seasonality
Average distribution per quarter 2012-2016, %



Operating income, seasonality
Average distribution per quarter 2012-2016, %



80bn
HUSQVARNA
DIVISION



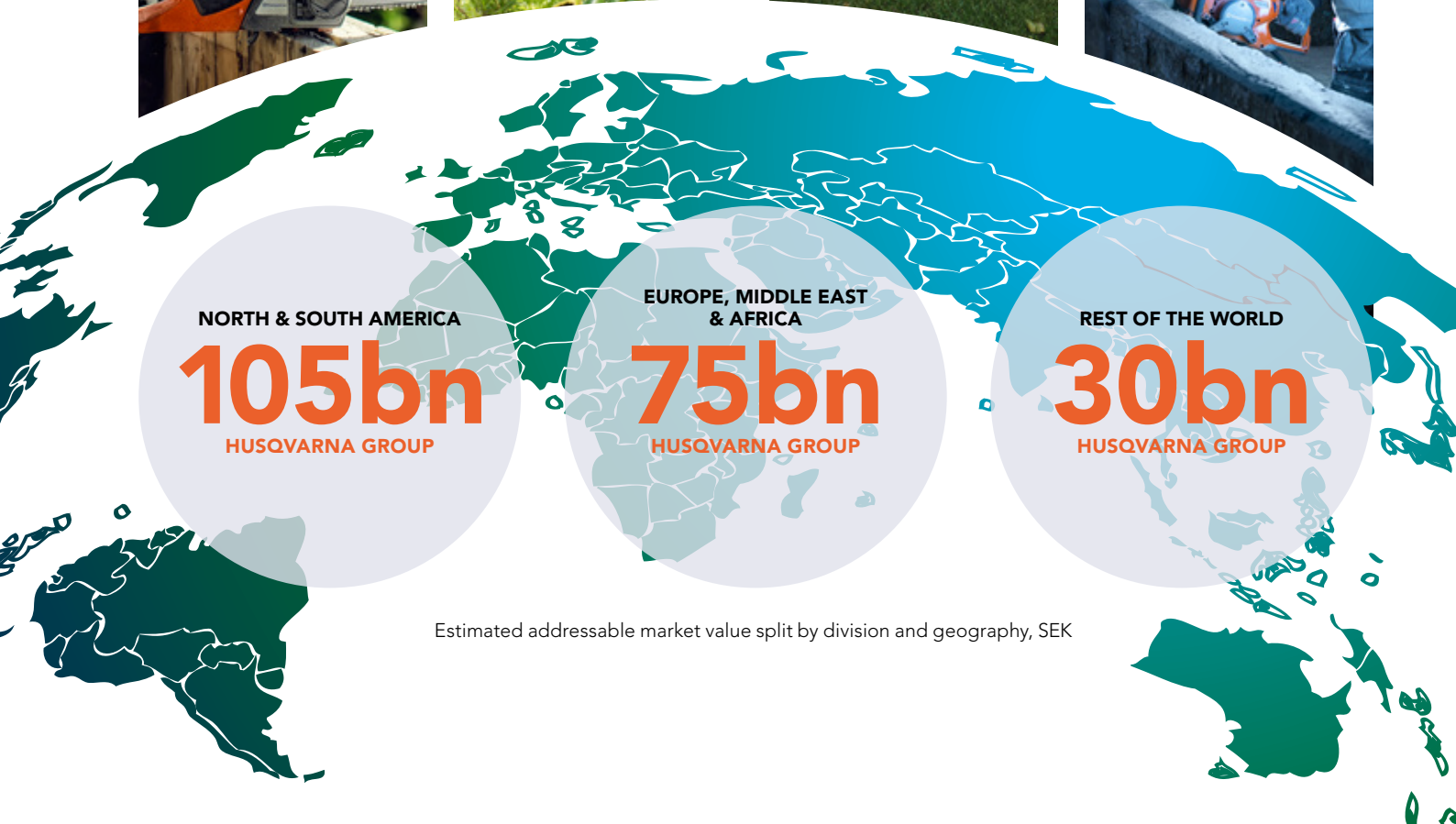
70bn
CONSUMER BRANDS
DIVISION



35bn
GARDENA
DIVISION



25bn
CONSTRUCTION
DIVISION



NORTH & SOUTH AMERICA
105bn
HUSQVARNA GROUP

EUROPE, MIDDLE EAST & AFRICA
75bn
HUSQVARNA GROUP

REST OF THE WORLD
30bn
HUSQVARNA GROUP

Estimated addressable market value split by division and geography, SEK

Market trends

New technologies, channel dynamics and shifts in consumer behavior are impacting the market and as a result influence the Group's strategy. Addressing these trends helps the Group to be flexible and resilient in an evolving world.

Battery technology

New battery technology helps increase capacity at an affordable price, making energy storage a viable alternative for industries ranging from cars to small devices. The price of lithium-ion battery packs is expected to decrease while energy density is predicted to increase, paving the way for new product solutions. This creates opportunities for battery-powered products with higher performance and enables battery technology to be applied to a wider range of products. It also supports a shift to products with lower carbon emissions.

Digitization

The digitization of products and services has a major impact on how they are developed, produced, distributed and serviced. It also changes how consumers use their products. The ability to gather and analyze data from devices creates prerequisites for greater efficiency. In addition, it is enabling the development of new customer-oriented features that will provide greater user flexibility, efficiency and productivity. Husqvarna Fleet Management (a cloud-based data gathering system for professional landscapers) is just one example of business models the Group is exploring.

Demand for safety and efficiency

Ecosystems are under strain. More regions are affected by water scarcity and demand for resources is rising. Well-being and safe workplaces are central. Meeting standards for water and fuel-efficient and safe products are no longer only baseline expectations. Delivering the best in safety and efficiency and low-carbon emission alternatives will increasingly be regarded as a competitive advantage. That is why they are important elements in the Group's sustainability work.

Consumer values and purchasing behavior

Internet shopping is on its way to exceeding traditional in-store shopping in key markets, driven by the increased availability of products, easy access to product information, convenient payment solutions and attractive delivery options. With this new purchasing behavior comes a shift in the consumer expectations of companies they choose to do business with. It also simplifies direct customer interaction as well as sales of parts, accessories and other value-added services.

Urbanization and new customer groups

Globally, middle class spending may triple by 2030 and 60 percent of the population is expected to live in urban environments. Most of this will occur in Asia. In Europe, the growth of older populations will outpace that of younger generations. Adapting to these changes is the core of the Group's strategic focus. The Group is growing in Asia and tailoring its offering to urban living, which means increasingly adapting to more compact spaces and meeting the demand for silent, unobtrusive products. Parks and other green spaces are also becoming increasingly important as more people live in urban environments. Developing ergonomic, easy-to-use products will help everybody enjoy the garden experience.

“ A firm focus on customer-centric innovation and market development will be key going forward.

Kai Wörn, President and CEO





Operations

Husqvarna Group operates on the principle of having strong, focused and empowered divisions with all of the functions needed to drive business towards their desired goals. Group strategic functions design the strategic framework to ensure alignment across the four divisions and to secure important synergies, for example, in sourcing, logistics and technology. The three divisions in forest and garden, Husqvarna, Gardena and Consumer Brands, and the Construction Division each have different business models with their own distinct end-user target groups, strategies and offerings.



Husqvarna Division

A global leader in forest and garden products

The Husqvarna Division is a global leader in forest, park and garden products and solutions used by professionals and prosumers. This leadership is built on a deep understanding of customer needs and requirements. The division's strengths include a broad and competitive product range, global distribution through dealer partnerships built over many years, innovation capability and strong brand recognition. Market positions are strong in several areas including professional handheld products and robotic lawn mowers.

The division's core brand is Husqvarna, which is used globally and accounts for the majority of sales. Other regional or tactical brands include Zenoah in Japan and Jonsered which is used mainly in Scandinavia and North America. End-users are found in areas such as forestry, tree care, landscaping and commercial lawn and garden services, as well as among home- and landowners. The overall global market share is around 20 percent, with a relatively stronger position in Europe. By product category, market positions are strong for handheld products, especially chainsaws, and for wheeled products. For robotic lawn mowers, Husqvarna is the undisputed global market leader.

The division operates globally, with the majority of sales generated in Europe and North America. This means that further opportunities exist in emerging markets, which offer relatively higher growth rates.

Product and services innovation is critical for the division's long-term competitiveness. The Husqvarna Division is the main research and development (R&D) driver in the Group. R&D has a broad, end-user insight-driven approach.

Profitable growth ambition

The Husqvarna Division delivers well above double digit operating margins and there are attractive growth opportunities in the market. For this reason, its aim is to realize profitable growth. In the long-term, strengthening the professional market share and further increasing brand recognition is of the utmost importance. Since

professionals are reached through the dealer channel, the Husqvarna Division aims to be the channel's preferred business partner.

Focus on commercial end-users

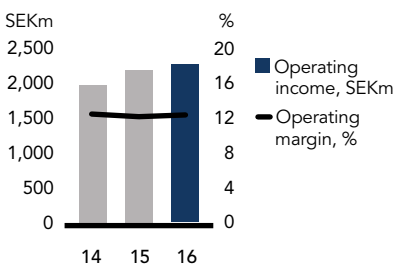
The commercial lawn and garden segment is the largest professional opportunity. It involves a differentiated distribution approach to fulfill the high service and technical support requirements from these customers. In addition to supplying products that enable productivity gains and increases in uptime, safety and sustainability features such as improved noise and emission conditions are also important. Battery-powered products play an important role in this context, which is why it is important to leverage application knowledge to claim a leadership position in this area as well.

Leverage market leadership in robotic mowers

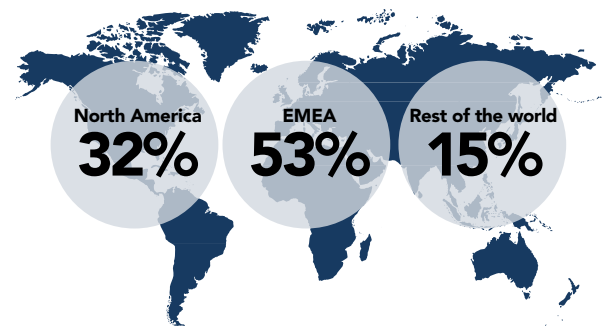
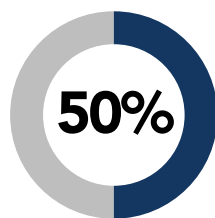
In the demanding consumer (prosumer) market, robotic lawn mowers together with other battery-powered products are considered the biggest growth opportunities. For many years, Husqvarna has been the global market leader in robotic mowers. Maintaining this position and fully capitalizing on this growing market is critical. Key areas include continued R&D investments as well as differentiated strategies depending on robotic mower maturity.

To fund profitable growth activities, the division will continue to focus on reducing cost and improve efficiency.

Operating income and margin



Share of Group net sales



Main brands	Product range	End-users	Distribution channels	Main competitors
 	<ul style="list-style-type: none"> Handheld products, including petrol and battery-powered as well as corded such as chainsaws, brush cutters, trimmers and leaf blowers Wheeled products such as front riders, garden tractors, zero-turn mowers, walk-behind mowers and snow throwers Robotic lawn mowers Accessories and spare parts 	<ul style="list-style-type: none"> Professional users Prosumers 	<ul style="list-style-type: none"> Dealer-centric, multi-channel 	<ul style="list-style-type: none"> STIHL Group Deere & Company Honda Toro Yamabiko Corporation

“ Our wide range of battery-powered products and robotic mowers support our customers’ increased sustainability ambitions.

Pavel Hajman
President, Husqvarna Division



Innovation driving growth in robotic mowers and other battery-powered products

Several new products were launched in 2016, two of which were groundbreaking achievements including the launch of the Group’s first own saw chain, Husqvarna X-CUT and the Rider Collection with patented grass-collecting features. The market for robotic lawn mowers and other battery-powered products continued to grow during the year. Even if there were macroeconomic challenges in certain markets, the division saw positive overall earnings improvement in 2016 despite unfavorable currency impacts.

“Sales developed well in Europe with continued strong growth in robotic lawn mowers in more mature markets such as Sweden and Germany as well as successful launches of our robotic concepts in less mature markets such as France and the US,” says Pavel Hajman, President of the Husqvarna Division. Battery-powered products such as chainsaws, trimmers, hedge cutters and leaf blowers also performed well with a growth rate above the market.

Part of an innovative Group

“In 2016, we launched our first proprietary saw chain both developed and manufactured by the Group. In just three years, we designed the chain and built the complex manufacturing know-how needed. Our customers highly appreciate its excellent cutting performance and sales so far have been very good,” says Hajman. Further saw chains will be introduced in the coming years.

Strategic priorities

- Dealer channel business development
- Commercial lawn and garden
- Parts and accessories
- Robotic lawn mowers
- Battery-powered products
- Emerging markets

A ride-on lawn mower, the Rider Collection with patented grass-collecting features, was another important launch during the year. “This new mower opens up a larger part of the lawn market, especially in central and southern Europe, markets that value collecting features,” says Hajman.

Macroeconomic headwinds in Latin America and Russia were challenges during the year in addition to negative currency effects. “Negative currency effects impacted earnings by around SEK 250m. We were, however, able to offset this with good overall sales performance and firm cost control,” Hajman explains.

Like his counterparts in the other divisions, Hajman emphasizes the value of belonging to the Husqvarna Group. “There are many synergies when it comes to sourcing, manufacturing and product development as well as strategic synergies,” he says. “One good example is the cross-Group development of new digital services that will be important in the years to come.”

Sustainability initiatives

Sustainability is also an area where the division cooperates closely with the Group. The Husqvarna Division has identified several key activities to reach the Group’s targets for 2020. “We have started working to integrate these activities into our daily operations. Launching new products with lower emissions is important, like the launch of more environmentally-sound fuel and oil. Our new saw chain factory in Huskvarna is an

example of how we are doing business more sustainable. It has a closed loop system for wastewater treatment and reuse of water, and heat energy generated in the factory is also reused,” says Hajman.

Profitable growth

Looking ahead, profitable growth is the division’s priority going forward. “I’m confident that we can grow while also improving our earnings and margin. We can do this by executing our strategic growth initiatives that include launching new products and business development programs for the dealers who sell our products,” he continues.

One of the division’s strategic growth initiatives is in the area of battery technology. The division has invested substantial resources to develop leading battery-powered handheld products such as chainsaws and trimmers. “Today we have a large and broad assortment for professional users as well as demanding consumers. We are also investing in battery-powered lawn mowers. At the same time, we are continuing to invest in the petrol handheld area to develop the next generation of chainsaws with improved cutting and environmental performance,” says Hajman.

“Our job is simply to equip our users with products that meet their needs to shape and care for green spaces efficiently. Regardless of whether this means petrol or battery-powered, we will always strive to offer the best user-centered solution,” he concludes.

Husqvarna X-CUT – the new chainsaw chain

For decades, Husqvarna has been one of the world's most respected chainsaw brands. Anyone using a chainsaw from Husqvarna should get the best possible results every time.

This is why manufacturing our own chainsaw chains is a logical step in improving the user experience and boosting performance. And after years of research, development and lab and field tests, Husqvarna X-CUT chainsaw chain was unveiled in August 2016.

Husqvarna X-CUT is designed to cut faster and smoother than comparable products. It has a low-vibration pixel, saws narrow incisions and requires less power from the chainsaw. The design of the cutter link, the materials and the manufacturing process have been fine tuned to give the chain an excellent, long-lasting sharpness.

The chain is pre-stretched in the factory so the user can work longer before it needs to be adjusted. The precisely balanced combination of design, materials and processes has resulted in excellent durability and less wear on the saw, resulting in lower service needs.

Top-quality chains require precision, speed and control of production, and the manufacturing process is complex. It requires deep knowledge, state-of-the-art equipment and quality procedures. To meet these needs, Husqvarna has built a new chain factory strategically located beside its original chainsaw factory in Huskvarna, Sweden.

The new facility is top-of-the-line when it comes to environmental considerations. A closed system, that is, a system with no emissions to water, has been installed. Thanks to this and other environmental initiatives, total emissions have been reduced.

Husqvarna X-CUT is just the first in a line of saw chains that Husqvarna will introduce as the division continues to optimize the cutting experience for users.





“ In just three years, we designed Husqvarna X-CUT and built the complex manufacturing know-how needed. Our customers highly appreciate its excellent cutting performance and sales so far have been very good.

Pavel Hajman
President, Husqvarna Division

Gardena Division

The leading brand for passionate gardeners

Gardena is the number one watering brand in Europe. It is recognized for its high quality and market-leading product innovation and design. There are many opportunities to leverage the business by expanding core product segments geographically and by expanding Gardena's offering in core markets. Important steps in 2016 include the launch of the Gardena Smart System, the first complete IoT (Internet of Things) solution for watering and lawn care in an integrated system, and the Gardena City Gardening products.

The Gardena brand enjoys strong brand awareness and recognition in the consumer segments in the European markets. The main focus is on end-users with a passion for gardening. These users take pride in crafting unique results and truly enjoy the different activities involved in gardening. For this reason, they demand reliable, user-friendly products with high quality.

A leader in consumer watering and hand tools

The Gardena Division offers the broadest range of gardening products in its markets and leads the market in Europe for watering and hand tools. The product range is characterized by a solution and system character and much of its success has come from systems such as the Original Gardena System in watering products (garden hoses, connectors, nozzles, sprinklers) and the Gardena Combisystem for hand tools (soil cultivation and cutting tools such as secateurs, loppers). To satisfy the demands of the growing urban population, a new range of garden products for smaller city gardens and gardening on balconies, terraces and rooftops was introduced.

The division's customer support is also an advantage, for example, for offering watering planning and availability of products and parts. Maintaining this strength and leveraging it further into online sales is important going forward.

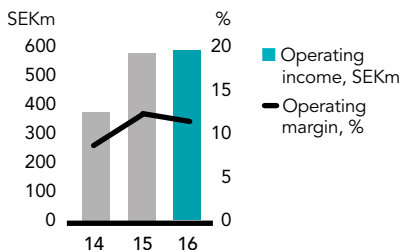
Growing in robotic and electric, launching connected products

Electric and battery-powered products, such as robotic mowers built on the great experience from Husqvarna Automower®, lawn mowers, trimmers, hedge cutters and shrub shears are also included in the offering. Further building on these positions is key since they are the fastest growing segments. In 2016, Gardena introduced the Gardena Smart System, a new solution enabled by connectivity and Internet of Things (IoT) technology that is the first of its kind on the market. The system connects intelligent garden sensors, watering equipment and controls, and robotic lawn mowers. A smart phone application lets the consumer control and monitor the devices to optimize and automate watering and mowing.

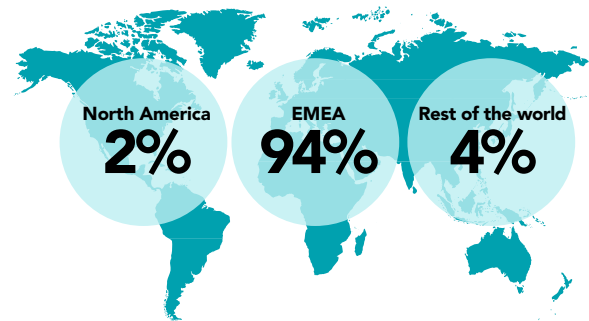
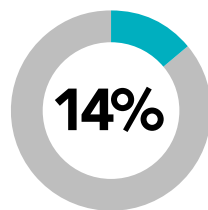
Profitable growth agenda

The division's core markets are Germany, Austria, Switzerland, Belgium and the Netherlands. Gardena is also well represented in other areas of Europe as well as in Australia, Canada and South Africa. There are significant opportunities to expand beyond the core markets as well as to leverage on Gardena's brand strength into new or adjacent product categories.

Operating income and margin



Share of Group net sales



Main brand	Product range	End-users	Distribution channels	Main competitors
	<ul style="list-style-type: none"> Watering management: garden hoses, connectors, reels and sprayers; sprinklers and sprinkler systems; water pumps and watering controls Corded and battery-powered products such as robotic mowers, trimmers, hedge cutters and shrub shears Garden tools such as secateurs, loppers, axes, digging tools and winter tools Smart products such as the Gardena Smart System 	<ul style="list-style-type: none"> Consumers – passionate gardeners 	<ul style="list-style-type: none"> Retail-centric, multi-channel 	<ul style="list-style-type: none"> Hozelock Kärcher Bosch Group Fiskars

“ Our division is truly flourishing. We’re outgrowing the market and taking market share thanks to our new products, increased distribution and geographic expansion.

Sascha Menges
President, Gardena Division



New products and geographic expansion driving growth

2016 was a prolific year for Gardena that included product innovation, geographic expansion, multichannel distribution and strengthening of the brand. New innovative products launched during the year included the intelligent Gardena Smart System, the new SILENO range of robotic lawn mowers and the Fruit Collector.

“Our division is truly flourishing. We’re outgrowing the market and taking market share thanks to our new products, increased distribution and geographic expansion,” says Sascha Menges, President of the Gardena Division. “This confirms that we are truly able to deliver on our strategic priorities and goals,” he continues. “New products are always an important driver of growth and part of Gardena’s DNA. In 2016, we continued to roll out our new frost-proof range of watering products and we introduced a new range of robotic mowers that has been received very well. Above all, we launched the Gardena Smart System, a first-in-the-market system that brings both smartphone-controlled and automatic watering and mowing to your fingertips,” says Menges.

The Gardena Smart System is the fruit of the tremendous work carried out by a large

team in Gardena. It was also made possible by the addition of Koubachi, a pioneer in the area of smart gardening that was acquired in 2015. “We’ve created a completely new platform that will evolve year by year with the addition of new products, intelligent features and partners who join the system. This will allow us to constantly increase the consumer value of our system,” he says.

At the other end of the invention scale is the new Fruit Collector that makes picking up fruit from the ground easy, quick and ergonomic. “We launched the Fruit Collector this fall and so far, reception has been fantastic. This is another proof of our innovation power – our ability to create smart products that are ingenious yet simple,” he explains. The Fruit Collector is also a new part of the Gardena Combisystem that allows users to combine different handles with various tools to manage many gardening applications. The system is now in its 40th successful year.

Benefits from Group synergies

Being a part of the Husqvarna Group makes the Gardena Division stronger. It can leverage Husqvarna’s 20 years of experience in robotic lawn mowing, which is an important part of the Gardena Smart System. The Group also provides structure that the division can use when entering new markets. And the benefits are also mutual. “We provide shared services from our headquarters in Ulm for the Group’s other divisions, for example, European

logistics services and shared back-office administration,” says Menges.

One challenge going forward is how to capitalize on moving from a hardware and product focus to a higher degree of software and service content. “The opportunities in the area of digitization require an organizational and mindset change journey. In this field, it is key to work across the Group to realize benefits that our competitors are unable to,” Menges adds.

A sustainable future

The division’s sustainability targets are in line with the Group, especially when it comes to carbon footprint and safe workplace. “But we are also taking watering seriously and evaluating various forms of water efficiency. We have been innovating water-efficient products for almost 50 years, helping consumers enjoy lush, green gardens with minimum water usage,” says Menges.

For 2017, the division’s growth ambition continues with the rollout of the Gardena Smart System to more markets along with additional products and features.

“We will introduce more than 60 new products in 2017. Among these is a new product range called Gardena City Gardening that leverages the urbanization trend and growing share of smaller terrace and balcony gardens. We will also launch an expanded range of battery-powered products and continue to expand our frost-proof, premium range of watering products,” concludes Menges.

Strategic priorities

- Geographic expansion
- Further strengthening of the brand
- Multi-channel distribution
- Innovation such as Gardena Smart System expansion
- Operational excellence

Gardena Smart System

Digitization is of great strategic importance for the Husqvarna Group. Through increased digitization, the Group aims to lead the market and be a pioneer in shaping the "smart gardening" sector. A major step in this respect was the launch of the Gardena Smart System, making Gardena the first brand to offer a complete IoT solution for gardening in an integrated system. By combining watering and lawn mowing in one networked system, Gardena is extending the smart homes concept to the garden.

In a smart garden, technology helps deliver optimal care to plants and grass. With the Gardena Smart System, gardeners get a real-time overview of their garden through a smartphone or tablet app that lets them control and configure all of their connected devices, even when they're on the move. The core element of the system is the smart gateway that connects all devices through radio connections. These include the smart sensor and smart water control as well as the robotic lawnmowers SILENO and smart SILENO+.

Sensors collect live data on soil moisture, outdoor temperatures and light intensity, making it easier for gardeners not only to plan when to mow or water their lawns and plants, but also to adapt to weather conditions. Connecting a watering system and a Gardena robotic mower to the solution gets the job done automatically at the right time.

Various teams have been cooperating to develop the Gardena Smart System including experts in electronics and engineering as well as product management and sales. The result is solutions that are secure and reliable while at the same time user friendly. Strategic cooperation and alliances are important future building blocks since the full potential of networked systems can only be realized when they are compatible with each other.

In 2017, the system will be further expanded and developed with additional hardware such as a smart pressure pump and a smart battery as well as improved features and usability on the software side. New hardware and software will constantly be added to the system to keep it at the cutting edge in the years to come.



“ We’ve created a completely new platform that will evolve year by year with the addition of new products, intelligent features and partners who join the system. This will allow us to constantly increase the consumer value of our system.

Sascha Menges
President, Gardena Division



Consumer Brands Division

The road to 5 percent and beyond

The Consumer Brands Division possesses a broad and strong product offering, a portfolio of well-recognized brands, long-standing retail relationships and a solid market share position. Being part of the Husqvarna Group gives competitive advantages such as access to industry-leading technology, innovation and scale. By leveraging strategic focus including relentless operational excellence and cost-out activities, the division has the opportunity to turn around its financial performance.

The Consumer Brands division aims to be the leading forest and garden supplier for the broad mass consumer segments. Products are sold mainly through retailers such as Lowe's and Walmart in the US and Castorama and B&Q in Europe. The retail landscape is highly consolidated in North America and competition in the mass consumer segment is fierce with a strong emphasis on price. The estimated addressable market amounts to SEK 70bn, of which more than 60 percent is in North America and slightly less than 30 percent is in Europe.

Leveraging on Group innovation and scale

The Consumer Brands Division has the opportunity to leverage on technology, innovation and scale from other parts of the Group such as the Husqvarna Division. This will allow the division to benefit from new features and technology to keep products and brands relevant and exciting.

The division also has an opportunity to leverage on and provide scale in areas such as manufacturing and sourcing, from which the Husqvarna Division can benefit. Leveraging these opportunities effectively will bring advantages over competitors positioned only in the consumer segments. The division also aims to protect the professional focus in other areas of the Group by providing compelling alternatives in the mass consumer segments, thereby preventing competitors from entering the professional segments via a first entry into the consumer segments.

Milestone of break-even result reached in 2016

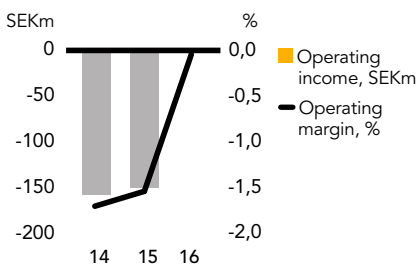
Given the unsatisfactory financial starting point and headwinds in terms of currency development, the priority in 2015 and 2016 was value before revenue growth, which was reflected in the downturn in sales. The foundation for the financial turnaround is a relentless focus on cost reductions and efficiency improvements across all areas of the division, including direct as well as indirect product and manufacturing costs and logistics costs. An important milestone was reached in 2016 when the division achieved a break-even result, despite unfavorable currency impacts and a decline in sales.

Furthermore, the division aims to achieve gradual mix improvements by exploring new opportunities through new product launches, such as in robotic lawn mowers and battery-powered products, and through improved cross-selling of parts and accessories as well as online sales.

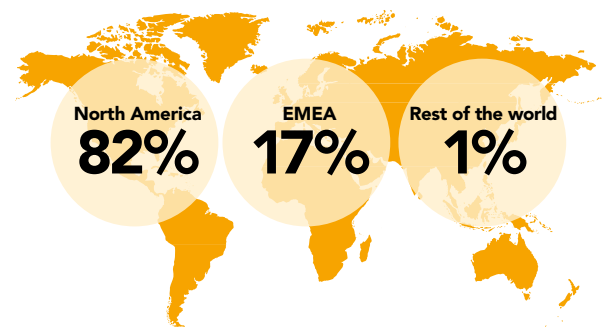
Strategic priorities

- Value before revenue
- Cost reductions and efficiency improvements
- Drive favorable product mix
- Revitalize brands

Operating income and margin



Share of Group net sales



Main brands	Product range	End-users	Distribution channels	Main competitors
 Private labels	<ul style="list-style-type: none"> • Ride-on lawn mowers: mainly garden tractors and zero-turn mowers • Walk-behind lawn mowers, snow throwers and tillers • Handheld products, both petrol-powered and electric such as chainsaws, trimmers, hedge trimmers and leaf blowers • Accessories and spare parts 	<ul style="list-style-type: none"> • Mass-market consumers 	<ul style="list-style-type: none"> • Retail-centric, multi-channel 	<ul style="list-style-type: none"> • Modern Tool and Die Company (MTD) • Global Garden Products (GGP) • TTI • Worx • Private labels

Relentless cost focus generating results

For the Consumer Brands Division, 2016 was a year of earnings recovery and a return to profitability, focus on trade customers, stronger overall planning and rejuvenated collaboration across all Husqvarna Group divisions. Now, Consumer Brands Division President Jeff Hohler is focused on the next step – while continuing the cost-out measures, the division will focus on capturing growth opportunities including adding robotic lawn mowers to the division's offering.



A year of good progress

Despite headwinds due to unfavorable weather during the peak selling season, the Consumer Brands Division recaptured some of the first-half shortfalls with more favorable progress in North America and even stronger performance in the European market towards the end of the year.

"2016 was a year of continued progress on our turnaround journey. Reaching a break-even result for the full year was a fantastic achievement," says Hohler. The greatest success stories were the turnaround in the European and Asia-Pacific markets and the ambitious cost-out initiatives across the supply chain.

"We had some hard work to do to stabilize our partnerships in North America and despite a very competitive environment, we managed to strengthen relationships with our key global retail customers," says Hohler. "Leveraging Husqvarna Group resources and collaborative efforts across divisions has resulted in a stronger overall game plan for the Consumer Brands Division," Hohler continues.

"You can clearly see cross-divisional collaboration play out in our invigorated approach to channel planning, trade marketing planning and brand management. The momentum of divisional collaboration is especially apparent when you look at shared resources working on our key product portfolios. For instance, the Consumer Brands Division reaped benefits of both cost and scale through the design expertise

of Husqvarna Group, particularly in garden tractors and lawn mowers that are crucial in the North American market. And in 2017, we will launch the McCulloch robotic mower, which would not have been accomplished without cross-divisional cooperation."

Towards an exciting future

Looking ahead to the challenges 2017 offers, Hohler and his team will focus on a few "must-win battles" in the upcoming year: trade account management, operational excellence, continued focus on the European market and brand revitalization. "But it doesn't stop there," Hohler says. "In 2017, we will also continue our sustainability efforts, with a specific focus on the growing demand for battery-powered products, reducing our carbon footprint and most importantly, ensuring the safety of all of our associates."

"A great example of how sustainability is truly top-of-mind is a warehousing restructuring project we worked on in 2016. By consolidating the logistics operations of our manufacturing facility in Orangeburg, South Carolina with a new state-of-the-art finished goods warehouse, we are reducing costs while also contributing to a better environment. The facility will reduce inter-plant trucking by approximately 328,000 km, CO₂ emissions by 317 metric tons and inventory transactions by almost 200,000," Hohler continues.

By driving profitable growth, continuing to focus on cost-out measures, building on sustainability efforts and executing robust

brand and marketing plans that not only support our channel partners but drive the successful launch of robotic mowers, 2017 is sure to be an exciting year for the Consumer Brands Division.

“ In 2017, we will also continue our sustainability efforts, with a specific focus on the growing demand for battery-powered products, reducing our carbon footprint and most importantly, ensuring the safety of all of our associates.

Jeff Hohler
President, Consumer Brands Division

McCulloch robotic lawn mower

Since 1949, McCulloch has been giving people the power to get the job done – initially by supplying loggers with some of the most efficient and innovative chainsaws ever made.

Today is no different. As the gardening industry evolves, McCulloch is continuing to lead the way through innovative and smart solutions, the latest example of which is our new robotic lawn mower.

As part of Husqvarna Group, which has been pioneering the market for robotic lawn mowers since the launch of the first model in 1995, the McCulloch robotic lawn mower is a carefully designed and user-friendly addition to Husqvarna and Gardena's robotic mowers that will be launched in Europe and Asia in 2017. The McCulloch robotic lawn mower is ready to tackle anything from tough slopes to large lawns up to 1,000m² – a powerful robotic mower that takes the hassle out of mowing.



“ This machine is ready to tackle anything from tough slopes to large areas of grass. It just may be the best example yet of our promise to deliver the power to get it done.

Jeff Hohler
President, Consumer Brands Division



Construction Division

The preferred choice of construction industry customers

The Construction Division is a global leader in machinery and diamond tools for the construction and stone industries. Its foundation is built on product and technology leadership ensured by high investment levels in user-centered product development to offer professional users the most efficient and powerful solutions in market. Products and solutions are distributed globally in all relevant sales channels.

The Construction Division develops, manufactures and sells mainly light construction products for sawing, drilling, grinding, polishing and demolishing concrete, steel and other hard materials. Its products are used exclusively by professionals who demand high-level performance, reliability and superior levels of technical service. Satisfying these demands is crucial for success. The Husqvarna brand is used for the construction products and Diamant Boart is the brand for stone industry products.

Strong global market positions

The global market for the division's product range for the construction and stone industries is valued at approximately SEK 25bn. The market is fragmented with many small, local competitors and only a few global actors. The division's combined global market share in relevant product categories is around 15 percent, with leading positions in several areas. Positions are strongest in power cutters, floor, wall and wire saws as well as multi-wire.

Success factors

The division offers high-quality products and solutions to professional customers. A global service network is critical to support the business. Products and services are sold to dealers, rental companies and directly to contractors by using innovative sales processes and tools. High levels of investments are made to

maintain the widest, most innovative and powerful range of products in the market.

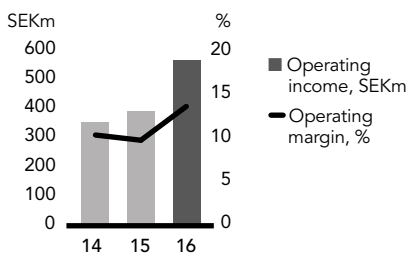
Towards profitable growth

The Construction Division has completed significant restructuring of its operations since the market downturn in 2008 and 2009, creating a strong foundation for continued profitable growth. The brand portfolio has been consolidated to mainly one brand, Husqvarna. Complexity in the product offering has been reduced, acquisitions have been fully integrated and R&D levels have increased. In 2016, sales rose for the sixth consecutive year.

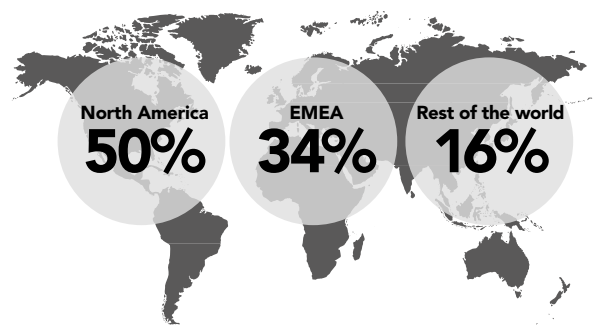
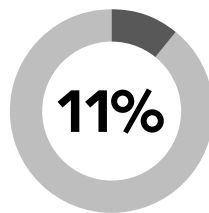
Strategic priorities

- Continually improve the solid foundation
- Utilize cost and efficiency improvements to fund strategic investments
- Focus on key attractive segments
- Add service offerings
- Step up in emerging markets

Operating income and margin



Share of Group net sales



Main brands	Product range	End-users	Distribution channels	Main competitors
 	<ul style="list-style-type: none"> • Power cutters • Floor, tile and masonry saws, wall and wire saws • Drill motors with stands • Floor grinding machines • Demolition robots • Diamond tools for construction and stone industries 	<ul style="list-style-type: none"> • Construction industry: infrastructure projects such as road and bridge construction, renovation and construction of commercial residential properties • Natural stone industry 	<ul style="list-style-type: none"> • Direct sales to professional end-users: sawing, floor grinding and demolition contractors • Rental companies that rent equipment to building companies and contractors • Construction dealers • Stone processing industry 	<ul style="list-style-type: none"> • Hilti • STIHL • Tyrolit • Ehwa and Shinhan • Skystone

“ We continued to expand by increasing our sales organization and launching new products that helped solidify our position as the innovation leader in our industry.

Henric Andersson
President, Construction Division



The Construction Division cements position as market leader

The trend of growing faster than the market continued in 2016 for the Construction Division. Market conditions, however, were mixed and performance varied in different markets. The Construction Division continued to invest in and prepare for sustainable profitable growth by expanding its sales force, introducing several innovative products and acquiring key technologies. Launching an innovative wall saw chain attachment and acquiring Diamond Tools Supply Inc. were some of the highlights during the year.

“We continued to grow and increased profits, with the second quarter as an all-time high in a year characterized by mixed market conditions. We also increased our sales organization and launched several new innovative products that helped solidify our position as the innovation leader in our industry,” says Henric Andersson, President of the Construction Division.

Continuing a positive trend

The division has consistently outgrown the market and the main objective is to continue this trend. The year was characterized by mixed market conditions as a result of the construction industry’s dependency on financial and political macro and micro factors that led to both good and weak demand depending on the market. The global stone market is highly dependent on Brazil and to some extent the Middle East, and demand was lower than normal in these markets. The construction business, on the other hand, performed well. “The key is to consistently strengthen our position by adding resources in sales, expanding our positions in emerging markets and continuing to invest in R&D, which is a prerequisite for leadership in innovation,” continues Andersson.

The Construction Division participated in Bauma, the largest trade fair in the industry, which is held every third year. “Judging by the amount of traffic to our booth and positive reactions to our new product launches, our leadership position

is obvious,” says Andersson. “The launches that sparked the most interest were the industry’s first wall saw chain attachment, WSC 40, and our UpCare service contracts. WSC 40 is a new way of working with a wall saw, allowing the operator to cut precise corners or flush in a safer, more exact and ergonomic way. Our UpCare service contracts give customers ultimate peace of mind by protecting them from repairs and unplanned downtime. Now they can pay a fixed fee and we take care of all of their service requirements. Such services add value for our customers and we will develop more of these services in the future as part of our new UpCare service concept,” he explains.

Strategic acquisitions

In May 2016, the division also acquired Diamond Tools Supply Inc. (DTS), a leading manufacturer of resin bonded polishing diamond tools and diamond-impregnated cleaning and polishing pads for the construction and terrazzo markets as well as specialty metal polishing tools.

“The acquisition of Diamond Tool Supply reinforces our position as a market leader of complete solutions for the construction grinding and polishing industry,” says Andersson. “We are the only surface preparation actor with full in-house capability for both metal and resin bonded diamond tools as well as machines that provide a clear competitive advantage. The surface preparation industry is one of

the more profitable and fastest-growing segments in our industry, which is why this acquisition was very important for us. Another important step was the acquisition of Pullman Ermator, which was finalized just after the close of the year. By integrating Pullman Ermator’s market-leading dust and slurry management solutions into our concrete cutting, drilling and grinding systems, we can provide our customer with the market’s most complete product range in this area – including integrated total solutions for dust and slurry management,” he adds.

Going forward as a Group

Belonging to the Husqvarna Group means sharing key technologies, manufacturing resources and sales infrastructure. “This brings cost-efficiency and allows us to have our own representation in many countries. It’s a big advantage,” says Andersson. “There are also significant synergies that come from using and collectively building the Husqvarna brand with the Husqvarna Division.”

Another important step in 2016 was to further detail the division’s long-term strategic plan. One integral part of the strategy is sustainability, with increasing process efficiency and being the employer of choice as two examples. “We consistently work on our performance culture, behavior, attitudes and target setting. This is a way to achieve results and attract talents, something that is critical today and will become even more so in the future,” he concludes.

Husqvarna WSC 40 – the precision cutting wall saw chain attachment

Cutting concrete is hard work. It involves long days filled with heavy lifting, uncomfortable positions and getting covered in dust and concrete slurry. You're exposed to vibrations from the machines you're using and having to switch from one tool to another to get the precision you need. It's no wonder that it's difficult to be neat and accurate when cutting into concrete and other building materials.

This is why we have introduced a new, lightweight wall saw chain attachment that lets the user cut precise corners and close to the ceiling, floor or wall in a safer, more precise and ergonomic way. The attachment, which is called WSC 40, can be combined with several of Husqvarna's wall sawing systems and easily converts a wall saw from blade to chain sawing. It simply attaches to the wall saw for accurate sawing without overcutting in the corners, which can happen when using a circular blade.

When introducing new products, we always work closely with our end-users and WSC 40 is no exception. The attachment is currently being piloted in the Nordic countries and the US, and feedback so far is positive. Thanks to WSC 40, cutting concrete is now safer and more precise, making everyday working life more sustainable and productive for workers in the construction industry.



“ WSC 40 is a new way of working with a wall saw, allowing the operator to cut precise corners or flush in a safer, more precise and ergonomic way.

Henric Andersson
President, Construction Division







Sustainovate

Rooted in a passion for innovation and connecting people with nature, Sustainovate is Husqvarna Group's way of integrating sustainability into its business. Creating a strong company fit for the future demands the ingenuity and courage of its people, forward-thinking leadership in its organization and the insights of its strategic partners. This is how the Group will raise the bar on safety and product efficiency and find new ways to reduce consumption of energy, water and other resources. More importantly, this is how the Group will explore innovative product ideas and business models that will deliver positive impacts on people and the planet, and how Husqvarna Group intends to make these technologies available to many more people.

Defining a path to a better future

Sustainovate is the Group's strategic approach to integrating sustainability thinking in business decisions, product and solutions development and relationships across the value chain. Founded on five key challenges, Sustainovate includes ambitious Group-wide targets that will drive company performance to 2020. Each division has identified its role in delivering on the strategy, creating initiatives in the areas where it can add the most value. Together, the Group will raise the bar on safety and product efficiency and promote product ideas and business models that will deliver market and sustainability leadership.

The Carbon Challenge



OUR AMBITION

Through innovation, energy-efficient operations and new products, the Group aims to grow its business while reducing emissions across its value chain – from product design, suppliers, manufacturing and logistics to smarter product use.

2020 SUSTAINABILITY TARGETS

10% less CO₂ emissions intensity by 2020.

PROGRESS



-13%
CO₂ INTENSITY

KEY HIGHLIGHTS



- Increased sales of battery-powered products contributed to a 13% reduction in CO₂ emissions intensity. By investing in low-carbon technologies and accelerating sales of battery-powered products, the Group is well-positioned to achieve the climate target.
- Reduction of carbon emissions intensity at manufacturing sites by 11.5% (tCO₂/VA SEKm).
- 30+ energy initiatives ongoing at manufacturing sites, with a savings of 1,648 tons of CO₂.
- 6 (1) manufacturing sites in Europe sourcing 100% renewable electricity from 2017.

Target baseline for all five challenges is 2015.

For more information on progress, see Sustainovate Report 2016.

The Team Challenge



Efforts to build an attractive, behavior-led workplace should never stop. And by providing a platform for employees to make a difference and delivering opportunities where people of all backgrounds can maximize their talents, the Group aims to be an employer of choice.

A Team Survey Net Promoter Score (NPS) equal to or better than the peer group.

+1
NPS

- 179 employees trained through Group Leadership Development programs, with many more covered by local initiatives.
- 20 of the Group's largest manufacturing sites established action plans and KPIs to raise employee engagement.
- 86 percent of white collar workers had annual Performance Planning and Reviews.
- 37 percent of senior managers were female, up from 29 percent in 2015.

The Supplier Challenge

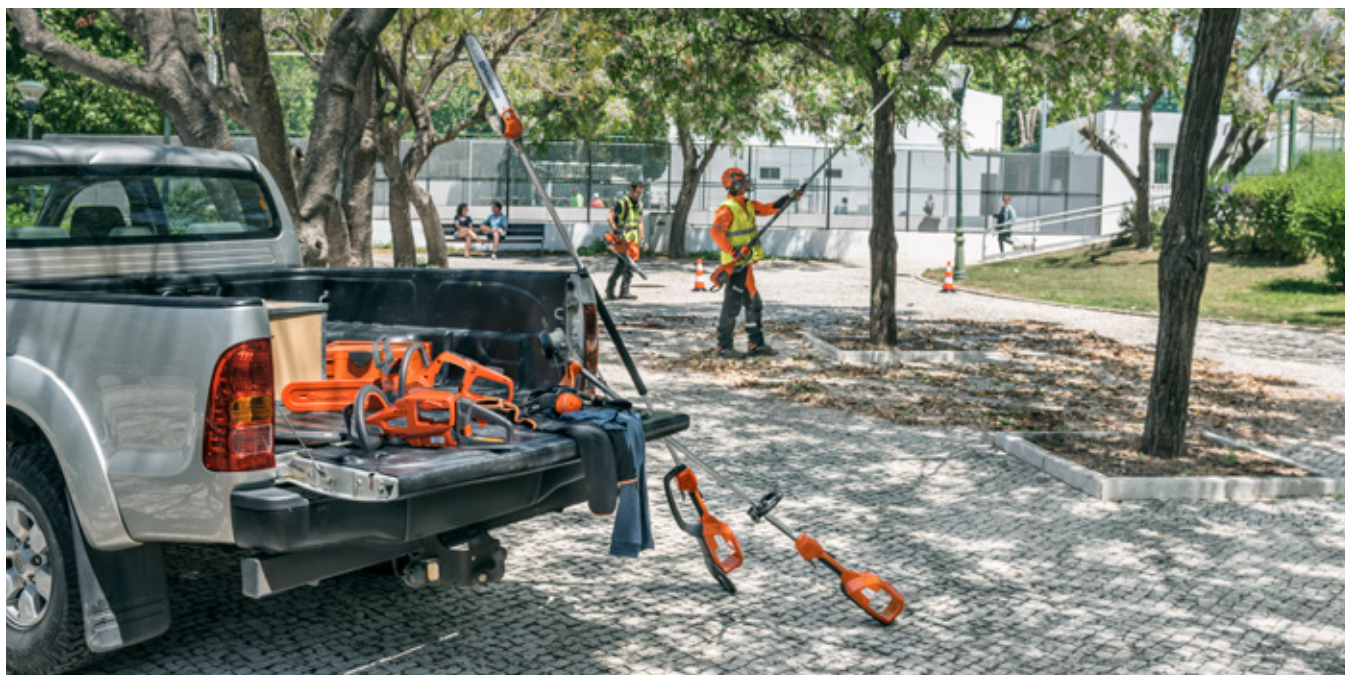


By evaluating suppliers' environmental, human rights, and safety performance as well as ethical standards, the Group is equipped to motivate suppliers to improve, and prioritize those with high sustainability performance.

70% of the purchasing spend derives from suppliers audited and certified on their sustainability performance.

4%
CERTIFIED SUPPLIERS

- 19 deep-dive sustainability audits conducted in risk-defined areas, 12 (5) of which were new audits, 4 (15) were follow-up and 3 (2) were re-audits.
- 109 of 129 quality audits included a risk mapping of suppliers' sustainability performance.
- 104 strategic suppliers attended Supplier Day, discussing sustainability expectations.



The Safety Challenge



With its strong focus on safety and ergonomics in product development and by creating safer and more secure workplaces, the Group will improve safety across its value chain.

35% reduction in new product incidents.
40% reduction in injury rate in operations.

-20%
INJURY RATE

- 20% reduction in injury rate from 2015 to 2016 (impacted lost workdays incidents).
- Aycliffe (UK) launched an online safety training, assessment and learning management system with 80 courses completed.
- Shift from manual to automatic optical inspection controls of products at three factories.
- Product safety innovations in wheeled products in focus 2017.
- Baseline for product safety 2015/2016.

The Community Challenge



Helping to shape green spaces and urban environments is at the core of the Group's vision. By making a real difference to local communities, the Group aims to contribute to positive change.

Engage in two or more community projects.

1
PROJECT

- Hosted over 160 journalists, industry thought-leaders, academics and landscaping companies at Silent City, Husqvarna Division's second international conference held in Stockholm, with the theme "Urban parks to 2030".

Integrating sustainability

With Sustainovate as their overarching guide, each division is responsible for identifying and tackling priorities and aligning their strengths to achieving the Group's targets. The five challenges – Carbon, Team, Safety, Suppliers and Community – run across each division's approach to realizing the strategy.

To support the divisions in their efforts, functions such as Group Operations, Technology Office and People & Organization convene networks. This engages experts and decision-makers in aligning initiatives, coordinating methods and processes and sharing best practice. They meet regularly.

The Sustainability Forum ensures that the Group is on track for delivering on the strategy, aligns actions and ensures that the Group's work is in tune with a fast-evolving agenda.



Making a difference

Clearing the way

Whether it is an earthquake, hurricane or man-made emergency, in a crisis situation, many barriers get in the way of bringing help to where it is needed most. Husqvarna Group has a role to play in overcoming them. Chainsaws help clear roadways from fallen trees and power cutters dig through building debris.

To support local emergency response initiatives, the Group supplied manpower and equipment to typhoon Meranti in Xiamen, China, an August earthquake in central Italy, and US recovery efforts in the wake of Hurricane Matthew.

“ The world faces tremendous challenges going forward and as a global supplier of outdoor power products, we have an important role to play.

Kai Wärn, President and CEO

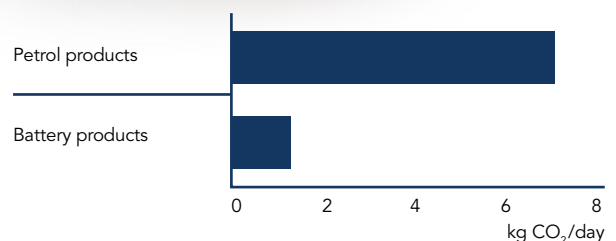
Batteries are the future

The lion's share of a product's CO₂ impact occurs when the product is in use. That's why Husqvarna Group can make the greatest contribution to tackling climate change by shifting to low-carbon technologies and making its products as energy efficient as possible.

Expanding the battery-powered product offering goes a long way to improving the Group's climate impact. The strategic partnership with German system provider BMZ GmbH will support the Group's aim to secure the leadership position in battery technology and it covers development and manufacturing of future generation lithium-ion batteries for forestry, lawn and garden products.



CO₂ emissions during use



Estimated CO₂ emissions in kilograms when comparing petrol-powered, handheld products with their equivalent battery-powered product. The latter calculation is based on low-carbon electricity sources.

Science-based validation of green path commitment

The international community is committed to limiting a global temperature increase to less than 2°C compared with pre-industrial levels. The Group's ambition to cut CO₂ emissions aims to support this commitment and is anchored in what science is telling us needs to be done.

The Group's pledge to reduce CO₂ emissions doesn't stop at 10 percent by 2020. Husqvarna Group extended its engagement further with the announcement of an ambitious reductions target of 33 percent by 2035. Beyond 2020, the target is an absolute one and will drive innovation for improved product efficiency, finding low-carbon alternatives and introducing new technologies.

As a science-based target, Husqvarna Group's climate target is aligned with what was agreed in the 2015 Paris Agreement to limit the temperature increase to below 2°C. Husqvarna Group is the first Swedish listed company and the world's first forest and garden company to have its target approved by the Science Based Targets initiative, a partnership between non-governmental organizations including the Carbon Disclosure Project, UN Global Compact, World Resources Institute and WWF.

“ Husqvarna Group is the first Swedish listed company to have its target approved by the Science Based Targets initiative.



Committed to strong principles

From its core values to the way it does business, Husqvarna Group is committed to upholding the Ten principles of the UN Global Compact. Endorsed by the Group's President and CEO, the UN Global Compact is a voluntary initiative to implement universal principles of doing business in the areas of human rights, labor, the environment and anti-corruption.



United Nations
Global Compact



Financial information

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Board of Directors' Report

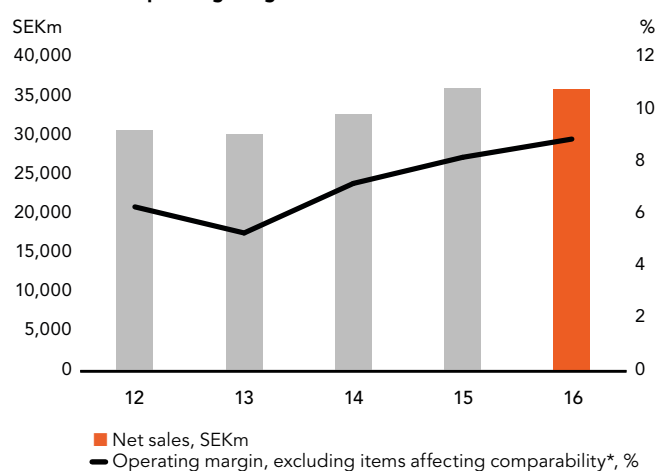
The Board of Directors and the President and CEO of Husqvarna AB (publ), corporate registration number 556000-5331, with its registered office in Jönköping, hereby submit the Annual Report and consolidated financial statements for the 2016 financial year.

- Net sales amounted to SEK 35,982m (36,170). Net sales were unchanged, adjusted for changes in exchange rates.
- Operating income increased by 14% to SEK 3,218m (2,827).
- Operating income, excluding items affecting comparability*, increased by 8% to SEK 3,218m (2,980), despite unfavorable currency impact of approximately SEK –430m.
- Operating income improved for all Divisions.
- The higher operating income for the Group, excluding items affecting comparability*, was mainly attributable to favorable mix and efficiency improvements, which partly were offset by unfavorable currency impact and costs for growth initiatives.
- Operating margin rose by 0.7 percentage points to 8.9% (8.2), excluding items affecting comparability*.
- Net income increased 11% to SEK 2,104m (1,888).

- Earnings per share rose to SEK 3.66 (3.28) after dilution.
- Operating cash flow* amounted to SEK 1,666m (1,732).
- The net debt/equity ratio improved to 0.48 (0.49).
- The Board of Directors proposes a dividend of SEK 1.95 per share (1.65) for 2016.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Net sales and operating margin



Key figures

SEKm	2016	2015	2014 ¹	2013	2012 ²
Net sales	35,982	36,170	32,838	30,307	30,834
Gross margin, %	30.8	28.1	28.5	26.5	26.9
EBITDA*	4,382	3,980	3,315	2,586	2,737
EBITDA margin, %	12.2	11.0	10.1	8.5	8.9
Items affecting comparability*	—	–153	–767	—	–256
Operating income	3,218	2,827	1,581	1,608	1,675
Operating income, excl. items affecting comparability* ³	3,218	2,980	2,348	1,608	1,931
Operating margin, %	8.9	7.8	4.8	5.3	5.4
Operating margin, excl. items affecting comparability*, % ³	8.9	8.2	7.2	5.3	6.3
Income after financial items	2,796	2,483	1,256	1,180	1,175
Net income	2,104	1,888	824	916	1,027
Earnings per share after dilution, SEK	3.66	3.28	1.43	1.60	1.78
Dividend per share, SEK ⁴	1.95	1.65	1.65	1.50	1.50
Return on capital employed, %	13.7	12.4	7.6	7.7	7.4
Return on equity, %	15.2	14.6	6.7	8.1	8.8
Net debt/equity ratio, times	0.48	0.49	0.60	0.58	0.75
Operating cash flow* ⁵	1,666	1,732	1,274	1,411	1,499
Average number of employees	12,704	13,572	14,337	14,156	15,429

¹ 2014 has been restated (see press release dated April 10, 2015).

² 2012 has been restated due to the amendment of IAS 19.

³ Items affecting comparability* are provided on page 45.

⁴ 2016 as proposed by the Board.

⁵ Cash flows related to hedging of financing have been moved from operations to financing activities (SEK –64m for 2015, SEK 151m for 2014, SEK 402m for 2013 and SEK –355m for 2012). The equivalent amount has affected the operating cash flow.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Net sales and income

Net sales

Net sales for 2016 amounted to SEK 35,982m (36,170). Adjusted for exchange rate effects, net sales for the Group were unchanged. Adjusted for currency, sales were 2% higher in the Husqvarna Division, 8% higher in the Gardena Division and 4% higher in the Construction Division while sales for Consumer Brands Division decreased by 10%, partly reflecting the value before volume priority.

Operating income

Operating income increased by 8% to SEK 3,218m (2,980) and the corresponding operating margin rose to 8.9% (8.2), excluding items affecting comparability*.

Operating income for 2015 was charged with restructuring expenses amounting to SEK -153m, disclosed as items affecting comparability*.

Operating income was positively impacted primarily by a favorable mix and efficiency improvements, which were partially offset by unfavorable currency impact and costs for growth initiatives.

Changes in exchange rates had a total negative impact on operating income of approximately SEK -430m compared to 2015.

Financial items net

Financial items net amounted to SEK -422m (-344). The increase was mainly related to increased interest rates on funding in foreign currencies.

Income after financial items

Income after financial items increased by 13% to SEK 2,796m (2,483) corresponding to a margin of 7.8% (6.9%).

Taxes

Tax amounted to SEK -692m (-595), corresponding to a tax rate of 25% (24) of income after financial items.

Earnings per share

Income for the period attributable to equity holders of the Parent Company increased by 12% to SEK 2,100m (1,883), corresponding to SEK 3.66 (3.28) per share after dilution.

Sales by region

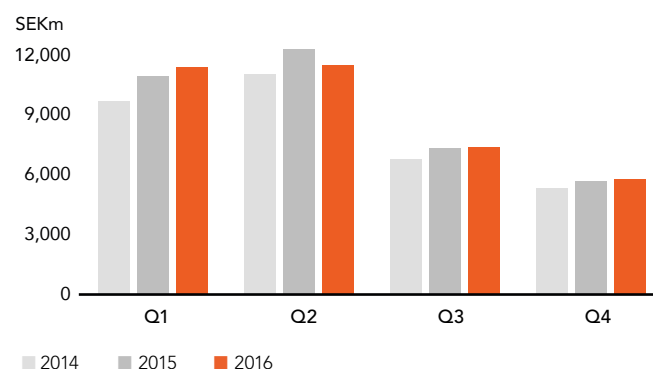
%	2016	2015
Sweden	4.6	3.8
France	5.3	5.2
Germany	11.2	10.1
Rest of Europe	25.0	24.4
Europe	46.1	43.5
Asia/Pacific	8.0	7.8
Canada	3.5	3.7
US	38.4	40.7
Latin America	3.3	3.6
Rest of the world	0.7	0.7
Total	100.0	100.0

EBITDA*

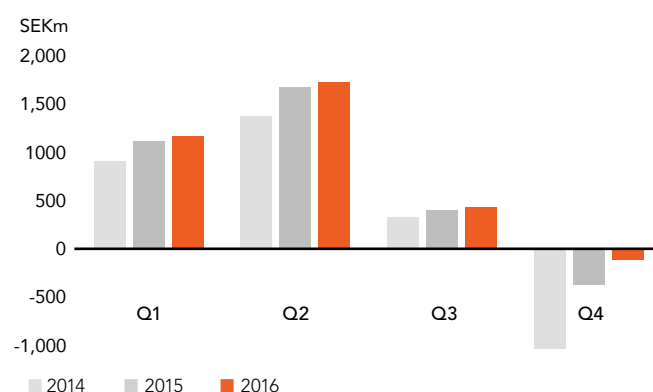
	2016	2015
Operating income, SEKm	3,218	2,827
Reversal of depreciation, amortization and impairment, SEKm	1,164	1,153
EBITDA*, SEKm	4,382	3,980
<i>EBITDA margin, %</i>	<i>12.2</i>	<i>11.0</i>

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

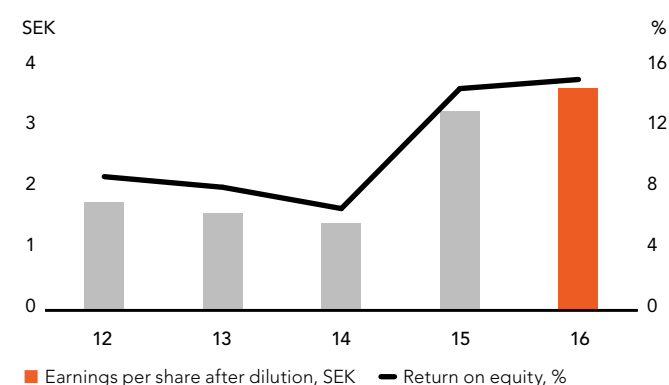
Net sales by quarter



Operating income by quarter



Earnings per share and return on equity



Items affecting comparability*

SEKm	2016	2015	2014	2013	2012
Impairment of goodwill	—	—	-767	—	—
Restructuring expenses	—	-153	—	—	-256
Total	—	-153	-767	—	-256

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Cash flow

Operating cash flow* in 2016 was largely unchanged at SEK 1,666m (1,732), mainly as a result of higher investments in property, plant and equipment being offset by improved cash flow from changes in operating assets and liabilities.

SEKm	2016	2015
Cash flow from operations, excluding changes in operating assets and liabilities	3,613	3,703
Changes in operating assets and liabilities	-58	-583
Cash flow from operations	3,555	3,120
Cash flow from investments, excluding acquisitions and divestments	-1,889	-1,388
Operating cash flow*	1,666	1,732

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

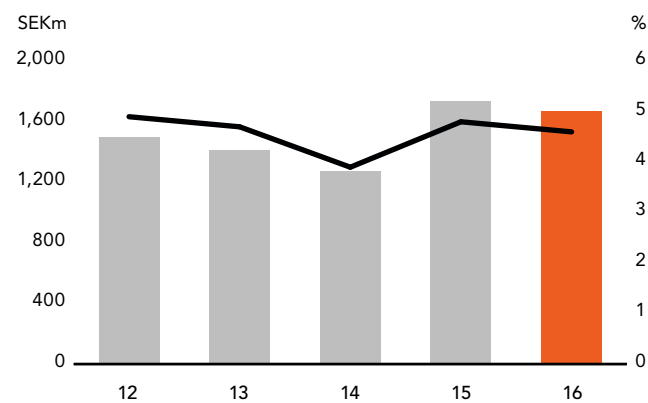
Capital expenditure and Research & Development (R&D)

Capital expenditure in 2016 amounted to SEK 1,889m (1,388), corresponding to 5.2% (3.8) of net sales. Investments in property, plant and equipment amounted to SEK 1,489m (1,029) and investments in intangible assets totaled SEK 400m (359), of which SEK 249m (243) was related to R&D and SEK 151m (115) to IT and software.

Approximately 51% (40) of capital expenditure was related to new products, including investments in a new saw chain, 19% (25) to rationalization and replacement of production equipment, 5% (10) to expansion of capacity and 9% (5) to IT systems.

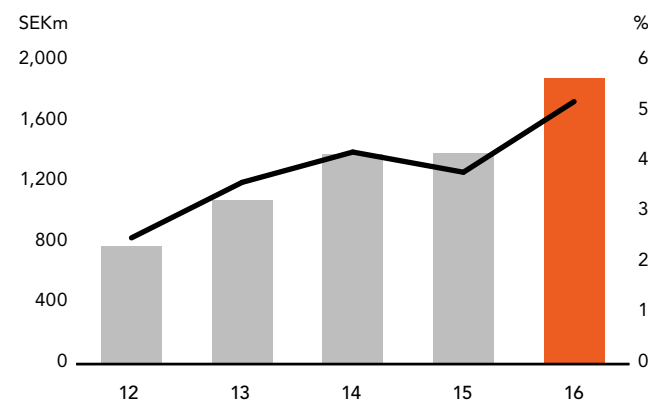
R&D costs amounted to SEK 1,241m (1,138), of which SEK 202m (204) was amortization of capitalized product development (intangible assets). The total R&D costs thus corresponded to 3.4% (3.1) of net sales.

Operating cash flow*



■ Operating cash flow, SEKm — Operating cash flow/net sales, %

Capital expenditure



■ Capital expenditure, SEKm — Capital expenditure/net sales, %

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Financial position

Operating working capital

Operating working capital at year-end amounted to SEK 8,763m (7,923). Inventories increased to SEK 9,225m (7,874), trade receivables totaled SEK 3,290m (3,126) and trade payables equaled SEK 3,752m (3,077).

Change in operating working capital

SEKm	
December 31, 2015	7,923
Changes in exchange rates	591
Changes in working capital	249
December 31, 2016	8,763

Equity

Group equity as of December 31, 2016, excluding non-controlling interests, increased to SEK 14,339m (13,041), corresponding to SEK 25.0 (22.7) per share after dilution.

Net debt

Net debt* amounted to SEK 6,833m (6,375). The net pension liability increased to SEK 1,727m (1,395), other interest-bearing liabilities increased to SEK 7,396m (6,952) and liquid funds and other interest-bearing assets increased to SEK 2,290m (1,972).

The net debt/equity ratio was 0.48 (0.49) and the equity/assets ratio was 44% (44).

For more information about the Group's funding, see note 19.

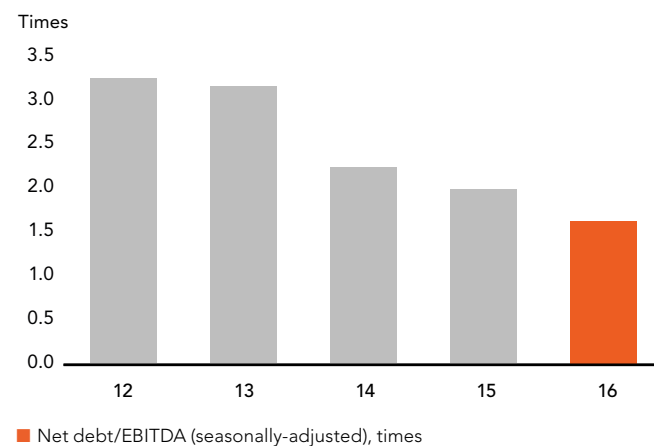
SEKm	2016	2015
Net pension liability	1,727	1,395
Other interest-bearing liabilities	7,396	6,952
Less: Liquid funds and other interest-bearing assets	-2,290	-1,972
Net debt*	6,833	6,375
Net debt/equity ratio, times	0.48	0.49
Equity/assets ratio, %	44	44

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Net debt/Equity and Equity/Assets ratio



Net debt/EBITDA (seasonally-adjusted)



Performance by business segment

Husqvarna Division

Net sales in the Husqvarna Division increased by 2%, adjusted for changes in exchange rates. The increase was mainly driven by strong performance for robotic lawn mowers and battery powered hand held products in Europe.

Operating income increased to SEK 2,317m (2,284), excluding items affecting comparability* amounting to SEK –51m in 2015. The higher sales volume and a favorable product mix development impacted positively, whereas changes in exchange rates and investments in growth activities impacted negatively.

Changes in exchange rates had a total negative year-on-year impact of around SEK –250m compared with 2015.

Husqvarna

SEKm	Change, %			
	2016	2015	As reported	Adjusted ¹
Net sales	17,960	17,624	2	2
Operating income	2,317	2,233	4	3
Excl. items affecting comparability*	2,317	2,284	1	1
Operating margin, %	12.9	12.7	–	–
Excl. items affecting comparability*	12.9	13.0	–	–

¹ Adjusted for currency translation effects.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Gardena Division

Net sales adjusted for changes in exchange rates in the Gardena Division increased by 8%, supported by good growth for robotic lawn mowers, expanded distribution and new retail listings, as well as new product introductions such as the Gardena Smart System.

Operating income for the full-year was unchanged. Favorable impact mainly from the higher sales volume and lower material costs were offset by costs for investments in growth activities and unfavorable currency impact.

Changes in exchange rates had a total negative year-on-year impact on operating income of around SEK –70m compared with 2015.

Gardena

SEKm	Change, %			
	2016	2015	As reported	Adjusted ¹
Net sales	5,033	4,669	8	8
Operating income	595	586	2	2
Excl. items affecting comparability*	595	591	1	1
Operating margin, %	11.8	12.5	–	–
Excl. items affecting comparability*	11.8	12.7	–	–

¹ Adjusted for currency translation effects.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Consumer Brands Division

Net sales in the Consumer Brands Division decreased by 10%, adjusted for changes in exchange rates. The decline was affected by a continued pursuit of value before volume strategy, as well as unfavorable weather conditions in the peak selling season.

The operating income reached the milestone of break-even for the full year. Efficiency improvement measures such as reductions of manufacturing and direct material cost continued to offset the impact of significantly lower sales volume and negative currency effects.

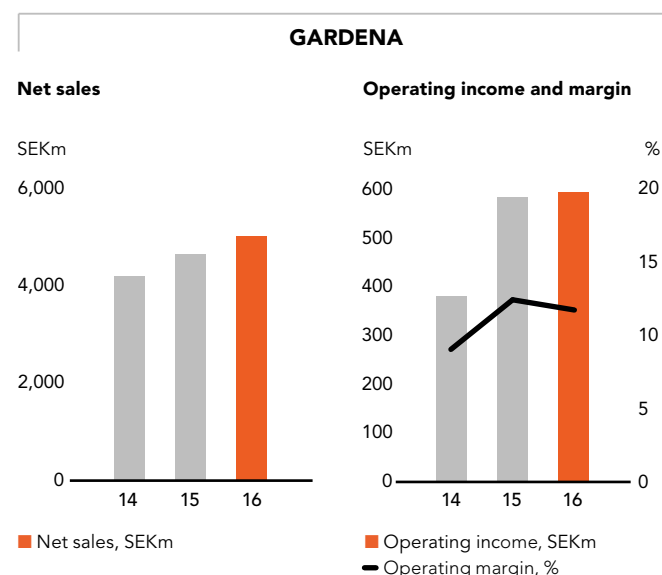
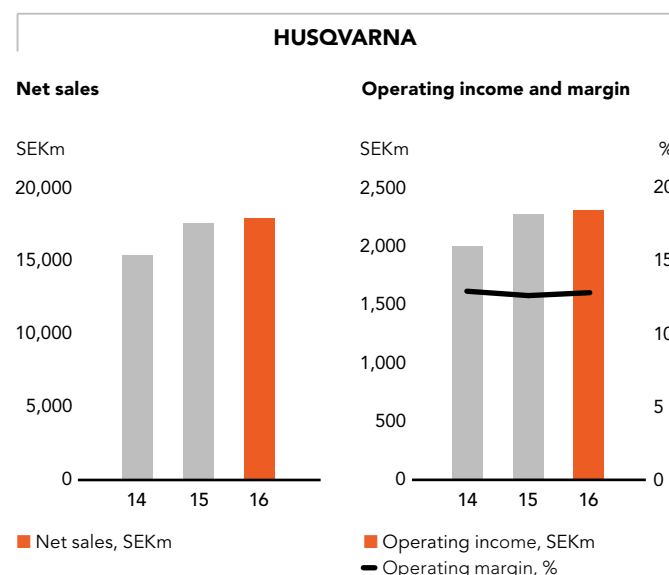
Changes in exchange rates had a total negative year-on-year impact on operating income of around SEK –160m compared with 2015.

Consumer Brands

SEKm	Change, %			
	2016	2015	As reported	Adjusted ¹
Net sales	8,888	9,936	–11	–10
Operating income	3	–147	–	–
Excl. items affecting comparability*	3	–120	–	–
Operating margin, %	0.0	–1.5	–	–
Excl. items affecting comparability*	0.0	–1.2	–	–

¹ Adjusted for currency translation effects.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.



Construction Division

Net sales in the Construction Division increased by 4%, adjusted for changes in exchange rates. Sales in North America increased strongly, while sales in Europe increased slightly and sales in other markets declined. Demand for stone industry products was weak in all markets.

Operating income increased to SEK 568m (465), excluding items affecting comparability* amounting to SEK –70m in 2015. Income was positively impacted by the higher sales volume which partly was offset by higher costs for investments in sales and service structure.

Changes in exchange rates had a positive year-on-year impact on operating income of around SEK 50m compared with 2015.

Construction

SEKm	2016	2015	Change, %	
			As reported	Adjusted ¹
Net sales	4,101	3,941	4	4
Operating income	568	395	44	44
<i>Excl. items affecting comparability*</i>	568	465	22	22
Operating margin, %	13.9	10.0	–	–
<i>Excl. items affecting comparability*</i>	13.9	11.8	–	–

¹Adjusted for currency translation effects.

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

New financial targets

Husqvarna Group communicated new financial targets at the capital markets day for investors and analysts on September 8. The targets are valid for the coming years.

The target for net sales for the Group, excluding the Consumer Brands Division, is to grow (currency adjusted organic growth) between 3–5% per year. The Consumer Brands Division will continue to have margin improvement as the first priority. The growth target implies a growth rate that is 1–2% higher than the average annual long term market growth rate which is estimated to 2–3%.

The target for the Group's operating margin is to achieve at least 10% on average. For working capital, the target is to keep the Group's working capital in relation to net sales at a maximum of 25%.

Acquisition of Diamond Tool Supply

In May 2016 Husqvarna Group acquired Diamond Tool Supply Inc. out of Michigan, US, a leading producer of polishing and grinding diamond tools for concrete, stone and terrazzo. The acquisition adds sales of around USD 5.8m (approximately SEK 47m), mainly in the US, to the Group's Construction Division, based on the full-year 2015 accounts. Diamond Tool Supply (DTS) has around 70 employees.

The acquired operation is included in Husqvarna Group's accounts as of May 3, 2016. The impact on the Group's financial statements is limited.

Husqvarna Group rated BBB by Standard & Poor's

In January 2017, Husqvarna Group received an investment grade long term corporate rating of BBB with a stable outlook from Standard & Poor's Ratings Services.

Parent Company

Net sales for 2016 for the Parent Company, Husqvarna AB, amounted to SEK 14,231m (12,763), of which SEK 11,024m (9,844) referred to sales to Group companies and SEK 3,207m (2,919) to external customers.

Income after financial items amounted to SEK 4,889m (2,079).

Income for the period increased to SEK 4,544m (1,845), mainly due to dividends from subsidiaries. Investments in property, plant and equipment and intangible assets amounted to SEK 756m (865). Cash and cash equivalents amounted to SEK 412m (238) at the end of the year. Undistributed earnings in the Parent Company amounted to SEK 21,695m (18,388).

The Husqvarna share

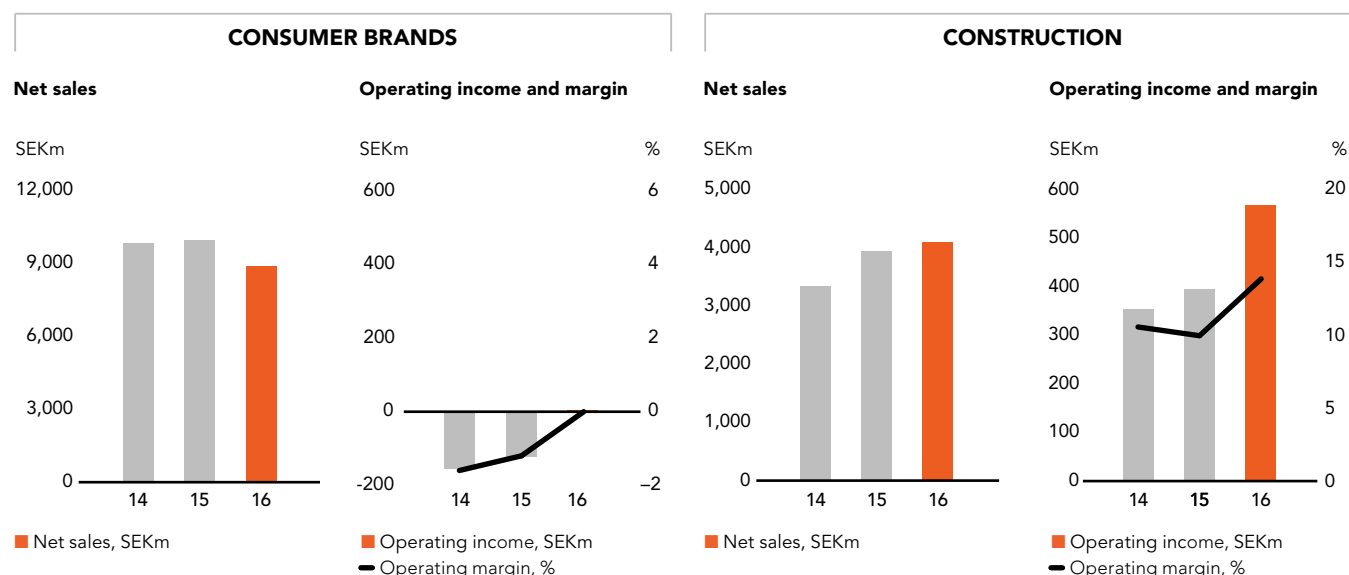
At year-end 2016, the share capital in Husqvarna AB amounted to SEK 1,153m (1,153), comprising 113,393,909 A-shares (113,694,826) and 462,949,869 B-shares (462,648,952).

For further information on the change in the number of shares during the year, see note 18.

Each A-share carries one vote and each B-share carries 1/10 of a vote. All shares enjoy equal rights in terms of the company's assets and earnings.

There are no restrictions on the transfer of shares, voting rights or the right to participate in the Annual General Meeting (AGM).

The company is not aware of any agreements between shareholders that may limit the right to transfer shares. In addition,



there are no stipulations in the Articles of Association regarding appointment or dismissal of Board members or agreements between the company and Board members or employees that require remuneration if such persons leave their posts, or if employment is terminated as a result of a public bid to acquire shares in the company

As of December 31, 2016, the largest shareholders were Investor AB, with 32.9% (32.7) of the votes, and L E Lundbergföretagen, with 25.0% (24.9). No other shareholder held more than 10% of the votes.

Market capitalization amounted to SEK 41bn (32) at the end of the year.

For more information on major shareholders, see page 117.

Repurchase, sale and equity swaps of B-Shares

The 2016 AGM authorized the Board to allow the Company to (a) acquire B-shares totaling up to 1% of the total number of shares and to pay for the shares in cash, and (b) sell B-shares up to the total number of such shares held by the Company. The shares are to be purchased or sold (as applicable) on Nasdaq Stockholm for the purpose of hedging the company's obligations pursuant to its long-term incentive programs.

The company has the right to adjust on an ongoing basis the number of shares that it holds to hedge the company's obligations pursuant to the implemented incentive programs.

The 2016 AGM authorized the Company to enter into so-called "equity swap" agreements, whereby in exchange for a fee paid by the Company, a third-party (such as a bank) would acquire B-Shares for its own account and, upon instructions from the Company, issue such shares to participants in the implemented incentive programs per the terms of such programs.

The participants in the incentive programs are entitled to receive a maximum number of shares in accordance with the conditions of the programs, and transfers of shares under the programs are made without consideration.

No B-shares were repurchased or sold by the Company during 2016. A total of 142,843 options related to the long-term incentive program 2009 were exercised, decreasing the number of B-shares held by the company. At year-end 2016, Husqvarna owned 2,963,233 (3,343,015) repurchased B-shares corresponding to 0.51% (0.58) of the total number of outstanding shares. In addition, the Company entered into one equity-swap agreement whereby the third-party bank acquired 1,300,000 B-shares to cover obligations under an earlier incentive plan.

In addition the 2016 AGM authorized the Board to resolve to issue not more than 10% of the total number of B-shares to facilitate acquisitions where the consideration will be paid with own shares.

Legal matters and compliance

Companies within Husqvarna Group are involved in commercial, product liability, regulatory and other disputes in the ordinary course of business. Such disputes can involve claims for compensatory damages, fines and penalties, property damage or personal injury compensation and occasionally also punitive damages. For certain types of claims (primarily product liability litigation), the Group has self-insurance, up to certain limits, as well as external "excess" coverage. The Group continuously monitors and evaluates pending claims and disputes, and takes action when deemed necessary. The company believes that these activities help to minimize such risks. It is difficult to predict the outcome of each dispute, but based on its present knowledge, the Group estimates that none of the disputes in which it is currently involved will have a material adverse effect on the consolidated financial position or result.

Husqvarna Group is committed to a culture of compliance, to

being a responsible employer and to being a good corporate citizen. Such commitment is reflected in the Code of Conduct that was adopted in 2008 and subsequently updated in 2013. The Code of Conduct applies to all employees. Husqvarna Group expects all of its suppliers, dealers, subcontractors, consultants and other business partners to also adopt and follow its principles. Employees who become aware of any non-compliance or other unethical conduct are expected to report such matters to our internal compliance function. Such reports may be made directly to a manager, via a dedicated compliance email or via a 24-hour toll-free hotline. Reports may be made anonymously.

Environmental permits

In 2016, Husqvarna Group operated 24 major production facilities, of which eleven were located in Europe, eight in the US, three in China, one in Brazil and one in Japan. All facilities have the environmental permits required for current operations.

Husqvarna Group included in CSR indexes

Husqvarna Group is a member of the FTSE4Good Index Series and a member of the STOXX Global ESG Leaders index. These indexes are designed to facilitate investments in companies that meet globally recognized corporate responsibility standards in environmental care, social care and corporate governance.

Employees

The average number of employees in 2016 was 12,704 (13,572), of which 1,775 (1,770) in Sweden. At year-end, the total number of employees was 13,199 (13,053).

Of the total average number of employees in 2016, 8,459 (8,815) were men and 4,245 (4,757) were women.

Salaries and remuneration in 2016 amounted to SEK 4,680m (4,508), of which SEK 1,010m (970) refers to Sweden.

For more information on employees, see note 4.

Annual General Meeting 2017

The Annual General Meeting (AGM) of Husqvarna AB (publ) will be held in Jönköping, Sweden on April 4, 2017.

Notification and proposals to the AGM

The notification to attend the 2017 AGM has been available on the Group's website, www.husqvarnagroup.com/agm, since March 1, 2017. The full proposal to the AGM was published on the Group's website on March 14, 2017.

Proposed distribution of earnings

The Board of Directors proposes a dividend for 2016 of SEK 1.95 per share (1.65) corresponding to a total dividend payment of SEK 1,116m (944) based on the number of outstanding shares at the end of 2016.

It is also proposed that the dividend be paid in two installments to better match the Group's cash flow profile, with one payment of SEK 0.65 per share in April and the remaining SEK 1.30 per share in October.

The proposed record dates are April 6, 2017 for the first payment and October 6, 2017 for the second payment.

SEKt	
The following profits are at the disposal of the AGM:	
Share premium reserve	2,605,747
Retained earnings	14,544,572
Net income	4,544,267
Total profit available for allocation	21,694,586

SEKt	
The Board proposes the following allocation of available profits:	
Dividend to the shareholders of SEK 1.95 per share. ¹	1,115,557
To be carried forward	20,579,029
Total	21,694,586

¹ Calculated on the number of outstanding shares as of December 31, 2016.

The Board is of the opinion that the dividend proposed above is justifiable on both the Company and the Group level with regard to the demands on the Company and Group equity imposed by the type, scope and risks of the business and with regard to the Company and the Group's financial strength, liquidity and overall position.

Remuneration principles to the Board and senior executives

For the CEO and other members of Group Management, the principles for remuneration approved by the 2016 AGM apply. The Board of Directors proposes that the corresponding principles should be approved by the 2017 AGM for the period up to and including the 2018 AGM.

The principles set forth in this item shall apply to remuneration and other employment conditions of Group Management. The principles shall apply to contracts of employment entered into after the 2017 AGM and also to amendments made thereafter to contracts of employment which are in force. Remuneration to Group Management is determined by the Board of Directors based on proposals from the Remuneration Committee.

Principles

In general, remuneration to members of Group Management shall be based on the position held, individual performance, and Group performance, and shall be on a competitive basis in the country of employment. The overall remuneration package for Group Management is comprised of fixed salary, variable salary in the form of short-term incentives based on annual performance targets, long-term incentives, pension and other benefits. In addition, there are conditions on notice of termination and severance pay.

Husqvarna Group shall aim to offer a competitive total remuneration level with a primary focus on "pay for performance".

Fixed salary

Fixed salary shall constitute the basis for total remuneration. The salary shall be related to the relevant market and shall reflect the degree of responsibility involved in the position. The salary levels shall be reviewed regularly (normally through an annual evaluation of salaries) in order to ensure continued competitiveness and in order to correctly reward performance.

Variable salary (Short-term Incentive, "STI")

Members of Group Management shall be entitled to STI in addition to the fixed salary. The STI shall be based on the financial result for the Group and/or for the business unit for which the member

of Group Management is responsible. In addition, performance indicators can be used in order to focus on matters of special interest to the Company.

Clearly defined objectives for "target" and "stretch" levels of performance shall be stated in the beginning of the year and reflect the plans approved by the Board of Directors.

STI shall be dependent on the position and may amount to a maximum of 50% of the fixed salary on attainment of the "target" level and a maximum of 100% of the fixed salary on attainment of "stretch" level, which also is the maximum STI.

In the US, the STI component is normally higher and may amount to a maximum of 100% on attainment of the "target" level and a maximum of 150% of the fixed salary on attainment of the "stretch" level.

The Board of Directors decides whether the maximum levels, 50/100/150%, shall be utilized or if a lower level shall be used.

Long-term incentive ("LTI")

The Board of Directors will annually evaluate if a long-term incentive program (e.g. share or share price based) should be proposed to the AGM. For more information concerning the long-term incentive program, see note 4.

Pensions and insurance

Pension and disability benefits shall be designed to reflect regulations and practice in the country of employment and the value of the benefits shall match normally accepted levels in the country. If possible, pension plans shall be defined contribution plans in accordance with the Pension and other Benefits Policy.

Other benefits

Other benefits can be provided in accordance with normal practice in the country where the member of Group Management is employed. However, these benefits shall not constitute a significant part of the total remuneration.

Notice of termination and severance pay

Members of Group Management shall be offered notice periods and levels of severance pay which are in line with accepted practice in the country where the member is employed. Members of Group Management shall be obliged not to compete with the Company during the notice period. Based on the circumstances in each case, a non-compete obligation with continued payment may be applied also after the end of the notice period. Such non-compete obligation shall not apply for more than 24 months from the end of the notice period.

Previously decided remuneration which has not become payable

Bonuses which have not become payable amount to a maximum of SEK 8m.

Authority for the Board to deviate from the principles

Under special circumstances, the Board of Directors may deviate from these principles. In the case of such deviation, the next AGM shall be informed of the reasons.

Remuneration to the Board 2016

Remuneration to AGM-elected Board members is resolved by the AGM based on proposals from the Nomination Committee. The 2016 AGM resolved on fees of SEK 5,950t.

No consulting fees were paid to Board members. No board fees are paid to Board members who are also employed by the Group.

For more information concerning remuneration, see note 4.

Risk management

All business operations involve risk. Therefore, the goal of risk management is not to eliminate risk, but rather to optimize the risk portfolio in a manner designed to best secure business goals. To do so, the Husqvarna Group strives to identify and prioritize all material risks that could affect its operations, and to limit, control and manage such prioritized risks in a proactive manner.

Responsibility for Managing Risks

The President & CEO ("CEO") is ultimately responsible for ensuring proper risk management within Husqvarna Group in accordance with the Board of Directors' guidelines and instructions. The Presidents of the divisions and the Group staff functions, in turn, are responsible for risk management implementation within their divisions/areas of responsibility. The Group also has a dedicated risk management function that

- oversees the Group's overall Enterprise Risk Management efforts,
- secures appropriate insurance coverage for insurable risks, and
- assesses and facilitates the prioritization of the Group's risks.

Identification and evaluation of risks provides support for management's strategic decision-making and associated risk mitigation. The assessment also aims at generating enhanced awareness of risks throughout the organization, including everyone from operational decision-makers to the Board of Directors.

Management of financial risks, including currency exchange rate exposure, is primarily the responsibility of Group Treasury.

Market and operational risks

The following sections highlight certain market & operational risk areas that are relevant to the Husqvarna Group. (Financial Risks are separately discussed further below.)

Competitive market risks

The Husqvarna Group's long-term profitability depends on, among other things, the ability to successfully develop, manufacture and market new products that meet customers' performance and price requirements. The Husqvarna Group, as any company, is subject to the risk that its competitors can develop and offer alternative products at a better cost to performance ratio. Other vital factors for maintaining competitiveness include (a) maintaining flexible, cost-efficient manufacturing of products while meeting the customers' demand for quality, and (b) effective management of fluctuations in the prices of raw materials and components.

The markets in which the Husqvarna Group operates are relatively mature, which means that underlying demand is fairly stable under normal economic conditions. Price competition is intense, particularly for entry price point consumer products for the retail market. The Group's strategy is based on product innovation, utilization of the Group's strong brands, global distribution and scale efficiency to create differentiated product and solution offerings for the different end-customer segments.

Product life cycles are becoming shorter, requiring product development to become more efficient. Certain of the Group's products require long development lead times, making it essential to understand the end-customers' need to ensure that such product will be demanded. Customer demands and needs may also change as a result of overall macro-economic and demographic changes, such as the trend towards urbanization, changing climate effects and/or the advent of new technologies.

One such technological change is the increasing number, and performance, of battery-powered products in certain of our market segments that have historically been dominated by petrol products. This creates both opportunities and risks for the Group, including the risk that other manufacturers, having a greater scale in manufacturing or sourcing battery powered products (such as certain Power Hand Tool companies), will increasingly use that leverage to take share in the outdoor power equipment market.

Another change the Group must be aware of, and take a leadership role in, is our increasingly "digitized" marketplace, where the Internet and technology are causing changes to customer preferences and demands. These changes can be gradual or more sudden as a result of technology "disruptors". Finally, the Group must also be a leader in terms of more efficient and environmentally adapted products in order to differentiate the Group's offering from those of its competitors.

Weather related risks

Demand for the Group's products is also dependent on the weather. Unexpected or unusual weather conditions in our core markets can affect sales either adversely or positively. Dry weather can reduce demand for products such as lawn mowers and tractors, but can stimulate demand for watering products. Demand for chainsaws normally increases after storms and during cold winters. The Husqvarna Group strives for a flexible production and supplier structure that can be adjusted at short notice to meet actual demand without the burden of excess safety stock inventories.

Sales channels risks

Consumer products are sold mainly through large retail chains. This market is highly consolidated in North America and the UK, while in the rest of Europe the market consolidation is still ongoing. This implies that the Group's retail customers (such as large DIY chains) are becoming larger and fewer in number, which gives them greater bargaining power and several of them source products that they market under their own brands. This situation can provide the Husqvarna Group with an opportunity to generate higher growth by displaying the Group's products in a large number of retail outlets in a wider geographical market. However, it also entails risks. Most obviously, the failure to build or maintain strong supply relationships with key DIY retailers can have significant negative effects on volumes and profitability. Conversely, successfully maintaining such customer relationships can lead to a greater degree of dependence on individual customers, with higher levels of trade receivables and credit risks related to these customers. Moreover, any decline in the relative market success (or financial health) of a retailer with whom we have a strong relationship can have a disproportionately negative effect on us. Such risk is most relevant to the Consumer Brands Division and, to a lesser degree, the Gardena Brand Division.

Professional products are sold mainly through local independent dealers or in some cases directly to end-customers, which means that these customers purchase much smaller volumes and generally

are not individually significant for the Group. Unit costs for sales to dealers are higher than, for example, retail chains but the level of risk related to receivables and credit is lower.

Internet commerce is increasing and becoming an ever larger portion of our total turnover, primarily as the result of on-line sales activities of our dealers and retail partners. This brings new risks and uncertainties, including new buying patterns and challenges to ensuring adequate pre- and post sales support for products sold on-line. Our challenge is to ensure that we offer relevant products to all customer segments in all relevant purchasing channels.

Risks in manufacturing, production and supply

The Husqvarna Group's production consists mainly of assembly of purchased components, and is normally sufficiently flexible to meet fluctuations in demand resulting from economical, seasonal and weather variations, but is subject to the availability and applicable lead times of key components. Handheld products such as chainsaws and clearing saws, for which the Group also manufactures engines, as well as watering products, feature a higher proportion of specialized components that are produced in-house. Despite this level of flexibility, we maintain a relatively large manufacturing base with corresponding fixed costs, meaning that any material decline in overall sales volumes can have a significant negative affect on our profitability. Moreover, having a broad supply chain potentially increases the risk that products may contain components that are not produced sustainably. The Group and its suppliers must share the same high standards for the environment, labor and human rights.

The Group's operations and operations at its suppliers' facilities are subject to disruption for a variety of reasons, including, but not limited to, work stoppages, fire, earthquake, flooding, or other natural disasters. Such disruption could interrupt the Husqvarna Group's ability to manufacture certain products. Any significant disruption could negatively impact the Group's sales and earnings.

The effects of interrupted deliveries vary, depending on the specific materials and components. A shortfall in deliveries or quality-related issues from a supplier could have negative consequences for production and for deliveries of finished products. This risk is exacerbated in those cases where the Husqvarna Group relies on a few (or even single) suppliers to deliver key materials or components. The Group's purchasing organization works closely with suppliers in order to manage deliveries, and monitors the suppliers' financial stability, quality-assurance systems and flexibility of production.

Electronic components, including batteries and related parts, are becoming increasingly common and important for the Group's products and services. As for all direct material supply, availability is dependent on suppliers and if they have supply interruptions or lack of capacity, it may have an adverse effect on the Group's production and deliveries.

The Group is currently investing substantial resources in building a production facility for manufacturing saw chains. The Group has limited experience of producing saw chains, so this involves adding and building new technological expertise. Such an undertaking always involve risks, including, but not limited to, unsatisfactory ramp up of the production capacity potentially requiring unplanned additional investments, or fine tuning of the manufacturing equipment parameters that could take longer than planned to achieve desired quality.

In light of the seasonal variations in the Group's operations, the number of temporary employees increases rapidly in preparation for the peak production season, and decreases rapidly at the end of the production season. The production season for most products is during the first and second quarters, whereas chainsaws and other

handheld products have its production peak in the third quarter.

The Husqvarna Group relies to a great extent on temporary labor for the seasonal production, which poses risks in terms of training and availability of such temporary labor. Sick leave and issues related to wellness can negatively impact the productivity of the Group.

Risks related to prices for raw materials and components

The Group's operations and its performance are affected by fluctuations in the prices of raw materials and components. The most important raw materials are steel, aluminum and various types of plastic. These prices can fluctuate considerably in the course of a year, as a result of changes in world prices for raw materials or the ability of suppliers to deliver them. The total consumption is linked to production volume and production mix. The Group does not use financial instruments to hedge prices of raw materials, but endeavors to manage the risk through bilateral agreements.

In 2016, the Husqvarna Group purchased materials, components and finished products amounting to SEK 16,903 m (18,000).

Cost structure, Group

	2016		2015	
	% of net sales	SEKm	% of net sales	SEKm
Cost of goods sold:				
Raw materials, components and finished products	47.0	16,903	49.8	18,000
Factory overhead, R&D, tools	14.3	5,126	13.9	5,036
Direct wages	4.0	1,446	3.9	1,396
Restructuring ¹	0.0	–	0.3	122
Other	3.9	1,411	4.0	1,442
Total cost of goods sold	69.2	24,886	71.9	25,996
Gross operating income	30.8	11,096	28.1	10,174
Selling expense	17.1	6,168	16.1	5,808
Administrative expense	4.8	1,707	4.2	1,526
Restructuring ¹	0.0	–	0.1	31
Other	0.0	3	–0.1	–18
Operating margin/income	8.9	3,218	7.8	2,827
<i>Operating margin/income excluding items affecting comparability¹</i>	8.9	3,218	8.2	2,980

¹ Items affecting comparability consists of restructuring expenses of SEK 153m for 2015.

Risks related to acquisitions, restructurings and organizational changes

The Husqvarna Group may undertake acquisitions, divestitures or organizational changes from time to time, all of which involve risks. For example, in the case of acquisitions, sales may be adversely affected, the costs of integration may be higher than anticipated, and synergy effects may be lower than expected. In case of acquisitions or cessation of operations, environmental risk assessments are always conducted by qualified experts. Restructuring and organizational changes likewise involve the risk of creating higher costs or lower revenues than anticipated and losing key personnel, or that estimated savings are below announced targets.

Risks of changes in legislation

The Husqvarna Group's products are subject to national and international regulations regarding their environmental impact and other issues arising from the use and recycling of products, such as exhaust emissions, noise and safety. The Husqvarna Group has adapted its products steadily in this respect. The Group is a market leader in terms of the development of two-stroke engines, for example, and allocates resources for product development to enable compliance with stricter criteria in the future. The Group strives to ensure that the changes in regulatory requirements are monitored to allow for sufficient adaptive planning.

Product liability risks

The Group is exposed to product liability in the event that products are alleged to have caused damage to persons or property. The Group is insured to a large degree against such claims, partly through insurance in its own captive subsidiaries, and partly through external insurers. However, there is no guarantee that such insurance cover is in force or sufficient in a specific case, or that claims regarding product liability may not have an adverse effect on the company's earnings and financial position. In addition, such insurances do not cover the costs for warranty repair, recall exposure or any adverse effect on brand value. External insurance is subject to availability and pricing, which may vary over time. The Group has established a Committee on Product Safety (COPS), the tasks of which include (a) monitoring all safety related product issues and (b) ensuring that product safety is integrated into the design, production and distribution of all Group products.

Risks related to information systems

To a large extent the Group relies on IT systems in its operations. Disruptions or faults in critical systems may have a direct impact on operations such as production and logistics. Cyber security risks are increasing in society in general and may have an adverse impact on the Group's operations. The Group works continuously to keep

systems protected and in addition, is also investing in enhanced disaster recovery, confidential or data storage capabilities and cyber security expertise as well as information security awareness and training.

Environmental and compliance risks

Risks related to human rights, health, safety and the environment can arise in the entire supply chain, both at our suppliers and at our own production facilities. These risks can be followed by reputational risks for well-known brands owned by the Group. The Group applies the precautionary principle and takes action to prevent or mitigate injury or harm to human health or the environment. The Group maintains a "compliance whistleblower" hotline, and an employee who becomes aware of any non-compliance or other unethical conduct are expected to report such matters to our internal compliance function. The Code of Conduct, policies, guidelines and a strong corporate culture provide a foundation for a sound business environment. Corruption could exist in markets where the Group conducts business. In regions with estimated higher risks, the Group strengthens its efforts to mitigate these risks by increasing its internal control and audit activities.

Certain risks in the Construction Division

The construction market is less weather sensitive than the forest and garden market. On the other hand, it is more subject to financial cycles and changes in the political environment. Such cyclicality can have a significant impact on the capital intense equipment and the rental channel overall, as exemplified by developments during the 2008–2009 financial crisis. However, the specific sub-markets addressed by the Construction Division tend to have smaller cyclical amplitudes than the overall construction industry. This is largely because of the high relative share of consumables (diamond tools) and the fact that the Division's products are often used in renovation projects, which are relatively more stable compared to new construction work.

Sensitivity analysis



¹ Excluding hedge effects. SEK -330m refer to effect of transactions and SEK 80m to translation effects.

² Excluding hedge effects. SEK 380m refer to effect of transactions and SEK 40m to translation effects.

³ Excluding hedge effects. SEK 430m refer to effect of transactions and SEK 170m to translation effects. All other refers to the other currencies including USD and EUR.

Financial risks

The following sections highlight financial risk areas that are relevant to the Husqvarna Group.

General

The Group's financial risks are managed on the basis of the Group's financial and credit policies, which are annually updated and approved by the Board of Directors. Management of financial risks is based largely on the use of financial instruments and is mainly centralized in Group Treasury, which operates in accordance with specified risk mandates and limits.

For more information on accounting principles and risk management and risk exposure, see notes 1 and 19.

Financing risks

Financing risks refer to possible delays, increased costs or cancellations related to financing of the Group's capital requirements and refinancing of outstanding debt.

Financing risks are reduced by maintaining an evenly distributed maturity profile of loans, access to credit facilities and ensuring that short-term borrowings do not exceed current liquidity.

Interest rate risk

Interest rate risk refers to the adverse effects of changes in market interest rates on the Group's net income. The main factor determining this risk is the interest fixing period. The interest rate risk is managed by changing the interest from fixed to floating or vice versa by using derivatives such as interest rate swaps.

Foreign exchange risk

The goal of foreign exchange risk management is to limit the short-term adverse effects of currency exchange rate fluctuations on the Group's earnings and financial position. As the Husqvarna Group sells its products in more than 100 countries, has production in approximately 10 countries and likewise sources raw materials and components from various countries across the globe, the Group is exposed to exchange rate fluctuations. These fluctuations affect the Group's earnings in terms of translation of income statements in foreign subsidiaries, i.e. translation exposure, as well as in the sale of products on the export market and purchases of materials in foreign currencies, i.e. transaction exposure, and also in terms of the translation of balance sheet items such as trade receivables and trade payables.

Changes in exchange rates also affect Group equity. Assets and liabilities of foreign subsidiaries are affected by changes in exchange rates, generating translation differences that impact equity.

In order to limit negative effects on Group results and equity resulting from transaction exposure and translation differences, part of the Group's transaction exposure and net investments in foreign operations is hedged using foreign exchange derivatives.

Credit risks

The Group's credit risks are managed on the basis of standardized credit ratings, credit limits, active monitoring of credits and routines for follow-up of trade receivables. The need for reserves for doubtful trade receivables is monitored continuously. Major credit limits are approved annually by the Board of Directors. To some extent, the Group utilizes credit insurance to reduce credit risk in trade receivables.

The Group's financial assets are used primarily for the repayment of loans. Liquid funds are placed in highly liquid interest-bearing instruments issued by institutions with a credit rating of at least A-, according to Standard & Poor's or similar agencies.

Tax risks

The Husqvarna Group operates in many countries and undertakes a great number of cross-border transactions. The operations are subject to complex national and international tax rules that change over time.

The Husqvarna Group employs a centralized transfer pricing model based on the Group's operating model with central Group Strategic Functions and global brand divisions. Due to the increased focus and the changing regulative environment following, e.g., the Base Erosion and Profit Shifting initiative launched by the G20 countries, transfer pricing related exposure for multinational companies has in general increased.

From 2013, new restrictions on tax deductibility of interest expenses on intra-group loans apply in Sweden. Interest is only deductible provided one of two exceptions is satisfied: (i) the loan is mainly justified by business reasons, or (ii) the interest beneficiary is taxed at income tax rate of at least 10% and the loan is not merely tax driven. At the moment it is not clear how these exceptions will apply. For this reason, the Husqvarna Group has made provisions to reflect potential exposure related to these restrictions.

Pension commitments

Husqvarna Group's commitment for pensions and other post-employment benefits amounted to SEK 1,727m (1,395) at year-end 2016. The Group manages pension funds amounting to SEK 2,520m (2,442). At year-end 2016, 44% (42) of these funds were placed in shares, 51% (52) in bonds and 5% (6) in liquid assets or other investments.

Changes in value of the assets and liabilities depend primarily on trends for share prices and interest rates. Factors affecting the pension obligation include changes in the assumptions, such as discount rate, life expectancy and expected salary increases. In the interest of effective control and cost-efficient management of the Group's pension assets, management is centralized in Group Treasury and conducted in accordance with the pension fund policy adopted by the Board of Directors.

For more information on pension commitments, see note 20.

Corporate Governance Report

This Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and The Swedish Code of Corporate Governance (the "Swedish Code"). Husqvarna's auditors have reviewed the report and their opinion has been included in the Auditor's Report. In addition to the above external regulations, Husqvarna operates under internal regulations, which include the Company's Articles of Association, policies and governance documents.

In accordance with the Swedish Companies Act, Husqvarna's primary obligation is to generate sustainable value for its shareholders. In principal, this means (a) giving due consideration to the effect of our actions on the environment and on our non-shareholder stakeholders (i.e. employees, customers, suppliers, local communities, etc.), and (b) trying to identify and promote those actions where there is an alignment between the interests of the environment, such other stakeholders and long-term value creation for our shareholders.

The highest corporate decision-making body in the Company is the Shareholders' General Meeting, which is normally held once a year in the form of the Annual General Meeting ("AGM"), but can also be in the form of an Extraordinary General Meeting under certain circumstances. The 2017 AGM will take place at 4 p.m. on Tuesday, April 4, 2017 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden.

The Company prepares the AGM agenda with input from its shareholders, who have the right to propose matters for consideration at the AGM.

Shareholders

Husqvarna AB's shares have been traded on Nasdaq Stockholm since June 2006. At year-end 2016, the share capital amounted to SEK 1,153m, represented by 113,393,909 A-shares and 462,949,869 B-shares, each with a par value of SEK 2.

A-shares carry one vote and B-shares carry one tenth of a vote. As per the Articles of Association, holders of A-shares are entitled to request conversion of A-shares into B-shares on a 1:1 basis. In 2016, 300,917 A-shares were converted to an equivalent number of B-shares.

On December 31, 2016, the number of shareholders was 53,239. Of the total number of shares, foreign shareholders accounted for approximately 36.0%. Investor AB is the single largest shareholder with a holding of approximately 16.8% of the share capital and approximately 32.9% of the votes as of December 31, 2016. Measured by number of votes, L E Lundbergföretagen is the second largest owner with a holding of approximately 7.5% of the capital and approximately 25.0% of the votes as of December 31, 2016. For further information on the Husqvarna shares and shareholders, see page 116.

Nomination Committee

In accordance with the Swedish Code, Husqvarna is required to have a Nomination Committee, the primary responsibilities of which are to consider and submit to the AGM proposals and recommendations regarding:

- The Chair of the AGM;
- The number of Board members;
- The nominees for the Board of Directors;
- The Chair of the Board;

- Remuneration to Board members, including the Chair, and remuneration for Board members' work on Board committees;
- Selection of external auditors (when applicable);
- Remuneration to external auditors; and
- Changes to the process regarding the composition and operation of the Nomination Committee for the following year (if applicable).

The AGM determines the process for establishing the Nomination Committee and its members. At Husqvarna's 2013 AGM it was decided that the following process would apply until the AGM resolves otherwise:

- The Company shall have a Nomination Committee consisting of five members.
- The members shall consist of one representative of each of the four largest shareholders in the Company in terms of voting rights held as of the last banking day of August, with the fifth member being the Chair of the Board.
- In the event that any of the four largest shareholders elects not to nominate a representative to the Nomination Committee, the right to appoint such a representative passes to the fifth largest shareholder and so on.
- The Company's Board Secretary shall serve as secretary of the Nomination Committee.

These rules established at the 2013 AGM have not been changed by any subsequent AGM and therefore continue to apply.

The formation of the Nomination Committee for the 2017 AGM was announced on September 26, 2016. The members of the Nomination Committee (and corresponding appointing shareholders) for the 2017 AGM are:

Member	Appointing shareholder
Petra Hedengran (Chair)	Investor AB
Claes Boustedt	L E Lundbergföretagen AB
Ricard Wennerklint	If Skadeförsäkring AB
Henrik Didner	Didner & Gerge Fonder
Tom Johnstone ¹	–

¹Chair of the Husqvarna Board of Directors

The determination of the four largest shareholders for purposes of nominating representatives to the Nomination Committee was based on known holdings of voting rights as of August 31, 2016. Nomination Committee members do not receive compensation from Husqvarna for their work on the Nomination Committee.

As noted above, one of the chief duties of the Nomination Committee is to make recommendations regarding the size and composition of the Board. Normally, the starting point for such recommendations is a survey conducted each year by the Chair of the Board to assess the Board's work, composition, qualifications, experience and efficiency, the results of which are shared and discussed with the Nomination Committee.

Based on survey results and subsequent discussions and interviews, the Nomination Committee determines whether the existing Board should be strengthened with additional expertise or if there are any other reasons to make changes to the composition of the Board. In making such determinations and (if applicable) evaluating potential new candidates for the Board, the Nomination Committee takes into consideration the goal to achieve an even gender balance in the Board. The Nomination Committee has applied rule 4.1 of the Swedish Code as its diversity policy applicable to the Company's Board. In addition, the Nomination Committee also takes into consideration the need to ensure that the independence requirements of the Swedish Code are met.

These requirements stipulate that at least the majority of Board members must be independent from the Company's management, and that at least two (from such majority) are also independent of the Company's largest shareholders. The Nomination Committee also takes into account any proposals made to the Nomination Committee about the composition of the Board that may have been suggested by other shareholders. Shareholders who wish to submit proposals to the Nomination Committee may do so by sending an email to nominationcommittee@husqvarnagroup.com.

While there is no formal cut-off date for proposals, it was recommended in the September 26, 2016 notice of the formation of the Nomination Committee that such shareholders proposals should be received by the Company no later than February 7, 2017.

For the 2017 AGM, the Nomination Committee announced its required proposals along with the notice of the AGM, which was published on the website on March 1, 2017. The Nomination Committee will then present and explain its work and proposals at the AGM.

Annual General Meeting

General

The AGM is the highest decision-making body of the Company. In accordance with the Swedish Companies Act, the Husqvarna AGM must be convened annually on a date not later than six months after the close of the preceding financial year, and is normally held in March or April each year.

According to Husqvarna's Articles of Association, the AGM must be held in Jönköping or Stockholm, Sweden, although it is traditionally held in Jönköping, Sweden. The notice of the AGM (specifying its date, location, agenda, etc.) shall be made public at least four weeks and not more than six weeks prior to the AGM. In Husqvarna's case, it is published in the Swedish daily newspaper, Svenska Dagbladet and the Swedish Official Gazette (Post- och Inrikes Tidningar). It is also announced in a press release and on the Company's website at www.husqvarnagroup.com/agm. For the 2017 AGM, such notice was published on March 3, 2017.

Shareholders who are listed in the share registry on the record day (i.e., Wednesday, March 29, 2017) and wish to be represented at the AGM must register to do so with the Company by no later than Wednesday, March 29, 2017. Shareholders who are individuals may attend the AGM in person or by proxy. Shareholders attending the meeting by proxy, including all corporate shareholders, must submit a valid power of attorney as well as other required documentation in due time before the AGM. This allows the Company to compile a book of shareholders from the Swedish Central Securities Depository, Euroclear Sweden AB. Following this compilation, voting

certificates are sent to all shareholders attending the meeting or their designated representatives. Voting certificates are proof of voting rights and also serve as an entrance card to the AGM.

AGM agenda items & written documentation

The agenda for the AGM is reviewed and approved by the Board and consists of matters that are statutory (as per the Swedish Companies Act), voluntary standards (as per the Swedish Code) or internal (as per the Company's Articles of Association). These typically include the following matters:

- Election of Chair of the AGM¹;
- Adoption of statutory financial documentation;
- Discharge of liability for the Board members and CEO;
- Disposition of the Company's profit;
- Number of Board members¹;
- Remuneration to Board members, committee members and external auditors¹;
- Election of external auditor (every fourth year according to the Articles of Association)^{1,2};
- Election of Chair of the Board¹;
- Election of Board members¹;
- Principles of remuneration for Group Management;
- Adoption of long-term incentive programs (if applicable);
- Repurchase and transfer of the Company's own shares (if applicable); and
- Authorization to resolve on the issuance of new shares (if applicable).

¹Indicates agenda items for which the Nomination Committee makes a proposal.

²The 2014 AGM resolved to appoint Ernst & Young as auditor for the period from the 2014 AGM up until the end of 2018 AGM, which is in accordance with Husqvarna's current Articles of Association, which state that "the term of office for the Auditors is four years." Accordingly, this item is not applicable to the 2017 AGM.

Shareholders may also, prior to the publication of the notice to attend the AGM, propose matters to be put on the AGM agenda.

At the AGM, the Chair of the Board presents a report on the Board's work during the preceding year, the CEO gives an overview of the Company's business and current priorities, and the auditors present their report and their review of the Company's finances. If required, the Chair of the Remuneration Committee reports on remuneration to Group's executive management (herein, "Group Management") and, if it is to be decided by the AGM, the Company's long-term incentive programs. Shareholders may also direct questions to the Chair of the Board, the CEO, the Chair of the Nomination Committee, the Chair of the Remuneration Committee, the external auditors or any other Board member. Written documentation is presented at the AGM, normally both in English and Swedish. This documentation may be downloaded from the Company's website and is also sent to shareholders upon request. Such documentation includes:

- The agenda for the AGM;
- Proposals from the Board and the Nomination Committee;
- The Remuneration Committee's evaluation of programs of variable remuneration for Group Management, the application of the principles of remuneration for Group Management and applicable remuneration structures and levels in the Company;
- The Nomination Committee's motivated opinion regarding the proposal for appointment of Board members; and
- The Board's report in relation to the proposed dividend and the proposal on the acquisition of the Company's own shares (if applicable).

The AGM is held in Swedish, but simultaneous translation into English is available. The minutes recorded at the AGM are normally published within a few days of the AGM. A press release including the decisions made by the AGM is published immediately after the AGM.

Annual General Meeting 2016

The 2016 AGM was held on April 6, 2016 in Jönköping, Sweden with 754 shareholders attending in person or by proxy, representing 52% of the total number of shares and 74% of the total number of votes. Also attending were the Board of Directors, the external auditors and members of Group Management. The following resolutions were passed:

- Adoption of the income statements and balance sheets for 2015, together with the Board's dividend proposal, which was set at SEK 1.65 per share in total, to be paid in two separate payments of SEK 0.55 per share to be paid on April 13, 2016, and SEK 1.10 per share to be paid on October 13, 2016.
- The Board and the CEO were discharged from liability for the financial year 2015.
- The Nomination Committee's proposal for the number of Board members and the election of Tom Johnstone, Magdalena Gerger, Ulla Litzén, Katarina Martinson, Bertrand Neuschwander, Daniel Nodhäll, David Lumley, Lars Pettersson and Kai Wörn as Directors of the Board. Tom Johnstone was appointed Chair of the Board.
- The Nomination Committee's proposed remuneration to the Board of SEK 5,950t in total, of which SEK 1,775t to the Chair of the Board and SEK 515t to each of the Board members elected by the AGM and not employed by the Company, was adopted. Furthermore, according to the Nomination Committee's proposal, remuneration of SEK 180t to the Chair of the Audit Committee and SEK 85t to each of the other two members of the Audit Committee was resolved, as well as SEK 110t to the Chair of the Remuneration Committee and SEK 55t to each of the other two members.
- The Nomination Committee's proposal that the auditor's fee be paid on the basis of approved invoices.
- The Board's proposal for principles of remuneration to Husqvarna Group Management, based on fixed salary, variable salary, long-term incentives, pensions and other benefits.
- The Board's proposal for a performance-based long-term incentive program for 2016, LTI 2016, to be offered to 80 senior managers, whereby, subject to the fulfilment of certain performance targets and other conditions during a three-year vesting period, the participants would have the right to receive certain B-shares.
- The Board was authorized on one or more occasions during the period up until the next AGM, to approve the repurchase of B-shares on Nasdaq Stockholm, on the condition that the Company's holding does not at any time exceed 1% of the total number of shares in the Company, for the purpose of hedging certain obligations (including social security charges) on resolved incentive programs.
- The Board was authorized, on one or more occasions during the period up to the next AGM, to sell B-shares in Husqvarna on Nasdaq Stockholm for the purpose of hedging certain costs (including social security charges) for resolved incentive programs.
- In order to hedge the obligations of the Company under the LTI 2016, the Board was authorized, during the period up until the next AGM, to direct the Company to enter one or more equity swap agreements with a third party (e.g. a bank). Such swap agreements may be entered into on one or more occasions on terms and conditions in accordance with market practice.
- The Board was authorized to approve the issue of not more than 57,634,377 new B-shares against consideration in kind on one or more occasions during the period up to the 2017 AGM.

Annual General Meeting 2017

The 2017 AGM of Husqvarna AB will be held at 4 p.m. on Tuesday, April 4, 2017 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden. For more information regarding the 2017 AGM, see page 120.

The Board of Directors

According to Husqvarna AB's Articles of Association, the Board shall be comprised of no less than five and no more than ten Board members. The Articles of Association do not contain any specific

provisions concerning the appointment and dismissal of directors (or the method by which the Articles of Association themselves may be amended), meaning that the rules otherwise stated in the Swedish Companies Act apply. There are currently nine Board members elected by the AGM (see table on page 59). In addition to the Board members elected by the AGM, Swedish trade unions have the statutory right to appoint two ordinary Board members with voting rights, as well as two non-voting deputies.

In accordance with the Swedish Code, the principle tasks of the Board include:

- Establishing the overall goals and strategy of the Company;
- Appointing, evaluating and, if necessary, dismissing the CEO;
- Defining appropriate guidelines to govern the Company's conduct in society, with the aim of ensuring its long-term value creation capability;
- Ensuring that there is an appropriate system for follow-up and control of the Company's operations and the risks to the Company that are associated with its operations;
- Ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and other regulations relevant to the Company's operations, as well as the application of internal guidelines; and
- Ensuring that the Company's external communications are characterized by openness and that they are accurate, reliable and relevant.

The Board has adopted Rules of Procedure for its internal activities, which include rules regarding the number of Board meetings, matters to be handled at regular Board meetings and the duties of the Chair of the Board. These Rules of Procedure are updated and adopted by the Board each year at the "Statutory Board Meeting" which is normally held immediately after the AGM. The Chair shall also ensure that the Board evaluates the CEO on a regular basis, at least once a year.

The Board has also issued written instructions specifying when and how information required to enable the Board to evaluate the Company and the Group's financial position shall be reported to the Board, as well as the distribution of duties between the Board and the CEO. The duties of the Board are partly exercised through its Audit Committee and Remuneration Committee. The Board has adopted charters for each such Board committee, which charters are periodically updated and approved by the Board.

The Chair of the Board ensures that the Board's work and procedures are evaluated and discussed with Board members annually, and are brought to the attention of the Nomination Committee with the aim of developing the Board's working methods and efficiency. In 2016, such evaluation was conducted principally through a combination of individual interviews and a detailed Board questionnaire. The results of such evaluation were presented to, and discussed with, the Nomination Committee as well as to the full Board. The Board members elected by the AGM fulfil the independence criteria set out by the Swedish Code, which requires that a majority be independent of the Company's management, and that at least two of those be independent as to the Company's largest shareholders.

Fees to Board members

Fees to Board members, including fees for committee work, are set by the shareholders at the AGM. For information on fees to the Board in 2016, see note 4.

Board meetings

According to the Board's Rules of Procedure, the Board shall hold at least four ordinary meetings and one statutory meeting per calendar year. In 2016, the Board held ten meetings, of which four were by telephone, two were held in Huskvarna, Sweden, two were held in Stockholm, Sweden, one in Jonsö, Sweden, and one in Charlotte, US.

Board of Directors

Attendance 2016

Name	Nationality	Independence ¹	Board meetings	Audit Committee	Remuneration Committee	Authorized fees, total in SEK ²	Holdings, number of A-shares ³	Holdings, number of B-shares ³
Tom Johnstone								
Magdalena Gerger	UK	Yes/No	10/10		2/2	1,885	990	14,800
Ulla Litzén	SE	Yes/No	9/10			515	4,300	–
David Lumley	SE	Yes/Yes	10/10	6/6		695	–	10,000
Katarina Martinson	US	Yes/Yes	6/10		2/2	570	–	7,252
Bertrand Neuschwander ⁴	SE	Yes/No	10/10	6/6		600	113,478	378,737
Daniel Nodhäll	FR	Yes/Yes	6/7			515	–	–
Lars Petterson	SE	Yes/No	10/10	6/6		600	–	10,000
Kai Wärn	SE	Yes/No	10/10		2/2	570	–	5,000
Soili Johansson	SE	No/Yes	10/10			–	–	215,888
Annika Ögren	SE	–	9/10			–	225	750
Carita Svård ⁵	SE	–	10/10			–	–	–
Lotta Widehäll ⁵	SE	–	6/10			–	–	–
Total			10	6	2	5,950	118,993	642,427

¹ Refers to independence in relation to the Company and management, and independence in relation to major shareholders, respectively.

² Board members are expected to engage themselves financially in Husqvarna shares within a period of five years, corresponding to one year's Board fees.

³ Refers to December 31, 2016 and includes related parties and holdings through legal persons.

⁴ Elected at the 2016 AGM.

⁵ Deputy.

At Board meetings, the Company's CEO, the Company's CFO and the Company's General Counsel are present. The General Counsel serves as the Board's secretary and records the minutes of the Board meetings. Other members of Group Management or other senior managers of the Company may also be asked to attend and report on significant matters.

When relevant and at least quarterly, Group Management presents forecasts and key performance indicators, providing the Board with an overview of the financial development and expectations of the Company. The Company's budget is reviewed and approved once a year, generally in the fall. The Board also reviews the Company's significant litigation matters, follows up on the Company's compliance work, and monitors the Company's progress regarding its sustainability agenda.

In addition, the Company's external auditors meet with the Board once a year, without participation of the members of Group Management.

Audit Committee

In accordance with the Swedish Companies Act, the Board annually appoints an Audit Committee whose primary responsibilities are to (a) monitor the Company's financial reporting, (b) oversee the effectiveness of the Company's internal control, internal audit function and risk management as they relate to financial reporting, (c) review and supervise the Company's external auditors' impartiality and independence, and (d) when applicable, assist in the preparation of proposals for the AGM's election of auditors. The Audit Committee may also exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time.

The Board determines the composition of the Audit Committee, which shall have at least two members, none of whom may be employed by the Company. At least one of the members of the Audit Committee must have auditing or accounting competence. The Board appoints the Committee members annually at the Statutory Board Meeting or when a Committee member needs to be replaced.

The Committee members appointed in April 2016 were Ulla Litzén (Chair), Daniel Nodhäll and Katarina Martinson, who were the same members as the previous year. Audit Committee meetings are also attended by the Company's internal auditor who keeps the minutes of the meetings, the Company's CFO, the General Counsel and the external auditors. Other members of Group Management

are present to report on matters as relevant. The Audit Committee regularly reports on its findings and recommendations to the full Board. The Audit Committee's meeting minutes are also available to the Board.

In 2016, the Audit Committee held six meetings, which fulfils its own charter rule that it shall meet at least four times per year. The Audit Committee meetings follow an adopted agenda plan, which includes a review of open issues, a treasury and tax update, and an internal audit update. The Audit Committee also reviews the Company's Interim Reports and Board of Directors' Report before they are submitted to the Board. The Committee meets frequently with the Company's external auditors who deliver reports on the audit. It also reviews the Company's compliance work quarterly.

Remuneration Committee

In accordance with the Swedish Code, the Husqvarna Board annually appoints a Remuneration Committee whose primary responsibilities are to (a) prepare proposals on remuneration and other terms of employment for Group Management, (b) monitor and evaluate programs for variable remuneration for Group Management, and (c) monitor and evaluate the application of the remuneration guidelines for the Board and Group Management and current remuneration structures and levels in the Company. The Remuneration Committee takes an active interest in talent management within the Company. The Remuneration Committee may exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time.

The Board determines the composition of the Remuneration Committee, which shall have at least three members, of which at least two must be independent of the Company and its executive management. The Board appoints the Committee members annually at the Statutory Board Meeting or when a Committee member needs to be replaced. The Committee members appointed in April 2016 were Tom Johnstone (Chair), Lars Petterson and David Lumley. All Remuneration Committee meetings are also attended by the Company's SVP People & Organization, who takes the minutes of the meetings. Other participants are invited, if relevant. For more information on remuneration to Group Management, see note 4.

In 2016, the Remuneration Committee held two meetings, which fulfils the charter criteria that it shall meet at least twice a year. All Committee meetings follow an adopted agenda plan, which

Group Management Structure



includes a review of the Company's long-term incentive ("LTI") and short-term incentive ("STI") programs and ensures that these programs follow legal and internal policies, decisions from the AGM and other relevant rules and instructions. If needed, the Committee solicits advice and external benchmarks to ensure that the Company's remuneration principles are up to date. The Remuneration Committee also ensures that the performance of Group Management members and the CEO is evaluated once a year. The Remuneration Committee reports on its findings and recommendations to the full Board.

Auditors

At the 2014 AGM, in accordance with the proposal of the Nomination Committee, Ernst & Young AB was elected as auditor for the period from the 2014 AGM up until the end of the 2018 AGM. The auditor-in-charge is Hamish Mabon.

As per the decision taken at the 2016 AGM, the auditor's fee until the 2017 AGM shall be paid on the basis of approved invoices. For more information see, note 7.

Organization and Group Management

The Husqvarna Group has a brand-driven organization, with four separate reporting divisions: Husqvarna, Gardena, Consumer Brands and Construction. The Group Management is a 13 member team consisting of (a) the CEO, (b) the four divisional presidents, (c) the three Group Staff Functions heads (as described below), and (d) the five Group Strategic Functions heads (as described below). Group Management, together, makes decisions on

- enhancing Group synergies,
- internal financial and business follow-up,
- external financial reporting for Board of Directors approval,
- Group governance,

- Group staffing plans,
- issue resolution,
- the Group's strategic and business development,
- budgets,
- external affairs,
- Board reporting,
- risk management and mitigation, and
- Group policies and guidelines.

Group Management meetings are chaired by the CEO. Group Management meets monthly by video and/or telephone and quarterly in person.

Clear roles and responsibilities apply for each of the Group functions as well as for the divisions. A Group governance structure has been implemented to ensure that decisions are made as close to operations as possible. Clear guidance has been provided to identify the level on which different types of decisions should be made. Changes to the governance structure (including applicable roles and responsibilities) can only be made by the decision of Group Management.

The CEO

The CEO is appointed by the Board and is responsible for the ongoing management of the Company in accordance with the Board's guidelines and instructions. These instructions include responsibility for financial reporting, preparation of information for decisions and ensuring that commitments, agreements and other legal documents do not conflict with Swedish or foreign laws and regulations. The CEO shall also ensure compliance with goals, policies and strategic plans, and also update these when necessary. The CEO appoints all members of Group Management.

The divisional presidents

Each division has its own President, who in turn reports to the CEO of Husqvarna AB. Each of the four division Presidents is responsible for the income statement and balance sheet for his/her respective division. However, all decisions made by a division are subject to the Group's overall strategic goals and policies. For more information about Husqvarna's divisions please see pages 18–35.

Group staff functions

Husqvarna has three "Group staff functions" as follows:

1. **Finance, IT & IR.** This function is primarily responsible for the Group's financial reporting as well as for Treasury, Tax, Internal Audit, Group IT and Investor Relations (IR).
2. **Legal Affairs.** This function is responsible for the Group's Legal Affairs, Enterprise Risk Management, Code of Conduct compliance, training and reporting, and sustainability strategy (with such sustainability function having been transferred to Group Operations, effective January 25, 2017).
3. **People & Organization.** This function is responsible for the Group's human resources, including compensation and benefit programs and talent management within the Group.

Group strategic functions

Husqvarna has five "Group strategic functions" as described below. These five functions, collectively, are responsible for designing the strategic framework under which each part of the value chain operates in order to secure synergies within the Group and to ensure that the four divisions execute their businesses in line with such framework.

1. **Business Development.** This function is responsible for Group strategy, acquisitions and divestments.
2. **Communications, Brand & Marketing.** This function is responsible for managing the Group's brand portfolio, brand positioning, brand and customer insight, and business intelligence. It is also responsible for capturing group marketing synergies and establishing the Group's framework for outbound licensing and pricing strategies. This function is also responsible for internal and external Group communications.
3. **Technology Office.** This function leads the Group's technology and innovation management, including as to intellectual property. In addition, it develops the product commonality strategy to ensure that the Group can capture product and technology synergies within and between the different divisions.
4. **Group Operations.** This function is responsible for ensuring that the Group can capture operational synergies across the different divisions such as in purchasing and supply-chain management. Effective January 25, 2017, Group Operations is also taking responsibility for leading the Group's sustainability strategy.
5. **Program Office – Efficiency programs and Quality.** This function is responsible for tracking and follow-up actions to secure product quality and cross-divisional savings opportunities.

External information

Husqvarna's Board of Directors has adopted an information policy that complies with the information disclosure requirements of the EU Market Abuse Regulation and Nasdaq Stockholm's Rule Book for Issuers. The policy applies to the Board and Group Management and covers both written and oral information.

Financial information is regularly issued in the form of:

- Interim reports, published as press releases;
- Annual Reports;
- Press releases concerning news and important issues;
- Presentations and telephone conferences for financial analysts, investors and media on the day of publication of the interim and year-end reports, and in connection with the publication of other important information; and
- Presentations for financial analysts and investors in connection with Capital Market Days and road shows, etc.

All reports, presentations and press releases are published on the Group's website at www.husqvarnagroup.com.

Certain information required by U.K. Modern Slavery Act

Both the United Kingdom Modern Slavery Act of 2015 and the California Transparency in Supply Chains Act of 2010 require us to provide public disclosures regarding efforts to eradicate slavery and human trafficking from our supply chains. The Husqvarna Group does not allow illegal or forced labor in our operations and expects that all suppliers will abide by all applicable international and local laws, rules and regulations in the manufacture and distribution of products, components and materials according to the Husqvarna Group's Code of Conduct and Supplier Code of Business Ethics. Our efforts here are supported by ongoing quality and sustainability audits of our suppliers. A detailed statement is published on <http://corporate.husqvarna.com/purchase/en/california-transparency-supply-chain-act-disclosure>.

Internal control over financial reporting

A focus area for the Husqvarna Group's process for internal control is to manage and minimize the risk of inaccuracy in financial reporting.

This description and evaluation of the Group's internal control activities is based on the COSO framework (The Committee of Sponsoring Organizations of the Treadway Commission) and, as required by the Swedish Code, describes the Board's measures for monitoring that the internal controls related to financial reports and reporting to the board function adequately. The COSO framework comprises five components; control environment, risk assessment, control activities, information and communication, and monitoring activities.

Control environment

Internal control over financial reporting is based on the overall control environment. This involves clear definitions of organizational structure, decision-making paths and authority, which are communicated in the form of internal control documents such as policies, instructions and guidelines. During 2016, further focus has been put to strengthen the Entity Level Controls (ELC). The control environment also includes laws and other external regulations.

The Board of Directors is ultimately responsible for ensuring robust internal controls, including that the Company has formalized procedures to ensure that (i) approved principles for financial reporting and internal controls are applied, (ii) the Company's financial reports are produced in accordance with applicable legislation, accounting standards and other requirements for listed companies, and (iii) there is an appropriate system for follow-up and control of the Company's operations and the risks to the Company that are associated with its operations. The Board has established Rules of Procedure and clear instructions for its work, which also cover the activities of the Audit and Remuneration Committees.

The overall duty of the Audit Committee is to support the Board's supervision of the audit and reporting processes, and to ensure the quality of such processes. The activities of the Audit Committee during the year are described in detail on page 59.

Responsibility for maintaining an effective control environment as well as the ongoing work on risk management and internal control over financial reporting is delegated to the CEO. This responsibility is in turn delegated to managers within their specific areas at various levels in the Company.

Responsibility and authority are defined in instructions to the CEO, regarding the right to sign for the Company, as well as within various internal manuals, policies, routines and codes. The Board approves the Code of Conduct and, on an annual basis, certain Group policies. Group Management approves other policies and instructions, and divisions and Group staff functions issue guidelines and monitor the implementation of all policies and instructions.

Group rules for accounting and reporting are stipulated in the accounting manual, which is available to all employees within finance and accounting. Policies and instructions are reviewed and updated regularly with reference to, for example, changes in legislation, accounting standards, procedures and listing requirements.

Risk assessment

Risks of material misstatements in financial reporting may exist in relation to recognition and measurement of assets, liabilities, revenue and cost or inadequate disclosure and documentation. Items in the balance sheet and the income statement based on estimates, or generated by complex processes, are relatively more exposed to risk of error than other items. Major items in this respect include impairment test of intangible assets with indefinite useful life, inventory, deferred tax, provisions for pensions and other post-employment benefits, share-based compensation, warranty provisions, provisions for restructuring, claims reserves and contingent liabilities. For further information refer to note 2.

The Group's finance function performs risk assessments regarding the Group's balance sheet and income statement, taking into consideration both qualitative and quantitative risks. The purpose of this risk assessment is to direct internal control activities to these areas and to ensure that internal control regarding financial reporting is satisfactory.

Control activities

Control activities are designed to prevent, identify and correct errors and deviations in financial reporting within the Group. Control activities are integrated in processes for accounting and financial reporting and include, among other things, procedures for authorization and signing for the Company, reconciliation of bank balances and accounts, analysis of results, segregation of duties, automatic controls integrated in IT systems, and control of the basic IT environment.

The Group maintains several control processes for financial reporting and is standardizing key processes and controls within the Group. The control function, like financial responsibility, follows the Company's organizational and responsibility structure.

The Husqvarna Group also has a function for internal control (Group Internal Control). The objective of Group Internal Control is to provide support for Group Management and the management of the divisions, enabling them to continually provide solid and improved internal control relating to financial reporting. The tasks performed by Group Internal Control aim to ensure compliance with policies, instructions and guidelines as well as to create efficient conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the results of the work carried out by the internal control function.

Each operative unit has a controller whose responsibilities include ensuring that the unit's internal controls comply with Group standards, as well as compliance with Group guidelines and principles. The controller is also responsible for ensuring that financial information is correct and complete and that it is delivered on time. Country Officers are appointed by the Husqvarna Group in each country where the Group has subsidiaries. The duties of such Country Officers include safeguarding the interests of shareholders as well as identifying and reporting risks linked to fiscal regulations and other legislation.

Group Management performs monthly reviews of the results for the Group and the operative units, as well as updated forecasts, plans and strategic issues.

Information and communication

The Husqvarna Group maintains information and communication systems to facilitate correct and complete financial reporting. The accounting manual and other instructions for reporting are updated when necessary and are reviewed quarterly. In addition, other policies relevant to internal control over financial reporting are available to all relevant employees on the Group's intranet. Changes in accounting procedures are communicated and explained in newsletters from the Group's accounting function.

Monitoring activities

The Husqvarna Group maintains a comprehensive financial reporting system for monitoring operations. This enables the identification of possible deviations from the IFRS financial reporting defined in the Husqvarna accounting manual, which includes rules for accounting and evaluation principles that are mandatory for all companies within the Group, as well as instructions for reporting.

Financial data is reported every month together with a forecast for the coming period. Consolidation, reporting and controlling are performed from both legal and operational perspectives, which ensures a detailed analysis and focus of the items where potential misstatements can have a material effect on the financial reporting of the Group. Deviations from both forecasted and historical levels and trends are investigated and assessed for potential internal control activities. All consolidation of financial data is centralized and the financial reports are stored in a central database from which data is retrieved for analysis and monitoring on Group, division and entity levels. Considerations made in the quarterly closings as well as potential deviations are discussed with the Audit Committee before the financial reports are presented to the financial market. Areas defined as potential risks for material misstatements in the risk assessment process are presented regularly by management to the Audit Committee. The same areas are focused upon by both the external and internal auditors in their audit work, which is presented to the Audit Committee.

The Internal Control function has during 2016 introduced new processes and methods to further improve the remediation of detected deviations in the reporting units.

The Group Internal Audit function supports the development and improvement of internal control over financial reporting. Group Internal Audit is established by the Audit Committee as part of their monitoring role. An annual internal audit plan based on an independent risk assessment process is approved by the Audit Committee. Based on this audit plan, Group Internal Audit performs independent and objective audits to evaluate and enhance the efficiency of internal controls, including internal control over financial reporting. The results of these audits are presented to the responsible managers, the CFO, the CEO, and the Audit Committee.

Besides remediating the detected internal control weaknesses in the audited entity, the findings are used to improve the processes in other parts of the Group. The level of materiality and the scope for the external audit is also defined to support the internal control activities. Both the findings of the internal and the external audits are reported to the Audit Committee together with the status of the progress to eliminate the internal control weaknesses.

Board of Directors and auditors



Tom Johnstone

Chair of the Board

Born 1955. M. A., University of Glasgow, Scotland, Hon. Doc. in B.A., University of South Carolina, US. Hon. Doc. in Science, Cranfield University, UK. Elected 2006. Chair of the Remuneration Committee.

Other major assignments: Board Chair of Combient AB and of the British-Swedish Chamber of Commerce. Board member of Investor AB, Volvo Cars and Wärtsilä Corporation.

Previous positions: President & CEO of AB SKF 2003–2014. Executive Vice President of AB SKF 1999–2003. President Automotive Division, AB SKF 1995–2003. Senior management positions within AB SKF since 1987.

Holdings in Husqvarna: 990 A-shares, 14,800 B-shares.



Kai Wörn

Board member (and President & CEO)

Born 1959. M. Sc. in Mechanical Engineering, the Royal Institute of Technology, Stockholm, Sweden. Elected 2014. President & CEO of Husqvarna AB. **Previous positions:** Operations partner at IK Investment Partners Norden AB 2011–2013. President & CEO of Seco Tools AB 2004–2010. Various positions within ABB 1985–2004.

Holdings in Husqvarna: 115,888 B-shares (Own), 100,000 B-shares (Legal person).



Magdalena Gerger

Board member

Born 1964. M. Econ. and MBA, Stockholm School of Economics, Sweden. Elected 2010. CEO & President of Systembolaget AB.

Other major assignments: Board member of Ahlsell AB, Investor AB, IFN (Research Institute of Industrial Economics), the Confederation of Swedish Enterprise and the Swedish Trade Federation.

Previous positions: Board member IKEA (Ingka Holding BV). Senior Vice President responsible Global Fresh Dairy, Arla Foods 2005–2009. Management consultant, Futoria AB 2004. Category Director Nescafe (UK and Ireland) Nestlé UK Ltd 2000–2003 Marketing Director ICI Paints 1998–2000 and Procter & Gamble 1996–1997.

Holdings in Husqvarna: 4,300 A-shares.



Ulla Litzén

Board member

Born 1956. B. Sc., Stockholm School of Economics, Sweden and MBA, Massachusetts Institute of Technology, US. Elected 2010. Chair of the Audit Committee.

Other major assignments: Board member of Alfa Laval AB, Boliden AB, AB Electrolux, NCC AB and Ratos AB.

Previous positions: President of W Capital Management AB 2001–2005. Senior management positions and member of the Management Group, Investor AB 1996–2001. Managing Director, responsible for Core Holdings 1999–2000. President of Investor Scandinavia AB 1996–1998.

Holdings in Husqvarna: 10,000 B-shares.



David Lumley

Board member

Born 1954. B. A in Communications/Marketing, Western Illinois University, Macomb, IL, US; MSJ Journalism, Northwestern University Medill School of Journalism, Evanston, IL, US and an MBA, Northwestern University Kellogg School of Management, Evanston, IL, US. Elected 2014. Member of the Remuneration Committee.

Other major assignments: Board member of Valspar Corporation.

Previous positions: President and CEO of Spectrum Brands, Middleton, WI, US, President Rubbermaid Home Products, Newell-Rubbermaid Inc., Atlanta, GA, US, President and CEO, EAS Inc., Golden, CO, US, President Brunswick Bicycles, Brunswick Corp., Lake Forest, IL, US, President OMC International and Senior Vice President Marine Power Group, Outboard Marine Corp., Waukegan, IL, US, General Manager Wilson Sporting Goods Co., Chicago, IL, US.

Holdings in Husqvarna: 7,252 Husqvarna American Depositary B.



Katarina Martinson

Board member

Born 1981. M. Sc., Stockholm School of Economics, Sweden. Elected 2012. Member of the Audit Committee. Portfolio management for the Lundberg Family.

Other major assignments: Board member of L E Lundbergföretagen AB, Fastighets AB L E Lundberg, Byggnads AB Karlsson & Wingsjö, L E Lundberg Kapitalförvaltning AB, Indutrade AB, Fidelio Capital AB, AniCura AB and Lyko AB.

Previous positions: Analyst at Handelsbanken Capital Markets 2008, Vice President at Strategas Research Partners LLC, New York, US 2006–2008, investment research at ISI, International Strategy & Investment Group, New York, US 2005–2006.

Holdings in Husqvarna: 113,478 A-shares, 378,737 B-shares.



Daniel Nodhäll

Board member

Born 1978. M. Sc., Stockholm School of Economics, Sweden. Elected 2013. Member of the Audit Committee. Managing Director, Head of Listed Core Investments at Investor AB.

Previous positions: Analyst focused on the engineering sector at Investor AB since 2002.

Holdings in Husqvarna: 10,000 B-shares.

Lars Pettersson

Board member

Born 1954. M. Sc. in Technical Physics, Material Sciences, Uppsala University, Sweden. Elected 2014. Member of the Remuneration Committee.

Other major assignments: Board Chair of KP-Komponenter A/S. Board member of Festo AG, AB Industrivärden, Indutrade AB and L E Lundbergföretagen AB.

Previous positions: President & CEO of AB Sandvik 2002–2011 and various positions within AB Sandvik 1978–2002.

Holdings in Husqvarna: 5,000 B-shares.

Bertrand Neuschwander

Board member

Born 1962. Graduate engineer, Institut National Agronomique de Paris-Grignon, France, MBA from INSEAD. Elected 2016. Chief Operating Officer, Groupe SEB, France.

Other major assignments: Board Chair of SEB Alliance (Groupe SEB Corporate Venture). Board member of Serge Ferrari Group SA, OBH Nordica AB and Zhejiang Supor Co. Ltd.

Previous positions: Senior Executive Vice President for Business Units, Brands, Innovation & Strategy, Groupe SEB 2012–2014, Senior Executive Vice President for Business Units Brands & Innovation, Groupe SEB 2010–2012, CEO, Devanlay/Lacoste 2004–2009, Chair and Chief Executive Officer, Aubert Group 2001–2004.

Holdings in Husqvarna: 0 shares.

Auditors

Hamish Mabon

Ernst & Young AB

Authorized Public Accountant

Born 1965.

Other audit assignments include:

AB Tetra Pak, Skanska AB and

Svenska Cellulosa Aktiebolaget SCA.

Holdings in Husqvarna: 0 shares.



Soili Johansson

Employee representative

Born 1962. Representative of the Federation of Salaried Employees in Industry and Services.

Holdings in Husqvarna: 225 A-shares, 750 B-shares.

Annika Ögren

Employee representative

Born 1965. Representative of the Swedish Confederation of Trade Unions.

Holdings in Husqvarna: 0 shares.

Carita Svärd

Deputy employee representative

Born 1968. Representative of the Swedish Confederation of Trade Unions.

Holdings in Husqvarna: 0 shares.

Lotta Widehäll

Deputy employee representative

Born 1976. Representative of the Federation of Salaried Employees in Industry and Services.

Holdings in Husqvarna: 0 shares.

All holdings in Husqvarna AB shares are as of December 31, 2016.

Group Management



Sascha Menges

President, Gardena Division

Born 1971. M. Sc. in Ind. Engineering & Management, Swiss Federal Institute of Technology, Zurich, Switzerland. MBA, INSEAD, France. Employed 2004. Member of Group Management since 2011.

Previous positions: Executive Vice President, Head of Manufacturing & Logistics, Husqvarna Group 2011–2014. Various positions in Supply Chain Management and Operations, Husqvarna Group 2007–2011. Vice President Supply Chain Management, Gardena AG 2004–2007. Associate Principal Management Consulting, McKinsey & Company, Inc 1996–2004.

Holdings in Husqvarna: 57,509 B-shares.

Sofia Axelsson

Senior Vice President, Group Communications, Brand & Marketing

Born 1973. M. Sc. in Public finance and accounting/Business administration, Gothenburg University, Sweden. Employed 2011. Member of Group Management since 2015.

Previous positions: Senior Vice President, Brand & Marketing, Husqvarna Group 2014–2015. Vice President Brand Management and Global Marketing, Husqvarna Group 2011–2014. CEO, Diplomatdörrar and Snickarper /Inwido Group 2007–2011. Global Marketing Director Husqvarna, Pfaff, Singer 2006–2007. Various positions within Brand & Sales marketing in Husqvarna/Pfaff Sewing machines 1998–2005.

Holdings in Husqvarna: 14,841 B-shares.

Kai Wärn

President & CEO

Born 1959. M. Sc. in Mechanical Engineering, the Royal Institute of Technology, Stockholm, Sweden. Employed 2013. Member of Group Management since 2013.

Previous positions: Operations partner at IK Investment Partners Norden AB 2011–2013. President & CEO of Seco Tools AB 2004–2010. Various positions at ABB 1985–2004.

Holdings in Husqvarna: 115,888 B-shares (Own) and 100,000 B-shares (Legal person).



Pavel Hajman

President, Husqvarna Division

Born 1965. M. Sc. in Industrial Engineering and Management, Linköping Institute of Technology, Sweden. Employed 2014. Member of Group Management since 2014.

Previous positions: Executive Vice President, Head of Asia/Pacific, Husqvarna Group 2014. President Assa Abloy AHG Greater China 2013–2014. Various positions in Seco Tools 1990–2013, President Asia/Pacific, Senior Vice President Group Business Development, Regional Director CEE.

Holdings in Husqvarna: 16,807 B-shares.

Jeff Hohler

President, Consumer Brands Division

Born 1965. B. Sc in Journalism, Bowling Green State University, US and MBA in Marketing, John Hopkins University, US. Employed 2015. Member of Group Management since 2015.

Previous positions: President, Tools Business Segment, Newell Rubbermaid, Inc., US. Various positions within Newell Rubbermaid 2001–2015. Various positions within the Black & Decker Corporation 1991–2001.

Holdings in Husqvarna: 15,019 B-shares.



Per Ericson

Senior Vice President, Group Staff People & Organization

Born 1963. Forest Engineer, US. Forestry Studies, Swedish University of Agricultural Sciences, Sweden. Studies in Change Management in Organization and Social Systems, International Association for Organisational and Social Development (IOD), Belgium. Employed 2011. Member of Group Management since 2011.

Previous positions: Executive Vice President Human Resources, Haldex 2006–2011. Various positions, Stora Enso 1987–2006, most recently as Executive Vice President Corporate Human Resources & Business Excellence.

Holdings in Husqvarna: 31,300 B-shares.

Valentin Dahlhaus

Senior Vice President, Group Operations

Born 1973. MBA, Freie Universität, Berlin, Germany. Employed 2010. Member of Group Management since 2015.

Previous positions: Vice President Demand and Supply Chain Management, Husqvarna Group 2013–2014. Supply Chain development/PO, Husqvarna Group 2011–2013. Demand and Supply Chain development, Husqvarna Group 2010–2011. Arcandor AG (Primondo GmbH), Nürnberg/Fürth 2007–2010. Continental AG, Hannover 2004–2007.

Holdings in Husqvarna: 5,053 B-shares.



Francesco Franzé

Senior Vice President, Program Office – Efficiency programs and Quality

Born 1964. M. Sc. in Mechanical Engineering, the Royal Institute of Technology, Stockholm, Sweden. Employed 1989. Member of Group Management since 2015.

Previous positions: Venture capital and management consultancy, own enterprise 2009–2013. Head of Electric Category, Husqvarna Group 2004–2008. Senior Vice President Industrial Operations, Electrolux 1998–2003. Various positions within Operations in Electrolux Professional 1989–1999.

Holdings in Husqvarna: 15,721 B-shares.

Pär Åström

Senior Vice President, Business Development

Born 1972. M. Sc. in Industrial Engineering & Management, Royal Institute of Technology, Stockholm, Sweden. Employed 2013. Member of Group Management since 2015.

Previous positions: Vice President Business Development, Husqvarna Group 2013–2014. Principal, A.T. Kearney Management Consultants 2007–2013. A.T. Kearney and Occam Associates Management Consulting 1998–2007.

Holdings in Husqvarna: 16,008 B-shares.



Henric Andersson

President, Construction Division

Born 1973. M. Sc. in Industrial Engineering & Management, Linköping Institute of Technology, Sweden. Employed 1997. Member of Group Management since 2012.

Previous positions: Senior Vice President, Technology Office, Husqvarna Group 2014–2015. Executive Vice President, Head of Product Management & Development, Husqvarna Group 2011–2014. Vice President Construction Equipment, Husqvarna Group 2008–2011. Vice President Commercial Lawn & Garden and President, Husqvarna Turf Care 2004–2008. Vice President Riders & Robotic Mowers, Husqvarna Group 2002–2004. Various positions in product and business management, Husqvarna Group 1997–2001.

Holdings in Husqvarna: 30,245 B-shares.

Anders Johanson

Senior Vice President, Technology Office

Born 1969. M. Sc. Chemical Engineering and an MBA, Chalmers University of Technology, Gothenburg, Sweden. Employed 2015. Member of Group Management since 2015.

Other major assignments: Part time role as adjunct professor in industrial product development, Royal Institute of Technology, Stockholm, Sweden 2015–. **Previous positions:** Partner and Global Practice Leader Technology and Innovation Management, Arthur D. Little 2000–2006; 2008–2015. Director Strategic Product and Technology Planning, Gambro 2008. Director Business office and head of Business Consulting, Volvo IT 2006–2007. Various positions within Nobel Biocare 1996–2000.

Holdings in Husqvarna: 3,287 B-shares.



Brian Belanger

Senior Vice President, Legal Affairs, General Counsel and Secretary to the Board

Born 1969. J.D./LLM, Duke University School of Law, Durham, NC, US; Law Clerk. Circuit Court of Appeals for the District of Columbia Circuit, US. Employed 2006. Member of Group Management since 2015.

Previous positions: Vice President Legal Affairs Husqvarna Asia/Pacific Region, Husqvarna Group 2009–2012, with temporary additional assignments as Acting General Counsel Husqvarna Americas, Husqvarna Group 2013 and Acting Head of Asia/Pacific Sales Region 2014. Associate General Counsel, Husqvarna Americas, Husqvarna Group 2006–2009, Partner, Cohen & Grigsby, P.C. 2000–2006.

Holdings in Husqvarna: 10,991 B-shares.

Jan Ytterberg

Senior Vice President, Finance, IT & IR & Chief Financial Officer

Born 1961. M. Sc. in Business Administration & Economics, Stockholm University, Sweden. Employed 2015. Member of Group Management since 2015.

Previous positions: Executive Vice President and Chief Financial Officer, Scania Group 2006–2015. Various positions in accounting and finance, Scania Group 1987–2006.

Holdings in Husqvarna: 7 A-shares, 11,782 B-shares.

All holdings in Husqvarna AB shares are as of December 31, 2016.

Consolidated income statement

SEKm	Note	2016	2015
Net sales	3	35,982	36,170
Cost of goods sold	5	-24,886	-25,996
Gross income		11,096	10,174
Selling expenses	5, 8	-6,168	-5,833
Administrative expenses	5	-1,707	-1,532
Other operating income	6	7	23
Other operating expenses	6	-10	-5
Operating income	3, 4, 7, 9	3,218	2,827
Financial income	10	29	44
Financial expenses	10	-451	-388
Financial items, net		-422	-344
Income after financial items		2,796	2,483
Income tax	11	-692	-595
Net income		2,104	1,888
Net income attributable to:			
Equity holders of the Parent Company		2,100	1,883
Non-controlling interests		4	5
Net income		2,104	1,888
Earnings per share:			
Before dilution, SEK	12	3.67	3.29
After dilution, SEK	12	3.66	3.28
Average number of shares outstanding:			
Before dilution, million	12	572.3	573.0
After dilution, million	12	574.1	574.2

Consolidated comprehensive income statement

SEKm	Note	2016	2015
Net income		2,104	1,888
Other comprehensive income			
<i>Items that will not be reclassified to the income statement:</i>			
Remeasurements on defined benefit pension plans, net of tax		-249	295
Total items that will not be reclassified to the income statement, net of tax		-249	295
<i>Items that may be reclassified to the income statement:</i>			
Exchange rate differences on translating foreign operations			
Currency translation differences	18	1,058	12
Net investment hedge, net of tax	18	-605	-250
Cash flow hedges			
Result arising during the period, net of tax	18	-11	36
Reclassification adjustments to the income statement, net of tax	18	-22	-96
Total items that may be reclassified to the income statement, net of tax		420	-298
Other comprehensive income, net of tax		171	-3
Total comprehensive income		2,275	1,885
Total comprehensive income attributable to:			
Equity holders of the Parent Company		2,268	1,882
Non-controlling interests		7	3
Total comprehensive income		2,275	1,885

Consolidated balance sheet

SEKm	Note	Dec 31, 2016	Dec 31, 2015
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	9, 13	5,472	4,620
Goodwill	14	6,014	5,613
Other intangible assets	14	4,176	3,926
Derivatives	19	0	4
Other non-current assets	15	93	165
Deferred tax assets	11	1,414	1,421
Total non-current assets		17,169	15,749
<i>Current assets</i>			
Inventories	16	9,225	7,874
Trade receivables	19	3,290	3,126
Derivatives	19	349	342
Tax receivables		41	70
Other current assets	17	963	882
Other short-term investments	19	4	4
Cash and cash equivalents	19	1,937	1,622
Total current assets		15,809	13,920
Total assets		32,978	29,669
Equity and liabilities			
<i>Equity attributable to equity holders of the Parent Company</i>			
Share capital	18	1,153	1,153
Other paid-in capital	18	2,605	2,605
Other reserves	18	58	-359
Retained earnings	18	10,523	9,642
Total equity attributable to equity holders of the Parent Company		14,339	13,041
Non-controlling interests	18	26	20
Total equity		14,365	13,061
<i>Non-current liabilities</i>			
Borrowings	19	4,953	4,580
Derivatives	19	44	10
Deferred tax liabilities	11	1,656	1,554
Provisions for pensions and other post-employment benefits	20	1,759	1,425
Other provisions	21	824	860
Total non-current liabilities		9,236	8,429
<i>Current liabilities</i>			
Trade payables	19	3,752	3,077
Tax liabilities		211	121
Other liabilities	22	2,512	2,080
Borrowings	19	1,494	2,016
Derivatives	19	905	346
Other provisions	21	503	539
Total current liabilities		9,377	8,179
Total equity and liabilities		32,978	29,669

Consolidated cash flow statement

SEKm	Note	2016	2015
Cash flow from operations			
Operating income		3,218	2,827
<i>Non cash items</i>			
Depreciation/amortization and impairment	5, 13, 14	1,164	1,153
Other non cash items		-91	253
<i>Cash items</i>			
Paid restructuring expenses		-45	-27
Net financial items, received/paid ¹		-353	-251
Taxes paid		-280	-252
Cash flow from operations, excluding change in operating assets and liabilities		3,613	3,703
Change in operating assets and liabilities			
Change in inventories		-821	-89
Change in trade receivables		56	-287
Change in trade payables		537	-175
Change in other operating assets/liabilities		170	-32
Cash flow from operating assets and liabilities		-58	-583
Cash flow from operations		3,555	3,120
Investments			
Acquired and divested assets/subsidiaries		59	63
Investments in property, plant and equipment	13	-1,489	-1,029
Investments in intangible assets	14	-400	-359
Cash flow from investments		-1,830	-1,325
Cash flow from operations and investments		1,725	1,795
Financing			
New borrowings		1,791	946
Repayment of borrowings		-2,100	-938
Net investment hedge		-239	-774
Change in other interest-bearing net debt excluding liquid funds ¹		-29	-63
Dividend paid to shareholders		-944	-945
Dividend paid to non-controlling interests		-1	-3
Cash flow from financing		-1,522	-1,777
Total cash flow		203	18
Cash and cash equivalents at beginning of year		1,622	1,579
Exchange rate differences referring to cash and cash equivalents		112	25
Cash and cash equivalents at year-end		1,937	1,622

¹⁾ Cash flows related to hedging of financing have been moved from operations to financing activities (SEK -64m for full-year 2015). The equivalent amount has affected the operating cash flow.

Consolidated statement of changes in equity

SEKm	Attributable to equity holders of the Parent Company						Non-controlling interests (Note 18)	Total equity
	Share capital (Note 18)	Other paid-in capital (Note 18)	Other reserves (Note 18)	Retained earnings (Note 18)	Total			
Opening balance January 1, 2015	1,153	2,605	-63	8,373	12,068	20	12,088	
Net income	-	-	-	1,883	1,883	5	1,888	
Other comprehensive income	-	-	-296	295	-1	-2	-3	
Total comprehensive income	-	-	-296	2,178	1,882	3	1,885	
Transactions with owners								
Share-based payment	-	-	-	31	31	-	31	
Transfer of treasury shares ¹	-	-	-	5	5	-	5	
Dividend to non-controlling interests	-	-	-	-	-	-3	-3	
Dividend SEK 1.65 per share	-	-	-	-945	-945	-	-945	
Closing balance December 31, 2015	1,153	2,605	-359	9,642	13,041	20	13,061	
Net income	-	-	-	2,100	2,100	4	2,104	
Other comprehensive income	-	-	417	-249	168	3	171	
Total comprehensive income	-	-	417	1,851	2,268	7	2,275	
Transactions with owners								
Share-based payment	-	-	-	44	44	-	44	
Transfer of treasury shares ¹	-	-	-	7	7	-	7	
Hedge for LTI-programs	-	-	-	-77	-77	-	-77	
Dividend to non-controlling interests	-	-	-	-	-	-1	-1	
Dividend SEK 1.65 per share ²	-	-	-	-944	-944	-	-944	
Closing balance December 31, 2016	1,153	2,605	58	10,523	14,339	26	14,365	

¹ Options exercised related to 2009 LTI-program.

² Total dividend 2016 amounts to SEK 946m, of which Husqvarna Group received SEK 2m for B-shares in third party share swap agreement.

Group notes

Note 1 Accounting principles

BASIS OF PREPARATION

The consolidated financial statements of Husqvarna AB (publ) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union. Entities within Husqvarna Group apply uniform accounting principles. The policies set out below have been consistently applied to all years presented, unless otherwise stated. In addition, Swedish Annual Accounts Act and RFR 1, Supplementary Rules for Groups, have been applied. The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities at fair value through profit or loss (derivative instruments).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURES

New and amended standards adopted by Husqvarna Group 2016

There are no new or amended standards adopted by Husqvarna Group as of January 1, 2016 that has had a material impact on the Group.

New standards and amendments from 2017 and forward

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after December 31, 2016, and have not been applied in preparing these consolidated financial statements.

IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 will replace the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into three primary measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The determination is made at initial recognition. For financial liabilities, the standard retains most of the IAS 39 requirements. IFRS 9 softens the requirements for hedge effectiveness by replacing the hedge effectiveness test. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018, provided EU approval.

The Group is assessing the impact of IFRS 9 and has yet to undertake a detailed assessment of the impact, however no significant impact is expected. The Group's current hedge relationships appear to qualify as continuing hedges upon the adoption of IFRS 9, no significant impact is expected on the accounting for its hedging relationships. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. It applies to the Group's financial assets classified at amortised cost and may result in an earlier recognition of credit losses. Expanded disclosures requirements will impact the nature and extent of the group's disclosures about its financial instruments. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Group is assessing the impact of IFRS 15 and do not expect a significant impact on operating income, net income nor balance sheet amounts. Expanded disclosures requirements will impact the nature and extent of the Group's disclosures related to revenue. The Group does not intend to adopt IFRS 15 before its mandatory date.

IFRS 16 "Leases" will result in most leases being recognised on the balance sheet, as the distinction between operating and finance leases is

removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term leases and low-value assets. The standard replaces IAS 17 "Leases". The standard is effective for annual periods beginning on or after January 1, 2019, provided EU approval. The Group is assessing the impact of IFRS 16, the standard will affect the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of SEK 1,483m, refer to note 9. We expect an impact as the lease contracts currently recorded as operating leases (mainly buildings, cars, fork lifts and some office equipment) will be recognised on the balance sheet. The Group does not intend to adopt IFRS 16 before its mandatory date.

There are no other IFRS or IFRIC interpretations that are not yet effective and are expected to have a material impact on the Group.

ACCOUNTING AND VALUATION PRINCIPLES

Principles applied for consolidation

Subsidiaries

The financial statements include Husqvarna AB and all companies (subsidiaries) which the Parent Company controls. Husqvarna Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through the power over the entity. The Group generally controls a company by a shareholding of more than 50% of the voting rights referring to all shares and participations. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

Husqvarna Group applies the acquisition method to account for business combinations, whereby the assets, liabilities and contingent liabilities in a subsidiary on the date of acquisition are valued at fair value to determine the acquisition value to the Group. The valuation includes evaluation of any contingent consideration which is recognized at fair value at the acquisition date. All subsequent changes in the contingent consideration are recognized in the income statement. Transaction costs related to the business combination are expensed as they are incurred. If the consideration paid for the business combination exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized as goodwill. If the fair value of the acquired net assets exceeds the consideration paid for the business combination, as in a bargain purchase, the difference is recognized directly in the income statement. The consolidated income statement for the Group includes the income statements for the Parent Company and its directly and indirectly owned subsidiaries after:

- elimination of intercompany transactions, balances and unrealized inter-company profits in stock, and
- depreciation and amortization of acquired surplus values

At year-end 2016, the Group comprised 123 operating units, and 91 legal entities.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the equity holders. Acquisitions from non-controlling interests result in an adjustment to equity, corresponding to the difference between the consideration paid and the carrying value of the non-controlling interest. Gains or losses on disposals to non-controlling interests are reported in equity. Disposals to non-controlling interests which result in loss of control are recorded as gains and losses in the income statement.

Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. The financial statements are presented in Swedish kronor, SEK, which is the Parent Company's functional currency and the presentation currency of Husqvarna Group.

Exchange rate gains or losses that occur from transactions in other currency than the functional currency and in translation of monetary assets or liabilities to the exchange rate at closing date are reported in the income statement. An exception to this accounting treatment is if the transaction qualifies as cash flow hedges or hedge of net investments of which the unrealized exchange gains or losses are recognized in other comprehensive income.

Group notes

Exchange rate gains and losses that relate to borrowing costs or liquid assets are accounted for in the income statement within the finance net. Other foreign exchange rate differences are accounted for in the operating income.

The income statements and balance sheets for all Group companies with functional currency other than the presentation currency of Husqvarna Group is translated to the Group's currency. Assets and liabilities for each balance sheet presented are translated at the closing rate. Income and expenses for each income statement are translated at average rates for each month respectively.

All currency translation differences that occur from the translation are accounted for in other comprehensive income. When a foreign operation is divested, currency translation differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Segment reporting

Husqvarna Group's operating segments are reported in a manner consistent with the internal reporting provided to the President and CEO (Husqvarna Group's Chief operating decision maker) as a basis for evaluating the performance and for decisions on how to allocate resources to the segments. Husqvarna Group comprises four segments (divisions): Husqvarna, Gardena, Consumer Brands and Construction.

For a more detailed description of the segments, see note 3.

Property, plant and equipment

Property, plant and equipment are reported at historical cost less accumulated depreciation, adjusted for any impairment charges. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred. Land is not depreciated as it is considered to have an unlimited useful life. Depreciation is based on the following estimated useful lives:

Buildings and land improvements	10–50 years
Machinery and technical installations	3–15 years
Other equipment	3–10 years

The Group assesses the estimated useful lives as well as whether there is any indication that any of the company's property, plant and equipment are impaired at the end of each reporting period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the costs of those assets. Qualifying assets are assets that take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Intangible assets

Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess between the purchase price and the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is reported as an intangible asset with indefinite useful life and measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units that is expected to benefit from the synergies of the combination.

The value of goodwill is continuously monitored, and is tested annually for impairment or more regularly if there is an indication that the asset might be impaired. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Brands

Brands that have been acquired separately are shown at historical cost. Brands that have been acquired through business combination are

recognized at fair value at the acquisition date. All brands with finite useful lives are amortized on a straight-line basis during the useful life, estimated at 10 years. Brands are carried at cost less accumulated amortization and accumulated impairment. The brand Gardena is reported as an intangible asset with indefinite useful life. No other brands are identified as having indefinite useful lives.

Product development expenses

Husqvarna Group capitalizes certain development expenses for new products provided that the level of certainty as to their future economic benefits and useful lives are high. An intangible asset is only recognized to the degree that the product is sellable on existing markets and that resources exist to complete the development. Only expenditure, which is directly attributable to the new product's development, is recognized. Capitalized development costs are amortized over their useful lives, ranging between 3–5 years. The assets are tested for impairment annually or when there is an indication that the intangible asset may be impaired.

Other intangible assets

Other intangible assets include computer software, patents, licenses and customer relations. Computer software, patents and licenses are recognized at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Computer software has an estimated useful life of 3–6 years and patents and licenses have a useful life of 10–13 years. Customer relations are capitalized at fair value in connection with business combinations. The values of these customer relationships are amortized over their useful lives of 5–12 years.

Impairment of non-financial assets

Assets that have an indefinite useful life (goodwill and the brand Gardena) or intangible assets not ready for use are not subject to amortization but tested annually for impairment, or more often if there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is an indication of impairment the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized by the amount by which the net book value of an asset exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped in cash generating units, which are the smallest identifiable group of assets generating cash inflows that are substantially independent of the cash inflows from other assets or group of assets. The Group's cash generating units are the four segments (divisions); Husqvarna, Gardena, Consumer Brands and Construction. Refer to note 2 and note 14 regarding impairment of intangible assets with indefinite useful life.

Financial instruments

Classification of financial instruments

Husqvarna Group classifies its financial instruments in the following categories, depending on the intention with the acquisition:

- Financial assets or liabilities at fair value through profit or loss
- Loans and receivables
- Other financial liabilities

The classification is determined at initial recognition and is thereafter reviewed at each reporting date.

Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss are financial assets/liabilities held for trading. Derivatives are categorized as held for trading unless they are designated as hedges. Assets/liabilities in this category are classified as current assets/liabilities if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets with the exception of maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. This category includes financial non-current assets, accounts receivables, other receivables, short-term investments and cash and cash equivalents.

Other financial liabilities

Other financial liabilities refer to all financial liabilities that are not included in the category financial liabilities at fair value through profit or loss or has been identified as items hedged. This category includes borrowings, financial lease liabilities, trade payables and other liabilities. Other financial liabilities due within 12 months are classified as short-term liabilities, while those due after 12 months are classified as long-term liabilities.

Recognition and measurement of financial instruments

Regular purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs reported in the income statement.

Financial assets are derecognized when the right to receive cash flows from the investments has expired or has been transferred and when the Group has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognized when the obligation is satisfied, cancelled or has expired.

Financial assets and liabilities at fair value through profit or loss are carried to fair value. All changes to fair value are reported in the income statement when they arise and are reported within operating income. Refer to note 19 regarding disclosures of measurement at fair value.

Loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method less provision for impairment.

At each closing date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Husqvarna Group has entered into master netting arrangements for certain financial derivatives. When the criteria for offsetting are fulfilled the derivatives are netted in the balance sheet.

Accounting of derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of highly probable forecast transactions (cash flow hedges) or hedges of net investments in a foreign operation (net investment hedge). When hedging net investments in foreign operations and forecasted cash flows from sales and purchases, the hedged risk is defined as the risk of changes in the spot rate.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as risk-management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the hedging inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Disclosures regarding fair value for the Group's derivatives are shown in note 19. Changes in the cash flow hedge reserve are shown in note 18. The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months and as current asset or liability if the maturity is shorter than 12 months.

Cash flow hedge

The effective portion of change in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as operating income.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale which is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial item (for example, inventory), the gains and losses previously

deferred in equity are transferred from equity and included in the initial measurement of the value of the asset or liability. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory.

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement within financial items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Liquid funds

Liquid funds consist of cash on hand, bank deposits, other short-term highly liquid investments and fair value derivative assets.

Inventories

Inventories and work in progress are valued at the lower of cost and net realizable value. The value of inventories is determined by using the weighted average cost formula. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to execute the sale at market value. Gains and losses previously deferred in equity on hedged forecast transactions are also included in the initial measurement cost of the inventory. The cost of finished goods and work in progress comprises raw material, direct labour, other direct cost and other related production overheads. Borrowing costs are not included in inventory. Appropriate provisions have been made for obsolescence.

Current and deferred tax

The tax expense for the period consists of both current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In these cases tax is reported in other comprehensive income and equity respectively.

Current tax is calculated based on the taxable result for the year. This can differ to the income before tax reported in the income statement due to adjustment for non-taxable and non-deductible income and expenses and temporary differences. The current income tax is calculated on the basis on the tax laws in the country of the Parent Company or the subsidiaries.

Management periodically review the positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Current tax also includes adjustments to income tax related to prior years.

Deferred tax is accounted for in accordance with the liability method. This means that a deferred tax asset or liability is reported on all temporary differences arising between the tax basis for assets and liabilities and their net book value. Deferred tax is calculated based on the tax rates in the respective country.

Taxes incurred by Husqvarna Group are affected by appropriations and other taxable (or tax-related) transactions in the individual Group companies. They are also affected by the utilization of tax losses carried forward referring to previous years or to acquired companies. Deferred tax assets on tax losses, temporary differences and tax credits are recognized to the extent it is probable that they will be utilized in future periods.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Group notes

Deferred tax assets and deferred tax liabilities are shown net when a company or a group of companies, has a legally enforceable right to set off tax assets against tax liabilities, they refer to the same taxation authority and the intention is to settle the assets/liabilities with a net payment.

Pensions and other post-employment benefits

Pension obligations

Pensions and other post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Under a defined contribution plan, the Group pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Contributions are expensed when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

All other pensions and other post-employment benefit plans are defined benefit plans. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, depending on factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid, in most countries AA-rated corporate bond indexes matching the duration of the pension obligation and in Sweden mortgage bonds. In countries without a deep market in such bonds, the market rate on government bonds is used.

Past-service costs are recognized immediately in the operating income. Interest on the Group's net pension plans are reported net within the Group's finance items, and is calculated applying the discount rate as when calculating the net defined liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Termination benefits

Termination benefits are payable when the employment is terminated by the Group before the normal retirement date, or whenever they accept voluntary redundancy in exchange for these benefits. Termination benefits are recognized at the earlier of a) when the Group can no longer withdraw the offer of those benefits and b) when the entity recognizes costs for a restructuring and involves the payment of termination benefits.

Share-based compensation

Husqvarna Group has share-based, equity settled, compensation programs where the Group receives services from employees as consideration for equity instruments (shares and options). The cost of the granted instruments' fair value at grant date is recognized during the vesting period. The fair value of the instruments is the market value at grant date, adjusted for the discounted value of future dividends which employees will not receive. At the end of each reporting period, the Group revises the estimates of the number of instruments that are expected to vest. Husqvarna Group recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, the Group provides for employer social contributions expected to be paid in connection with the share-based compensation programs. The costs are charged to the income statement over the vesting period. The provision is periodically revalued on the basis of the fair value of the instruments at each closing date.

Provisions

Provisions are recognized when the Group has a present legal or contractual obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of each reporting period. Provisions are measured at present value, when material.

Provisions for warranties are recognized at the date of sale of the

products covered by the warranty and are calculated on the basis of historical data for similar products.

Restructuring provisions are recognized when the Group has adopted a detailed formal plan for the restructuring and has either started the implementation of the plan or communicated its main features to those affected by the restructuring.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of trade discounts, returns, value added taxes and specific sales taxes. The Group recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Husqvarna Group mainly generates revenue from sales of finished products including spare parts and accessories, but also from services, refer below:

Sales of finished products including spare parts and accessories

Husqvarna Group manufactures and sells finished products, spare parts and accessories mainly to dealers and retailers but also directly to consumers. The revenue is recognized when the significant risks and rewards associated with ownership of the goods have been transferred to the buyer in accordance with the sales and delivery terms, and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods and when the amount of revenue can be measured reliably.

Services

Husqvarna Group provide services such as product repairs and service/maintenance. Revenues from services such as product repairs is recorded when the service has been performed. Revenues from service/maintenance agreements is recorded over the contract period.

Extended warranty

Revenue from extended warranty is recorded over the contract period.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend

Dividends are recognized when it is determined that payments will be received.

Government grants

Government grants relate to financial grants from governments, public authorities and similar local, national, or international bodies. These are recognized when there is a reasonable assurance that Husqvarna Group will comply with the conditions attached to them and that the grants will be received. Government grants relating to assets are included in the balance sheet as prepaid income and recognized as income over the useful life of the assets. Government grants relating to expenses are recognized in the income statement as a deduction of such related expenses.

Leasing

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged on a straight-line basis during the lease period. Leasing agreements where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the leases commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Each lease payment is divided between amortization of the lease liability and interest. Corresponding rental obligations, net of finance charges, are reported in the balance sheet as non-current or current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Husqvarna Group leases a number of production facilities, warehouses and office premises as well as cars, fork lifts and certain office equipment. Main part of the Group's leasing agreements are classified as operating leases.

Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

Cash flow

The cash flow statement has been prepared according to the indirect method.

Note 2 Important accounting estimates and assessments

In order to prepare these financial statements, management needs to make estimates and assessments and therefore use certain assumptions concerning the future. Management makes estimates and assessments based on past experience and assumptions that are believed to be reasonable and realistic under the circumstances. The use of such estimates and assessments has an impact on the income statement as well as the balance sheet and on the disclosures presented, such as contingent liabilities. Actual results could differ from these estimates under different assumptions or circumstances. Summarized below are those accounting principles that require subjective judgement from management in making assumptions or estimates regarding the effects of matters that are inherently uncertain.

Impairment test of intangible assets with indefinite useful life

Intangible assets that have an indefinite useful life (goodwill and the brand Gardena) are tested annually for impairment, or more often if there is an indication of impairment. If there is an indication of impairment, the Group estimates the recoverable amount of the asset. An impairment loss is recognized by the amount by which the net book value of an asset exceeds its recoverable amount. The recoverable amount for a cash generating unit is determined on the basis of value in use estimated by using the discounted cash flow method based on expected future results. Key assumptions for forecasting are expected growth, margin and discount rates. For information refer to note 14.

Inventory

Husqvarna Group's inventory is accounted for to the lowest of the acquisition value in accordance with the weighted average cost formula, and the net realizable value. The net value is adjusted for the estimated write-down for older articles, physically damaged goods, excess inventory and sales costs. The Group's large seasonality in stockpiling and sales together with weather-dependent products increase the difficulty to estimate the value of inventory. To minimize these difficulties, Husqvarna Group is constantly working with streamlining the production chain, keeping the inventory levels on a reasonably low level and focus on the inventory valuation to ensure that it is accurate in accordance with the circumstances on the closing date. The total provision for obsolescence amounts to SEK 411m (443) and the inventory net of provisions amounts to SEK 9,225m (7,874).

Tax

Husqvarna Group estimates income tax for each of the taxing jurisdictions in which the Group operates as well as any deferred taxes based on temporary differences. Deferred tax assets, which primarily relate to tax loss carry forwards and temporary differences, are recognized if future taxable income is expected to allow for the recovery of those tax assets. Changes in assumptions in the projection of future taxable income as well as changes in tax rates may result in significant differences in the valuation of deferred taxes. For further information regarding tax refer to note 11. Provisions to mitigate potential tax exposure is based on management's best estimate.

Provisions for pensions and other post-employment benefits

The present value of the Group's net pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Assumptions used calculating the net pension liability comprise of for example; discount rate, inflation, mortality, future salary increases etc. Any changes in these assumptions will impact the carrying amount of the net pension liability. Sensitivity analysis of the effect from a change in the main assumptions and potential risks affecting the liabilities are included in note 20.

Share-based compensation

Husqvarna Group has share-based, equity settled, compensation programs where the Group receives services from employees as consideration for equity instruments. The share-based compensation includes matching shares awards and performance based share awards. In order to receive the share match and the performance based shares, the employee is required to stay employed three years after the grant date and to maintain the original investment. The number of performance based share awards that vest further depend on the fulfilment of certain levels of increase of the Company's value creation as determined by the Board of Directors. These levels are "entry", "target" and "stretch". Entry constitutes a minimum level which must be exceeded in order for the performance based share awards to vest and give right to Class B-shares. At the end of each reporting period, the Group revises the estimates of the number of instruments that are expected to vest. The number of performance based shares that are expected to vest is based on management's best estimate. For further information refer to note 4.

Warranty provision

Provision for warranty comprises all potential expenses for repairing or replacing products sold. Provisions are made when the products are sold and are normally limited to two years. The provision is estimated for each group of products and based on historical information and management's best estimate. For further information refer to note 21.

Provision for restructuring

Provision for restructuring represents the expected payments to be incurred in the coming years as a consequence of Husqvarna Group's decision to close some factories, rationalize production and reduce personnel. The amounts are based on the Group management's best estimates and are adjusted when changes to these estimates are known. Provision for reduction of personnel is calculated on individual basis except for most Blue Collar workers where negotiations are made collectively and are based on management's best estimate of the amount expected to be paid out. For further information refer to note 21.

Claims reserves

Husqvarna Group maintains third-party insurance coverage and is insured through wholly-owned insurance subsidiaries (captives) in regards to a variety of exposures and risks, such as property damage, business interruption and product liability claims. Claims reserves in the captives, mainly for product liability claims, are calculated on the basis of a combination of case reserves and reserves for claims incurred but not reported. Actuarial calculations are undertaken to assess the adequacy of the reserves based on historical loss development experience, benchmark reporting and payment patterns. These actuarial calculations are based on several assumptions and changes in these assumptions may result in significant differences in the valuation of the reserves. For further information refer to note 21.

Contingent liabilities

The Group is involved in various disputes arising from time to time in its ordinary course of business. Husqvarna Group estimates that none of the disputes in which the Group is presently involved in or that have been settled recently have had, or may have, a material effect on Group's financial position or profitability. However, the outcome of complicated disputes is also difficult to foresee, and it cannot be ruled out that the disadvantageous outcome of a dispute may result in a significantly adverse impact on the Group's results of operations and financial position. For further information refer to note 23.

Note 3 Segment information

Husqvarna Group has four divisions: Husqvarna, Gardena, Consumer Brands and Construction, which forms the basis for the Group's internal reporting reviewed by the Group's President and CEO (Husqvarna Group's chief operating decision maker) in order to assess performance and make decisions on resource allocation.

The Divisions are responsible for the operating income (excluding items affecting comparability) and the net assets used in their operations which also are the financial measures used when the Group's President and CEO makes his assessment of the performance of the segments.

Group notes

Net financial income/expense, tax, net debt and equity are undistributed items not reported per division.

The Divisions consist of separate legal units as well as parts of multi-segment legal units meaning that an amount of allocation of costs and net assets is distributed among the Divisions. Operating costs not included in the Divisions are shown under Group common costs, which mainly include costs for Husqvarna Group's corporate functions. No sales of finished products between the Divisions exists.

Segment consolidation is based on the same accounting principles as for the Group as a whole. The Divisions are responsible for the management of operational assets and their performance is measured at this level, while the financing of the operations is managed by Husqvarna Group Treasury

at Group and country level. Consequently, liquid funds, interest-bearing receivables and liabilities, equity and tax items are not allocated to the Divisions. Group common include common group services such as Holding, Treasury and Risk Management.

All divisions include production, development, logistics, marketing and selling. The Divisions Husqvarna, Gardena and Consumer Brands include selling of forest, park and garden products to retailers and dealers. Forest, park and garden products comprise five product categories; Wheeled products, Electric products, Handheld products, Watering and hand tools and finally Accessories. The Construction Division includes sales of machines and diamond tools for the construction and stone industries.

2016

SEKm	Husqvarna	Gardena	Consumer Brands	Construction	Group common ¹	Undistributed items ²	Group
Net sales (external)	17,960	5,033	8,888	4,101	–	–	35,982
Operating income	2,317	595	3	568	–265	–	3,218
Whereof items affecting comparability ³	–	–	–	–	–	–	–
Operating income adjusted for items affecting comparability ³	2,317	595	3	568	–265	–	3,218
Financial income	–	–	–	–	–	29	29
Financial expenses	–	–	–	–	–	–451	–451
Income after financial items	2,317	595	3	568	–265	–422	2,796
Total assets	12,317	6,952	6,259	3,627	46	3,777	32,978
Liabilities	3,642	808	2,003	660	478	11,022	18,613
Total equity	–	–	–	–	–	14,365	14,365
Total equity and liabilities	3,642	808	2,003	660	478	25,387	32,978
Cash flow from operations ⁴	2,365	417	–161	634	–265	–	2,990
Depreciation/amortization and impairment ³	506	204	289	159	6	–	1,164
Investments in property, plant and equipment	–774	–158	–476	–75	–6	–	–1,489
Investments in intangible assets	–256	–65	–40	–39	–	–	–400
	1,841	398	–388	679	–265	–	2,265
Change in other operating assets and liabilities ⁵	–	–	–	–	–	34	34
Acquired and divested assets/subsidiaries	–	–	–	–	–	59	59
Net financial items, received/paid	–	–	–	–	–	–353	–353
Taxes paid	–	–	–	–	–	–280	–280
Cash flow from operations and investments	1,841	398	–388	679	–265	–540	1,725

2015

SEKm	Husqvarna	Gardena	Consumer Brands	Construction	Group common ¹	Undistributed items ²	Group
Net sales (external)	17,624	4,669	9,936	3,941	–	–	36,170
Operating income	2,233	586	–147	395	–240	–	2,827
Whereof items affecting comparability ³	–51	–5	–27	–70	–	–	–153
Operating income adjusted for items affecting comparability ³	2,284	591	–120	465	–240	–	2,980
Financial income	–	–	–	–	–	44	44
Financial expenses	–	–	–	–	–	–388	–388
Income after financial items	2,233	586	–147	395	–240	–344	2,483
Total assets	10,917	6,434	5,443	3,342	40	3,493	29,669
Liabilities	3,021	735	1,699	624	477	10,052	16,608
Total equity	–	–	–	–	–	13,061	13,061
Total equity and liabilities	3,021	735	1,699	624	477	23,113	29,669
Cash flow from operations ⁴	1,786	593	–188	325	–240	–	2,276
Depreciation/amortization and impairment ³	464	182	308	197	2	–	1,153
Investments in property, plant and equipment	–524	–232	–176	–97	–	–	–1,029
Investments in intangible assets	–200	–103	–27	–29	–	–	–359
	1,526	440	–83	396	–238	–	2,041
Change in other operating assets and liabilities ⁵	–	–	–	–	–	194	194
Acquired and divested assets/subsidiaries	–	–	–	–	–	63	63
Net financial items, received/paid ⁶	–	–	–	–	–	–251	–251
Taxes paid	–	–	–	–	–	–252	–252
Cash flow from operations and investments	1,526	440	–83	396	–238	–246	1,795

¹ Group common include common group services such as Holding, Treasury and Risk Management.

² Undistributed items consist of liquid funds and other interest-bearing assets, interest-bearing liabilities, equity and tax items.

³ Husqvarna Group assess the performance of the segments based on operating income, excluding items affecting comparability. 2015 includes items affecting comparability referring to restructuring costs, amounting to SEK –153m. Impairment in the Group amount to SEK 18m (77) whereof SEK 6m (21) refer to the Husqvarna Division, SEK 1m (1) to Gardena, SEK 7m (26) to Consumer Brand, SEK 1m (29) to Construction and SEK 3m (0) Group common.

⁴ Cash flow from operations per division is calculated excluding depreciation/amortization and impairment, capital gains and losses, other non-cash items, paid restructuring expenses, net financial items, taxes paid and change in other operating assets/liabilities.

⁵ Change in other operating assets/liabilities also include other non cash items, paid restructuring costs, and capital gains and losses.

⁶ Cash flows related to hedging of financing have been moved from operations to financing activities (SEK –64m for full-year 2015). The equivalent amount has affected the operating cash flow.

Geographic information

The table below shows sales per geographical market, regardless of where the goods are produced. Assets are reported where the asset is located.

SEKm	External sales		Non-current assets ¹	
	2016	2015	2016	2015
Sweden	1,641	1,379	3,056	2,715
France	1,896	1,874	8	9
Germany	4,045	3,650	6,014	5,756
Rest of Europe	9,005	8,827	850	737
Asia/Pacific	2,883	2,810	1,036	831
Canada	1,246	1,328	141	128
US	13,819	14,730	4,528	3,964
Latin America	1,193	1,291	28	16
Rest of the World	254	281	1	3
Total	35,982	36,170	15,662	14,159

¹ Non-current assets include property, plant and equipment, goodwill and other intangible assets.

Net sales per product category

SEKm	2016	2015
Forest and garden products	31,881	32,229
Construction products	4,101	3,941
Total	35,982	36,170

Information about major customers

Husqvarna Group has no single customer to which net sales exceeds 10% of the Group's total net sales.

Group notes

Note 4 Employees and employee benefits

Average number of employees

	2016			2015		
	Men	Women	Total	Men	Women	Total
Sweden	1,357	418	1,775	1,351	419	1,770
Germany	1,028	512	1,540	969	509	1,478
Czech Republic	405	437	842	396	437	833
UK	257	68	325	233	67	300
Poland	190	109	299	226	147	373
Rest of Europe	1,020	364	1,384	1,039	345	1,384
Total Europe	4,257	1,908	6,165	4,214	1,924	6,138
China	839	179	1,018	1,009	344	1,353
Japan	337	61	398	332	60	392
Rest of Asia/Pacific	147	86	233	110	128	238
Total Asia/Pacific	1,323	326	1,649	1,451	532	1,983
US	2,592	1,882	4,474	2,867	2,172	5,039
Canada	103	55	158	105	47	152
Total North America	2,695	1,937	4,632	2,972	2,219	5,191
Brazil	131	37	168	122	44	166
Rest of Latin America	24	19	43	27	20	47
Total Latin America	155	56	211	149	64	213
Other markets	29	18	47	29	18	47
Total	8,459	4,245	12,704	8,815	4,757	13,572
Whereof:						
Board members	34	7	41	30	5	35
Presidents and other senior managers	41	2	43	44	1	45

Salary and remuneration

SEKm	2016	2015
Salary expenses	4,680	4,508
Social expenses	822	801
Pension expenses – defined benefit obligations	112	95
Pension expenses – defined contribution plans	125	125
Total	5,739	5,529

Whereof remuneration to Board, Presidents and other senior managers¹⁾

Salary expenses	127	113
(whereof variable salary expenses)	(65)	(44)
Social expenses	38	32
Pension expenses	18	17

¹⁾ Refers to salary expenses for all board members, presidents and other senior executives in the Parent Company and subsidiaries.

Remuneration to Group Management

SEKt	2016						
	Fixed salary	Variable salary	Pension costs	Long-term incentive	Other benefits ¹	Severance pay etc.	Total
President and CEO	9,500	8,997	3,800	4,613	180	–	27,090
Other members of Group Management ²	32,822	32,413	11,946	10,703	2,214	–	90,098
Total	42,322	41,410	15,746	15,316	2,394	–	117,188

¹ Refers to housing, travel and car benefits.

² Other members of Group Management comprise twelve individuals.

SEKt	2015						
	Fixed salary	Variable salary	Pension costs	Long-term incentive	Other benefits ¹	Severance pay etc.	Total
President and CEO	8,500	5,259	3,401	3,224	180	–	20,564
Other members of Group Management ²	32,510	18,929	11,467	5,331	1,014	2,728	71,979
Total	41,010	24,188	14,868	8,555	1,194	2,728	92,543

¹ Refers to housing, travel and car benefits.

² Other members of Group Management comprise twelve individuals. There are eight new members and five have left Group Management. The remuneration above refers to the remuneration during the part of the year when the individual was a member of Group Management.

Remuneration principles to the Board and senior executives

For the CEO and other members of Group Management, the principles for remuneration approved by the AGM 2016 apply. The principles shall apply to contracts of employment entered into after the AGM and also to amendments made thereafter to contracts of employment that are in force. Remuneration to Group Management is determined by the Board of Directors based on proposals from the Board of Directors' Remuneration Committee. Under special circumstances, the Board of Directors may deviate from these guidelines. In the case of such deviation, the next AGM shall be informed of the reasons.

Husqvarna Group aims to offer competitive and performance based remuneration. The overall principles for remuneration to Group Management should be based on the position held, on individual and Group performance and be competitive in the country of employment. The overall remuneration package for Group Management comprises fixed salary, variable salary based on annual performance targets, long term incentives and benefits such as pension and insurance benefits. Variable remuneration may constitute a significant proportion of total remuneration, but could also be zero if the minimum level is not achieved or capped if the maximum level is attained. Variable salary to the President and Group Management is based on the Group's and/ or the respective divisions' operating income and cash flow. The remuneration is reviewed annually by January 1.

The notice period for termination is 12 months on part of the Company and 6 months on the part of the employee and in the event of notice of termination from the employer, the CEO/other members of Group Management is entitled to severance pay corresponding to 12 monthly salaries with deduction for any other income. Shorter period of notice and no right to severance pay might apply depending on position and country of employment for other members of Group Management. Members of Group Management shall be obliged not to compete with the Company during the notice period. Based on the circumstances in each case, a non-competition obligation with continued payment may also be applied during a maximum of 24 months from the end of the notice period.

Terms of employment for the President

The remuneration to the President and CEO comprises fixed salary, variable salary based on annual targets, long term incentive programs and pension and insurance benefits. The annual fixed salary to the President amounts to SEK 9,500t, effective January 1, 2016. The variable salary amounts to a maximum of 100% of the fixed salary. The President participates in the Group's long term incentive programs for 2014, 2015 and 2016 (LTI 2014, LTI 2015 and LTI 2016). For information on these programs, see "Long term incentive programs (LTI)" below. The President is entitled to housing allowance.

Pension terms for the President

The retirement age for the President is 62. The President is covered by the collectively agreed ITP plan, the alternative rule of the plan, and the Husqvarna Executive Pension Plan. The Husqvarna Executive Pension Plan is a defined contribution plan. The employer contribution to the plan is equivalent to 40% of the fixed salary which also includes the contributions for the benefits of the ITP-plan, alternative ITP and any supplementary disability and survivor's pension.

Terms of employment for other members of Group Management

As with the President, other members of Group Management receive a remuneration package comprised of fixed salary, variable salary based on annual targets, long term incentive programs and pension and insurance benefits. The variable salary amounts to a maximum 60–150% of the fixed salary. One of the members of Group Management is also covered by a special turn-around bonus which amounts to maximum 150% of the fixed salary. This bonus is paid in March 2019 if defined target for the division's operating income has been achieved by the end of 2018. Members of Group Management participate in the Group's long term incentive programs, for information on these programs, see "Long term incentive programmes (LTI)" below.

Pension terms for other members of Group Management

The members of Group Management employed in Sweden (10 out of 12) are covered by the collectively agreed ITP plan and the alternative rule of the plan. Most of these individuals are also covered by the Husqvarna Executive Pension Plan, which is a defined contribution plan. The employer contribution to the plan is equivalent to 35% of the pensionable salary which also includes contributions for the ITP plan, alternative ITP and any supplementary disability and survivor's pension. The pensionable salary is calculated on the basis of current fixed salary. Also last year's variable salary paid is pensionable for those who were covered by the plan before 2013. The pension age is 65 for the members of Group Management who are employed in Sweden. The members of Group Management that are not employed in Sweden are covered by the Group's company retirement plans in the respective country of employment (Germany and the US). Pension age is 65 or higher.

Fees to the Board of Directors

The Annual General Meeting 2016 authorized fees to the Board of Directors amounting to SEK 5,950t (5,260) in total, whereof SEK 1,775t (1,725) to the Chairman and SEK 515t (500) to each of the other Board members, not employed by the company, including additional total of SEK 570t (535) as fees for Board Committee work. No consulting fees were paid to Board members. No board fees are paid to Board members who are also employed by the Group.

Group notes

SEKt	2016		2015	
	Fee	Fee for Board committee work	Total fee	Total fee
Tom Johnstone	1,775	110	1,885	1,825
Magdalena Gerger	515	–	515	500
Ulla Litzén	515	180	695	675
David Lumley	515	55	570	550
Katarina Martinson	515	85	600	580
Bertrand Neuschwander	515	–	515	–
Daniel Nodhäll	515	85	600	580
Lars Pettersson	515	55	570	550
Kai Wärn	–	–	–	–
Soili Johansson	–	–	–	–
Annika Ögren	–	–	–	–
Carita Spångberg ¹	–	–	–	–
Lotta Widehäll ¹	–	–	–	–
Total	5,380	570	5,950	5,260

¹ Deputy.

Board members are expected to engage themselves financially by acquiring Husqvarna shares corresponding to approximately one year's board fee, within a period of five years. There are no agreements in place governing severance pay to Board member not employed by the Company.

Long term incentive programmes (LTI)

The purpose of the long term incentive programmes is to influence and award performance long term, align shareholders' and managements' interest, attract and retain key employees and to some extent provide variable remuneration instead of fixed salary. The Board of Directors will annually evaluate if a long term incentive program (e.g. share-based or share-price based) should be proposed to the AGM. There are three ongoing long term incentive programmes not yet vested; LTI 2014, LTI 2015 and LTI 2016. In addition, there is a LTI program, LTI 2009, where the participants received stock options in 2012 which can be exercised until June 1, 2017.

LTI 2014, LTI 2015 and LTI 2016

The Annual General Meetings 2014, 2015 and 2016 authorized the implementation of the incentive programmes LTI 2014, LTI 2015 and LTI 2016, which comprise less than 70 (LTI 2014 and LTI 2015) / 80 (LTI 2016) senior managers. The programmes comprise of share match awards and performance based share awards and have a three year vesting period. In order to participate, the employees must buy Class B-shares in Husqvarna corresponding to 5–10% of their annual fixed salary (LTI 2014 and LTI 2015) when starting each program. For LTI 2016 the purchase of Husqvarna shares is voluntary for non-Group Management members, while members of Group Management must buy shares corresponding to 10% of their annual fixed salary, 15% applies for the CEO. For each share which the employee participates with within the framework of the LTI program, the Company will grant one share match award.

The grant of performance based share awards is linked to the participant's annual target salary (fixed salary plus variable salary at target level). In order to receive the share match and the performance based shares, the employee must stay employed three years after grant date and maintain the original investment.

The number of performance based share awards that vest and give right to Class B-shares further depend on the fulfilment of certain levels of the Company's value creation during the calendar years 2014–2016 (LTI 2014) / 2015–2017 (LTI 2015) / 2016–2018 (LTI 2016). There are three performance levels set (entry, target and stretch), with a linear progression of the number of performance based share awards between them. The entry level must be

exceeded in order for the performance based share awards to vest. The performance levels corresponds to the following number of B-shares:

Performance level	LTI 2014/ LTI 2015	LTI 2016
Entry	0 shares	0 shares
Target	25% of target salary/ share price ¹	25% (CEO 30%) of target salary/share price ¹
Stretch	40% of target salary/ share price ¹	50% (CEO 60%) of target salary/share price ¹

¹ SEK 41.24 for LTI 2014, SEK 66.14 for LTI 2015 and 53.25 for LTI 2016 corresponds to the average closing price for Husqvarna B-shares on Nasdaq Stockholm during the period February 10–21, 2014 for LTI 2014, February 16–27, 2015 for LTI 2015 and the month of February 2016 for LTI 2016.

The value of the programmes is calculated based on the fair value of the share on grant date, as was SEK 46.70 for LTI 2014, SEK 59.70 for LTI 2015 and SEK 60.00 for LTI 2016, adjusted for expected dividend. The participants participate with the following number of shares in total 138,318 in LTI 2014, 139,597 in LTI 2015 and 165,578 in LTI 2016. The programmes comprise maximum 1,217,456 in LTI 2014, 1,010,014 in LTI 2015 and 1,951,522 in LTI 2016, matching shares and performance shares.

LTI 2014 result

The performance period for LTI 2014 ended December 31, 2016. The following table shows the number of matching and performance based share awards to be awarded to participants by May 19, 2017 (when the shares are fully vested), provided that the participant remains employed and has maintained the personal investment in shares. The targets for value creation, determined by the Board of Directors, are SEK 181m for "entry" level, SEK 1,288m for "target" level and SEK 2,122m for "stretch" level. The actual result was SEK 2,561m, which means that performance share awards will be awarded at "stretch" level.

Participants	Share awards LTI 2014		
	Matching shares	Performance shares	Total
President and CEO	14,705	112,944	127,649
Other members of Group Management	27,579	189,404	216,983
Other participants	96,034	776,790	872,824
Total	138,318	1,079,138	1,217,456

Share awards

The table below outlines the number of granted share rights forfeited and exercised:

Share awards	2016			2015		
	LTI 2016	LTI 2015	LTI 2014	LTI 2015	LTI 2014	LTI 2013
At January 1	–	1,082,523	1,291,998	–	1,491,389	1,007,241
Granted	2,028,646	–	–	1,102,791	–	–
Forfeited	–77,124	–72,509	–74,542	–20,268	–199,391	–765,485
Exercised	–	–	–	–	–	–
At December 31	1,951,522	1,010,014	1,217,456	1,082,523	1,291,998	241,756

The LTI programmes are expensed during the three years vesting period. During 2016, SEK 60m (39) has been charged to the income statement, whereof SEK 17m (8) refers to cost for employer social contributions. The total provision for employer social contributions in the balance sheet amounted to SEK 27m (13).

LTI 2009

The performance period for LTI 2009 ended December 31, 2011 and matching shares and options were awarded the participants on vesting date June 1, 2012. The awarded options give the participants the right to buy one Husqvarna class-B share for each option, to an exercise price of SEK 48 per share. The weighted average share price of the options exercised during the period was SEK 68,86. The options can be exercised until June 1, 2017. The table below shows the number of outstanding options.

	LTI 2009
Participants	Number of options to exercise
President and CEO	–
Former President and CEO	18,824
Other members of Group Management	–
Other participants	72,782
Total	91,606

Note 5 Expenses by nature

SEKm	2016	2015
Costs for supplies and raw materials	16,903	18,000
Employee benefit expenses	5,739	5,529
Amortization/depreciation and impairment	1,164	1,153
Other	8,955	8,679
Total	32,761	33,361

Research and development amount to SEK 1,241m (1,138) and is included in the expenses above.

Amortization/depreciation and impairment for the year is included in the following lines in the income statement:

SEKm	Property, plant and equipment		Intangible assets	
	2016	2015	2016	2015
Cost of goods sold	735	747	287	287
Selling expenses	33	32	–	–
Administrative expenses	32	25	77	62
Total	800	804	364	349

Impairment for property, plant and equipment was recorded within Cost of goods sold by SEK 13m (54) and within Administrative expenses by SEK 5m (3).

Impairment for intangible assets is recorded within Cost of goods sold by SEK 18m (16) and within Administrative expenses by SEK 0m (4).

Note 6 Other operating income and operating expenses

SEKm	2016	2015
Other operating income		
Gain on sale/liquidation of:		
Property, plant and equipment	5	2
Assets/subsidiaries	2	21
Total	7	23
Other operating expenses		
Loss on sale/liquidation of:		
Property, plant and equipment	0	–5
Assets/subsidiaries	–10	–
Total	–10	–5

Note 7 Fees to auditors

SEKm	2016	2015
EY		
Audit fees for the annual audit engagement	22	19
Audit fees not included in the annual audit engagement	2	2
Tax advice	3	3
Other services	3	10
Total fees to EY¹	30	34
Audit fees to other auditors	0	0
Total fees to auditors	30	34

¹ Of the total fee to EY 2015, SEK 9m was related to non-audit fees for projects initiated before EY was elected as auditor. All non-audit fees for projects initiated before EY was elected as auditor has been closed.

Note 8 Exchange rate gains and losses in operating income

SEKm	2016	2015
Exchange rate gains and losses in operating income ¹	–10	218
Total	–10	218

¹ Included in selling expenses within operating income.

Operating income includes SEK 50m (140) of foreign exchange hedging result previously reported in other comprehensive income.

Information related to the accounting of cash flow hedges is presented in note 1.

Note 9 Leasing**Operating leases**

There are no material contingent expenses or restrictions among the Group's operating leases. Expenses for rental payments for facilities, machinery etc. (minimum lease payments) amounted to SEK 443m (384) in 2016.

Future minimum lease payments are allocated as follows:

SEKm	2016	2015
Within 1 year	406	360
1–5 years	822	733
> 5 year	255	253
Total	1,483	1,346

Financial leases

No financial non-cancellable contracts are subcontracted within the Group. Neither are there any significant contingent expenses in the period's results, nor any significant restrictions in the contracts related to the leasing of facilities.

Future minimum lease payments are allocated as follows:

SEKm	2016	2015
Within 1 year	40	40
1–5 years	150	145
> 5 year	179	205
Nominal value	369	390
Present value	222	229

Maturity profile for financial leasing liabilities are included in note 19.

Group notes**Financial leases, recognized as non-current assets, consisted of:**

SEKm	2016	2015
Acquisition value		
Buildings and land	400	474
Machinery and technical installations	14	16
Closing balance, December 31	414	490
Accumulated depreciation		
Buildings and land	265	341
Machinery and technical installations	10	9
Closing balance, December 31	275	350
Net book value, December 31	139	140

Note 10 Financial income and expenses

SEKm	2016	2015
Financial income		
Interest income on deposits	16	17
<i>Exchange rate differences</i>		
– on borrowings	103	166
– on derivatives held for trading	–98	–139
Other financial income	8	0
Total financial income	29	44
Financial expenses		
<i>Interest expenses</i>		
– on borrowings	–163	–179
– on cashflow hedges, interest rate derivatives	–40	–30
– on derivatives held for trading	–166	–103
– net on pension assets/liabilities	–35	–37
Other financial expenses	–47	–39
Total financial expenses	–451	–388
Financial income and expenses, net	–422	–344

Changes in deferred taxes

SEKm	Opening balance, Jan 1, 2016	Recognized in income statement	Recognized in comprehensive income statement	Exchange rate differences	Acquired and divested assets/subsidiaries	Closing balance, Dec 31, 2016
Non-current assets	–1,144	2	–	–54	–26	–1,222
Inventories	61	72	–	3	1	137
Current receivables	24	55	–	–3	–	76
Provision for pensions and similar commitments	305	47	28	17	–	397
Other provisions	232	–31	–	13	–	214
Financial and operating liabilities	108	–190	179	13	–	110
Other items	–237	–15	–	–	–18	–270
Tax losses carried forward	518	–228	–	26	–	316
Deferred tax assets and liabilities, net	–133	–288	207	15	–43	–242

Note 11 Tax

SEKm	2016	2015
Current tax on income for the period	–404	–297
Deferred tax expense	–288	–298
Total	–692	–595

Theoretical and actual tax rates

SEKm	2016		2015	
	Tax, %	Result	Tax, %	Result
Profit before tax	–	2,796	–	2,483
Theoretical tax rate	–24.1	–674	–26.9	–668
Non-taxable/non-deductible income statement items, net	2.4	68	3.4	85
Change in valuation of deferred tax	–0.8	–24	–1.5	–38
Utilization of previously unrecognized tax losses	0.0	0	0.3	7
Effect of tax rate change	–0.1	–4	0.2	6
Withholding tax	–1.1	–32	–1.6	–40
Other	–1.0	–26	2.1	53
Actual tax rate	–24.7	–692	–24.0	–595

The theoretical tax rate for the Group is calculated on the basis of the weighted total earnings before tax per country, multiplied by the local statutory tax rate.

Tax loss carry-forwards

As of December 31, 2016, the Group has tax loss carry-forwards of SEK 1,198m (2,021), whereof SEK 273m (213) has not been included in computation of deferred tax assets. The tax loss carry-forwards will expire as follows (gross amounts):

SEKm	2016	2015
Within a year	0	0
1–5 year	78	10
> 5 year	679	892
Without time limit	441	1,119
Total	1,198	2,021

SEKm	Opening balance, Jan 1, 2015	Recognized in income statement	Recognized in comprehensive income statement	Exchange rate differences	Closing balance, Dec 31, 2015
Non-current assets	-1,171	19	-	8	-1,144
Inventories	64	6	-	-9	61
Current receivables	68	-42	-	-2	24
Provision for pensions and similar commitments	381	29	-111	6	305
Other provisions	158	71	-	3	232
Financial and operating liabilities	36	-17	87	2	108
Other items	-252	15	-	0	-237
Tax losses carried forward	868	-379	-	29	518
Deferred tax assets and liabilities, net	152	-298	-24	37	-133

Deferred tax assets and liabilities

SEKm	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Non-current assets	136	156	1,358	1,300	-1,222	-1,144
Inventories	323	261	186	200	137	61
Current receivables	106	72	30	48	76	24
Provisions for pensions and similar commitments	400	307	3	2	397	305
Other provisions	214	232	0	0	214	232
Financial and operating liabilities	200	174	90	66	110	108
Other items	181	147	451	384	-270	-237
Tax losses carried forward	316	518	-	-	316	518
Deferred tax assets and liabilities	1,876	1,867	2,118	2,000	-242	-133
Set-off of tax	-462	-446	-462	-446	-	-
Deferred tax assets and liabilities, net¹	1,414	1,421	1,656	1,554	-242	-133

¹⁾ Deferred tax assets amounted to SEK 1,414m, whereof SEK 269m is expected to be utilized within 12 months. Deferred tax liabilities amounted to SEK 1,656m, whereof SEK 26m are due within 12 months.

Note 12 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares.

	2016	2015
Profit attributable to equity holders of the Parent Company (SEKm)	2,100	1,883
Weighted average numbers of ordinary shares in issue (million)	572.3	573.0
Earnings per share before dilution (SEK)	3.67	3.29

Diluted

Diluted earnings per share is calculated by adjusting the weighted average numbers of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's long term incentive plan contains share options and share savings program which have a dilutive potential.

	2016	2015
Profit attributable to equity holders of the Parent Company (SEKm)	2,100	1,883
Weighted average numbers of ordinary shares in issue (million)	572.3	573.0
Adjusted for:		
- share savings program (million)	1.8	1.2
Weighted average numbers of ordinary shares in issue (million)	574.1	574.2
Earnings per share after dilution (SEK)	3.66	3.28

Group notes

Note 13 Property, plant and equipment

SEKm	Land and land improvements	Buildings and leasehold improvements	Machinery and technical installations	Other equipment	Construction in progress and advances	Total
2016						
Opening accumulated acquisition value	293	3,106	11,078	1,192	1,044	16,713
Acquired companies	–	4	1	1	–	6
Investments	2	71	376	98	942	1,489
Sold, scrapped	–1	–23	–332	–95	–6	–457
Reclassification	6	93	707	16	–822	–
Exchange rate differences	15	144	580	55	19	813
Closing accumulated acquisition value	315	3,395	12,410	1,267	1,177	18,564
Opening accumulated depreciation and impairment	85	1,948	9,116	944	–	12,093
Depreciation	8	103	577	94	–	782
Impairment	–	7	11	–	–	18
Sold, scrapped	–	–16	–323	–90	–	–429
Reclassification	–	–	15	–15	–	–
Exchange rate differences	7	98	478	45	–	628
Closing accumulated depreciation and impairment	100	2,140	9,874	978	–	13,092
Closing balance, December 31, 2016	215	1,255	2,536	289	1,177	5,472
2015						
Opening accumulated acquisition value	314	3,095	10,479	1,007	1,003	15,898
Investments	0	111	239	100	579	1,029
Sold, scrapped	–48	–225	–252	–66	0	–591
Reclassification	26	74	289	168	–557	–
Exchange rate differences	1	51	323	–17	19	377
Closing accumulated acquisition value	293	3,106	11,078	1,192	1,044	16,713
Opening accumulated depreciation and impairment	86	1,900	8,593	838	–	11,417
Depreciation	9	122	533	83	–	747
Impairment	–	16	40	1	–	57
Sold, scrapped	–15	–121	–219	–64	–	–419
Reclassification	6	–4	–101	99	–	–
Exchange rate differences	–1	35	270	–13	–	291
Closing accumulated depreciation and impairment	85	1,948	9,116	944	–	12,093
Closing balance, December 31, 2015	208	1,158	1,962	248	1,044	4,620

For information of where in the income statement the depreciation and impairment is reported, see note 5.

Note 14 Intangible assets

SEKm	Goodwill	Brands	Product development	Other	Total
2016					
Opening accumulated acquisition value	6,373	3,285	2,392	1,288	13,338
Acquired companies	42	–	–	74	116
Investments	–	–	247	153	400
Sold, scrapped	–	–	–71	–125	–196
Exchange rate differences	395	144	62	47	648
Closing accumulated acquisition value	6,810	3,429	2,630	1,437	14,306
Opening accumulated amortization and impairment	760	305	1,829	905	3,799
Amortization	–	8	202	136	346
Impairment	–	–	16	2	18
Sold, scrapped	–	–	–71	–123	–194
Exchange rate differences	36	13	58	40	147
Closing accumulated amortizations and impairment	796	326	2,034	960	4,116
Closing balance, December 31, 2016	6,014	3,103	596	477	10,190
2015					
Opening accumulated acquisition value	6,287	3,387	2,167	1,134	12,975
Investments	–	–	225	134	359
Sold, scrapped	–	–	–40	–6	–46
Exchange rate differences	86	–102	40	26	50
Closing accumulated acquisition value	6,373	3,285	2,392	1,288	13,338
Opening accumulated amortizations and impairment	767	290	1,617	780	3,454
Amortization	–	17	204	108	329
Impairment	–	–	16	4	20
Sold, scrapped	–	–	–40	–6	–46
Exchange rate differences	–7	–2	32	19	42
Closing accumulated amortizations and impairment	760	305	1,829	905	3,799
Closing balance, December 31, 2015	5,613	2,980	563	383	9,539

For information of where in the income statement the amortization and impairment is reported, see note 5.

The values of intangible assets with indefinite life are tested for impairment annually, or more frequently if necessary. An impairment loss is recognized with the amount by which the assets' net carrying amount exceeds its recoverable amount. The recoverable amount of a cash generating unit is determined based on estimates of value in use. Value in use is measured as expected future discounted cash flow before tax.

Future discounted cash flows are based on by Group Management, approved five-year forecasts for each cash generating unit. Key assumptions for forecasting are the expected growth, margins and discount rates. Cash flows beyond the five year forecast have been extrapolated using an estimated growth rate of 2% (2) for all cash generating units.

Forecasted margin is partly based on previous results and partly on the expected market development. The pre-tax discount rate is based on the risk-free interest, market premium, beta value, capital structure and tax rate. External sources have been used as much as possible when determining these parameters, but the discount rate is still largely dependent on management's own assumptions. A common discount rate is used for all cash generating units since Group Treasury is centrally responsible for the handling of financing and capital structure. A pre-tax discount rate of 11% (11) has been used for 2016.

During 2016, value in use has exceeded the net book value for all cash-generating units, and accordingly, no impairment has been recognized.

Intangible assets with indefinite useful lives per cash generating unit (division):

SEKm	2016	2015
Husqvarna	2,702	2,549
Gardena ¹	4,383	4,198
Consumer Brands	782	736
Construction	1,230	1,082
Total Group	9,097	8,565

¹⁾ Whereof SEK 3,083m (2 952) relates to the net book value of the Gardena brand, which Husqvarna Group has assigned indefinite useful life. This is because the brand has a strong position among consumers and Husqvarna Group intends to maintain and further develop the brand.

The following two sensitivity analysis have been made of the estimated value in use:

- 10% higher discount rate
- 10% decreased cash flow

None of these adjusted assumptions would result in an impairment loss of intangible assets with indefinite useful lives, in any of the cash generating units.

Under the current business environment, management do not believe that any reasonably possible change in discount rate or in any of the other key assumptions on which the cash generating units' recoverable amounts are based upon would result in the net book value amount exceeding the recoverable amount.

Group notes

Note 15 Other non-current assets

SEKm	2016	2015
Long-term holdings in securities	2	2
Pension assets	32	128
Other long-term receivables	59	35
Total	93	165

Pension assets refer to pension plans with a net surplus of SEK 32 m (30). 2015 also included endowment insurance for pension SEK 98m which for 2016 has been netted in the Group.

Note 16 Inventories

SEKm	2016	2015
Finished products	6,747	5,643
Supplies including raw materials	2,240	2,078
Work in progress	238	153
Total	9,225	7,874

The cost of inventories recognized as expense and included in cost of goods sold amounted to SEK 22,817m (23,621).

Provisions for obsolescence are included in the value of the inventory. Provision made during the year amount to SEK 73m (91) and SEK 136m (76) has been reversed.

Inventories valued to net realizable value amounted to SEK 57m (91) referring to raw material and SEK 391m (557) referring to finished products.

Note 17 Other current assets

SEKm	2016	2015
Value added tax	413	203
Miscellaneous short-term receivables	133	373
Prepaid rents and leases	16	11
Prepaid insurance premiums	23	25
Other prepaid expenses	378	270
Total	963	882

Note 18 Equity**Share capital**

The share capital in Husqvarna AB consists of class A-shares and class B-shares. A class A-share entitles the holder to one vote and a class B-share to one-tenth of a vote. All shares entitle the holder to the same proportion of assets and earnings, and carry equal rights in terms of dividends.

Other paid-in capital

Other paid-in capital consists of share-premium reserve following the rights issue in 2009.

Other reserves

The translation reserve includes all exchange-rate differences that arise from the translation of the financial statements of foreign operations that have compiled their reports in a currency other than that in which the consolidated financial statements are presented in (SEK). The translation reserve also include net investments hedges.

The hedging reserve includes the effective portion of the accumulated net change in the fair value, related to the hedged risk, of cash-flow hedging instruments attributable to hedged items that have not yet occurred.

Retained earnings

Retained earnings consist not only of accrued profits but also of the change in pension liability attributable to remeasurements of defined-benefit plans recognized in "Total other comprehensive income". Regarding changes in actuarial assumptions, see also Note 20. The proposed dividend for 2016 is SEK 1.95 (1.65).

Non-controlling interests

Non-controlling interests refer to the share of equity that belongs to external interests without a controlling influence in certain subsidiaries within the Group.

Share capital

SEKm	
On December 31, 2015, the share capital comprised:	
113,694,826 Class A-shares, par value SEK 2	227
462,648,952 Class B-shares, par value SEK 2	926
Total	1,153
On December 31, 2016, the share capital comprised:	
113,393,909 Class A-shares, par value SEK 2	227
462,949,869 Class B-shares, par value SEK 2	926
Total	1,153

Number of shares	Treasury shares	Outstanding shares	Total
Shares, December 31, 2015			
Class A-shares	–	113,694,826	113,694,826
Class B-shares	3,343,015	459,305,937	462,648,952
Exercised options LTI 2009			
Class A-shares	–	–	–
Class B-shares	–142,843	142,843	–
Long term incentive program 2013			
Class A-shares	–	–	–
Class B-shares	–236,939	236,939	–
Conversion of shares			
Class A-shares	–	–300,917	–300,917
Class B-shares	–	300,917	300,917
Hedge for LTI-programs			
Class A-shares	–	–	–
Class B-shares	1,300,000	–1,300,000	–
Shares, December 31, 2016			
Class A-shares	–	113,393,909	113,393,909
Class B-shares	4,263,233	458,686,636	462,949,869

Other reserves

SEKm	Hedge reserve	Translation reserve	Total other reserves
Opening balance, January 1, 2015	88	-151	-63
Cash flow hedges			
Result arising during the year	46	-	46
Tax on result arising during the year	-10	-	-10
Reclassification adjustments to the income statement	-123	-	-123
Tax on reclassification adjustments to the income statement	27	-	27
Exchange rate differences on translation on foreign operations			
Currency translation difference	-	14	14
Net investment hedge			
Result arising during the year	-	-320	-320
Tax on result arising during the year	-	70	70
Closing balance, December 31, 2015	28	-387	-359
Cash flow hedges			
Result arising during the year	-14	-	-14
Tax on result arising during the year	3	-	3
Reclassification adjustments to the income statement	-28	-	-28
Tax on reclassification adjustments to the income statement	6	-	6
Exchange rate differences on translation on foreign operations			
Currency translation difference	-	1,055	1,055
Net investment hedge			
Result arising during the year	-	-775	-775
Tax on result arising during the year	-	170	170
Closing balance, December 31, 2016	-5	63	58

Note 19 Financial risk management and financial instruments**FINANCIAL RISK MANAGEMENT**

Financial risk management for Husqvarna Group entities is undertaken in accordance with the Group Financial Policy. Described below are the principles of financial risk management applicable to Husqvarna Group. Husqvarna Group is exposed to a number of risks relating to financial instruments including, for example, liquid funds, trade receivables and other receivables, trade payables and other liabilities, borrowings, and derivative instruments. The primary risks associated with these instruments are:

- Financing risks in relation to the Group's capital requirements.
- Interest rate risks on liquid funds and borrowings.
- Foreign exchange risks on export and import flows plus earnings and net investments in foreign operations.
- Commodity price risks affecting expenditure on raw materials and components for goods produced.
- Credit risks relating to financial and commercial activities.

The Board of Directors of Husqvarna Group has adopted a Group Financial Policy, as well as a Group Credit Policy to regulate the management and control of these risks. These risks are to be managed according to the limitations stated in these policies. The Financial Policy also describes the management of risks relating to pension fund assets. The purpose of the policy is to have enough funding available to minimize the Group's cost of capital and to achieve an effective management of the Group's financial risks.

The management of financial risks has largely been centralized to Husqvarna Group Treasury, where measurement and control of financial risks are performed on a daily basis by a separate risk control function. Furthermore, Husqvarna Group's policies include guidelines for managing operating risk relating to financial instruments, e.g. through the clear assignment of responsibilities and the allocation of powers of attorney.

Proprietary trading in currencies and interest-bearing instruments is permitted with tight limits set within the framework of the Financial Policy. The primary purpose of such trading is to maintain a flow of high quality information and market knowledge, as well as to contribute to the proactive management of the Group's financial risks.

FINANCING RISK

Financing risk refers to the risk that the financing of the Group's capital requirements and the refinancing of existing loans could become more difficult or more costly. This risk can be decreased by ensuring that maturities are evenly distributed over time, and that total short-term borrowings do not exceed available liquidity. Disregarding seasonal variations, net debt shall be long-term, according to the Financial Policy. The Group's goals for long-term borrowings include an average time to maturity of at least two years, and an even distribution of maturities. A maximum of SEK 3,000m in borrowings, originally long-term, is normally allowed to mature in the next 12-month period. When Husqvarna Group assesses its refinancing risk, the maturity profile is adjusted for available unutilized committed credit facilities.

In addition, seasonality in the cash flow is an important factor in the assessment of the financing risk. Consequently, Husqvarna Group always takes into account the fact that financial planning must include future seasonal fluctuations.

The average adjusted time to maturity for the Group's financing was 3.8 years (3.9) at the end of 2016.

Capital structure

Husqvarna Group's target is to have a capital structure where seasonally adjusted net debt in proportion to earnings before interest, tax, depreciations and amortizations (EBITDA) is not to exceed 2.5 in the long-term. This target for financial indebtedness may be adjusted in the event of changes to the macroeconomic situation, or allowed to deviate for a shorter period of time due to acquisitions. Dividend shall normally exceed 40% of the income for the year.

Group notes**Capital structure**

SEKm	2016	2015
Net pension liabilities	1,727	1,395
Other interest-bearing liabilities	7,396	6,952
Less: liquid funds and other interest-bearing assets	-2,290	-1,972
Net debt ¹	6,833	6,375
Net debt, excluding net pension liabilities	5,106	4,980
EBITDA	4,382	3,980
Net debt/EBITDA	1.56	1.60
Total equity	14,365	13,061
Total assets	32,978	29,669
Equity/assets ratio	44%	44%

¹ As reported.

Liquid funds

Liquid funds consist of cash and cash equivalent and other short-term deposits including derivative assets at fair market value. Husqvarna Group's goal is that the level of liquid funds, including unutilized committed credit facilities, shall equal at least 2.5% of sales for the last 12 months. At year-end, this ratio was 20.3% (19.3). In addition, the Group shall have sufficient liquid resources to finance the expected seasonal build-up in working capital during the next 12 months.

Borrowings

The financing of Husqvarna Group is managed centrally by Group Treasury in order to ensure efficiency and risk control. Debt is primarily raised at Parent Company level and transferred to subsidiaries as internal loans or capital injections. In this process, various derivatives are used to convert the funds to the required currency. Financing is also undertaken locally, mostly in countries in which there are legal restrictions preventing financing through Group companies. The major part of the Group's financing is currently conducted through bilateral loan agreements, bonds through a Swedish Medium Term Note (MTN) program and other bond financing. In addition, the Group has an unutilized SEK 5bn committed revolving credit facility maturing in 2021. Due to the nature of its business, the Group has major seasonal variations in its funding needs. These variations have during 2016 been managed mainly by utilizing the Group's commercial paper (CP) program and short-term bank loans.

At year-end 2016, the Group's total interest-bearing liabilities amounted to SEK 7,396m (6,952), of which SEK 4,953m (4,580) referred to long-term loans. During the year, the Group issued bonds totalling SEK 1,700m, of which SEK 500m with three years maturity and SEK 1,200m with five years maturity. At the same time bonds totalling SEK 150m maturing in 2017 were repurchased.

Husqvarna Group has, as mentioned, substantial seasonal variation in its borrowings. The seasonal peak of the indebtedness normally implies additional borrowings of SEK 2,500–3,500m in excess of year-end borrowings, taking dividend into account.

Husqvarna Group has not breached any conditions in external loan agreements during the year.

Future undiscounted cashflows of loans and other financial liabilities as of December 31, 2016¹

SEKm	2017	2018	2019	2020	2021	>2021	Total
Financial leases	-40	-38	-38	-37	-37	-179	-369
Bonds, bank loans and other loans	-1,574	-2,501	-948	-92	-1,257	-91	-6,463
Derivative liabilities, interest rate ²	-18	-21	-7	2	3	-	-41
Derivative liabilities, foreign exchange ²	-888	-	-	-	-	-	-888
Trade payables	-3,752	-	-	-	-	-	-3,752
Total financial liabilities	-6,272	-2,560	-993	-127	-1,291	-270	-11,513

¹ Please note that the table includes the forecast future nominal interest payment and, thus, does not correspond to the net book value in the balance sheet.

² For more detailed information on derivative contracts, see table under "Credit risk in financial activities" in this note.

Borrowings

SEKm	2016		2015	
	Total borrowings	Facility amount	Total borrowings	Facility amount
Medium Term Note Program	3,546	5,000	2,547	5,000
Other bond loans	941	0	934	-
Committed revolving credit facility	-	5,000	-	5,000
Long-term bank loans ¹	1,608	-	1,982	-
Financial leases	222	-	229	-
Commercial papers	-	7,000	600	7,000
Other short-term loans	130	-	304	-
Derivative liabilities	949	-	356	-
Total	7,396	17,000	6,952	17,000

¹ Originally long-term.

Net debt – currency composition, excluding net pension liabilities

SEKm	2016		2015	
	Net debt excl. currency swaps	Net debt incl. currency swaps	Net debt excl. currency swaps	Net debt incl. currency swaps
USD	481	8,282	527	7,529
SEK	4,891	-5,107	4,039	-4,065
EUR	112	1,166	1,190	830
BRL	43	581	41	367
PLN	-11	-226	-9	-224
CNY	-394	-215	-343	-16
GBP	-42	206	-25	45
HKD	0	179	0	167
CZK	-29	167	-19	147
Other	55	73	-421	200
Total	5,106	5,106	4,980	4,980

Market programs

Husqvarna Group has a MTN program, denominated in SEK, to issue long-term debt in the domestic capital market. The total amount of the program is SEK 5,000m. In addition, Husqvarna Group has a Swedish CP program. The total amount of the program is SEK 7,000m. The table Borrowings shows outstanding amounts under these two programs.

The currency composition of Husqvarna Group's borrowings is dependent upon the currency distribution of the Group's assets. Currency derivatives are used to obtain the preferred currency distribution.

INTEREST RATE RISK

Interest rate risk refers to the adverse effects of changes in market interest rates on the Group's net income. The main factor determining this risk is the interest-fixing period.

Interest rate risk in liquid funds

The holding periods of investments are mainly short-term. The majority of investments are undertaken with maturities of between 0 and 3 months. The fixed interest term for these current investments was 16 days (23) at the end of 2016. A downward shift in the yield curve of one percentage point would reduce the Group's interest income by approximately SEK 19m (16) and the Group's equity by SEK 15m (13).

Interest rate risk in borrowings

The Financial Policy states that the benchmark for the long-term loan portfolio is an average fixed interest term of 6 months. Group Treasury can choose to deviate from this benchmark on the basis of a risk mandate established by the Board of Directors. However, the maximum average fixed interest term is 3 years. Derivatives, such as interest rate swap agreements, are used to manage the interest rate risk by changing the interest from fixed to floating or vice versa. The average fixed interest term for the non-seasonal debt was 2.6 (2.3) years at year-end. On the basis of volumes and interest fixings at the end of 2016, a one-percentage point shift in interest rates would impact the Group's interest expenses by approximately SEK ± 6m (7) before tax. This calculation is based on a parallel shift of all yield curves simultaneously by one percentage point. The Group has seasonal debt for which the interest risk is not calculated due to its short-term nature. As per December 31, 2016 the average interest rate in the total loan portfolio was 4.6% (4.0). At year-end, Husqvarna Group had outstanding interest rate derivatives with a nominal amount of SEK 3,399m (2,923) hedging the interest rate risk.

Hedge accounting of interest rate risk

Husqvarna Group applies hedge accounting for the hedging of interest rate risk. The total market value for hedges of interest rate risk amounted to SEK -44m as of December 31, 2016 of which SEK -39m is reported in the hedge reserve. Assuming an unchanged market interest rate, the effects on income after financial items for 2017 would be SEK -4m for Q1, SEK -3m for Q2, SEK -6m for Q3 and SEK 0m for Q4. During the year no ineffectiveness has occurred in the hedging of interest rate risk.

The table "Future undiscounted cashflows of loans and other financial liabilities" shows the future cashflows of the interest rate hedges. The cash-flows during 2017, assuming unchanged market interest rates, would be SEK -6m for Q1, SEK -3m for Q2, SEK -9m for Q3 and SEK 0m for Q4.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the adverse effects of changes in foreign currency exchange rates on Husqvarna Group's income and equity. In order to manage such effects, the Group covers these risks within the framework of the Financial Policy. The Group's overall currency exposure is managed centrally. The major currencies to which Husqvarna Group is exposed are EUR, USD, CAD and AUD.

Transaction exposure from commercial flows

The Financial Policy stipulates hedging of forecasted sales and purchases in foreign currencies, taken into consideration the price fixing periods and the competitive environment. Normally, 75-100% of the invoiced and forecasted flows are hedged up to and including 6 months, while forecasted flows for 7-12 months are hedged between 50-75%. Group subsidiaries primarily cover their risks in commercial currency flows through Group Treasury. Group Treasury assumes the currency risks and covers such risks externally by utilizing currency derivatives, for which hedge accounting is applied.

The table below shows the forecasted transaction flows (imports and exports) for 2017, hedges at year-end 2016 and comparative amounts for the previous year.

Commercial flows

Currency SEKm	2016		2015	
	2017 Forecast flow	Total hedge amount	2016 Forecast flow	Total hedge amount
EUR	3,833	-2,968	2,796	-2,260
CAD	995	-745	710	-521
AUD	495	-360	421	-304
CHF	468	-364	415	-304
NOK	460	-338	347	-264
RUB	455	-344	251	-185
Other	1,357	-782	707	-347
CNY	-447	368	-393	341
USD	-3,304	2,628	-2,408	1,984
SEK	-4,312	2,905	-2,846	1,860

The hedging effect on operating income amounted to SEK -103m (381) during 2016. At year-end, the unrealized exchange rate result on forward contracts, all maturing in 2017, amounted to SEK 44m (75).

Translation exposure on consolidation of entities outside Sweden

Changes in exchange rates also affect the Group's income when translating income statements of foreign subsidiaries into SEK. Husqvarna Group does not hedge such exposures. The translation exposure arising from income statements of foreign subsidiaries is included in the sensitivity analysis below.

Exposure from net investments in foreign operations

The net assets and liabilities in foreign subsidiaries constitute a net investment in foreign operations, which generates a translation difference in connection with consolidation. In order to limit negative effects on Group equity resulting from translation differences, part of the Group's net investments in foreign operations is hedged with foreign exchange derivatives. This means that a decline in value of a net investment is offset by exchange rate gains on foreign exchange derivative contracts.

Foreign exchange sensitivity from transaction and translation exposure

Husqvarna Group is particularly exposed to changes in the exchange rates of EUR and USD. Furthermore, the Group has significant exposures against CAD, AUD, CHF and a number of other currencies. Using a static calculation and disregarding any effects from hedges, a 10% increase or decrease in the value of all currencies against SEK would affect the Group's result before financial items and tax by approximately SEK ± 600m (480) for one year. A 10% increase of USD would affect the Group's result with SEK -250m (-170) and a corresponding decrease of EUR with SEK -420m (-330). This assumes the same distribution of earnings and costs as in 2016 and does not include any dynamic effects, such as changes in competitiveness or consumer behaviour arising from such changes in exchange rates. It is also worth noting that, due to the seasonality in Husqvarna Group's sales, these flows and results are not distributed evenly throughout the calendar year.

For more information on risks related to currency exposure, see Risk Management on page 55.

Hedge accounting of currency risk

Husqvarna Group applies hedge accounting for the hedging of commercial flows and when applicable for hedging of net investments in foreign operations. The total market value for hedges of commercial flows amounted to SEK 44m as of December 31, 2016 of which SEK 33m is reported in the hedge reserve. Assuming an unchanged exchange rate, the effects on income after financial items for 2017 would be SEK 6m for Q1, SEK 16m for Q2, SEK 11m for Q3 and SEK 0m for Q4.

As of December 31, 2016, EUR 483m and USD 838m of net investments in foreign operations were hedged. The total market value of the net investment hedges amounted to SEK -429m of which SEK -387m is reported in the hedge reserve. During the year no ineffectiveness has occurred in the hedging of currency risk.

COMMODITY PRICE RISK

Commodity price risk is the risk of increase in the cost of direct and indirect materials should underlying commodity prices rise on the global markets. Husqvarna Group is exposed to fluctuations in commodity prices through agreements with suppliers, whereby the price is linked to the raw material price on the world market. This exposure can be divided into direct commodity exposure, which refers to pure commodity exposure, and indirect commodity exposure, which is defined as exposure arising from only a portion of a component. Commodity price risk is managed through contracts with the suppliers rather than through the use of derivatives. A 10% rise or fall in the price of steel used in Husqvarna Group's products will affect the Group's results before financial items and tax by approximately SEK ± 170m (190), everything else being equal. The same effect on the price of aluminium would impact the results by SEK ± 50m (50) and a 10% change in the price of plastics would give an effect on results of SEK ± 100m (100).

CREDIT RISK

Credit risk in trade receivables

Husqvarna Group sells to a substantial number of customers including large retailers, buying groups, independent stores and professional

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users. Sales are made on the basis of normal delivery and payment terms. Customer financing solutions are normally arranged by third parties. The Credit Policy of the Group ensures that the management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts. The Board of Directors decides on customer credit limits exceeding SEK 100m. Husqvarna Group uses an internal classification of the creditworthiness of its customers. The classification has different levels, from low risk to high risk. In the table below, trade receivables have been divided into three different intervals.

SEKm	2016	2015
Low to moderate risk	2,041	2,012
Medium risk to elevated	1,185	1,035
High risk	64	79
Total	3,290	3,126

As of December 31, 2016 net trade receivables, after provisions for bad debt, amounted to SEK 3,290m (3,126), which consequently equals the maximum exposure to losses in trade receivables. Hence, the book value equals the fair market value of the receivables. The size of the credit portfolio is, however, directly dependent upon the seasonal pattern of Husqvarna Group's sales. This means that credit exposure is significantly higher during the first six months of each calendar year. A provision for bad debt is recorded when there is objective evidence that Husqvarna Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Provisions for bad debt at the end of the financial year amounted to SEK 152m (118), of which SEK 152m (118) refer to invoices due.

Trade receivables past due

Trade receivables that were past due, but not yet impaired amounted to SEK 627m (480) as of December 31, 2016.

Ageing analyses for past due trade receivables

Past due but not written down, SEKm	2016	2015
Up to 1 month	227	172
1 to 3 months	137	108
>3 months	263	200
Total	627	480

Provisions for overdue trade receivables

SEKm	2016	2015
Opening balance, January 1	118	128
New provisions	60	29
Reversed unused provisions	-23	-18
Impairment of trade receivables	-9	-18
Currency exchange rate differences	6	-3
Closing balance, December 31	152	118

The situation regarding past due receivables has not changed significantly since previous year-end, taking the total volume of outstanding trade receivables into account. The fair value of collateral held for trade receivables due for payment was SEK 25m (21).

A plan for repayment is normally designed for customers with past due receivables at the same time as the account is placed under special surveillance. At a later stage, unpaid products may be repossessed or other securities be enforced.

Concentration of credit risk in trade receivables

Concentration of credit risk	2016		2015	
	Number of customers	% of total portfolio	Number of customers	% of total portfolio
Exposure <SEK 15m	N/A	84%	N/A	82%
Exposure SEK 15–100m	10	8%	8	9%
Exposure >SEK 100m	1	8%	1	9%

Husqvarna Group has substantial exposure towards a limited number of large customers, primarily in the US.

Credit risk in financial activities

Exposure to credit risk arises from the investment of liquid funds and through counterparty risks related to derivatives. In order to limit exposure to credit risk, a counterparty list has been created specifying the maximum approved exposure for each counterparty. Investments in liquid funds are mainly made in interest-bearing instruments with high liquidity and involve issuers with a long-term credit rating of at least A-, as defined by Standard & Poor's or similar institutions. The average time to maturity for the liquid funds was 16 days (23) at the end of 2016. A substantial part of the exposure arises from derivatives transactions.

The table below shows the gross volume of outstanding foreign exchange derivative contracts.

Maturity	2016		2015	
	2017	2018–	2016	2017–
Amount sold	-33,623	-	-31,526	-
Amount purchased	33,014	-	31,487	-
Net settled derivatives (NDF)	2	-	0	-
Net	-607	-	-39	-

FAIR VALUE ESTIMATION

Below is a description of financial instruments carried at fair value, based on the classification in the fair value hierarchy. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs that are not based on observable market data (Level 3).

The Group's financial instruments carried at fair value are derivatives. Derivatives belong to Level 2 as future cash flows have been discounted using current quoted market interest rates and exchange rates for similar instruments.

To determine the fair value of the Group's borrowings, the prevailing market rates for the respective periods have been used and the Group's credit risk has been taken into account. Changes in credit spreads have been disregarded when determining fair value of financial leases. For short-term financial instruments such as trade receivables and other receivables, other short-term investments, cash and cash equivalents, trade payables and other liabilities, and short term borrowings the fair value equals their carrying amount as the impact of discounting is not significant. Fair value of long-term borrowings are based on discounted cash flows using a rate based on the borrowing rate, and are within Level 2 in the fair value hierarchy.

SEKm	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value through profit or loss				
– of which derivatives where hedge accounting is not applied	153	153	133	133
– of which currency derivatives where hedge accounting for cash flow hedges is applied	138	138	65	65
– of which interest derivatives where hedge accounting for cash flow hedges is applied	–	–	4	4
– of which currency derivatives related to net investments in foreign operations where hedge accounting is applied	58	58	144	144
Loans and receivables				
Trade receivables	3,290	3,290	3,126	3,126
Other receivables	547	547	576	576
Other short-term investments	4	4	4	4
Cash and cash equivalents	1,937	1,937	1,622	1,622
Total financial assets	6,127	6,127	5,674	5,674
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– of which derivatives where hedge accounting is not applied	360	360	227	227
– of which currency derivatives where hedge accounting for cash flow hedges is applied	105	105	16	16
– of which interest derivatives where hedge accounting for cash flow hedges is applied	39	39	23	23
– of which currency derivatives related to net investments in foreign operations where hedge accounting is applied	445	445	90	90
Other financial liabilities				
Trade payables	3,752	3,752	3,077	3,077
Other liabilities	487	487	249	249
Financial leases	222	236	229	240
Borrowings	6,225	6,322	6,367	6,467
Total financial liabilities	11,635	11,746	10,278	10,389

Note 20 Provisions for pensions and other post-employment benefits

In many of the countries in which Husqvarna Group has operations the employees are covered by pension plans in addition to statutory social security insurance. Such pension plans are classified as either defined contribution plans or defined benefit plans. The Group's most extensive defined benefit pension plans are in the UK, Germany, Sweden, the US and Japan. The pension plans in these countries are funded except for the plan in Germany. Funded plans imply that there are assets in legal entities that exist solely to finance benefits to employees and former employees.

The pension plan for the Group's employees in Germany is an unfunded cash balance plan. White collar employees in Sweden, born 1978 or earlier, are covered by a final salary collectively bargained defined benefit plan (ITP2). The old-age pension benefit of the plan is financed through a pension fund.

The Group's defined benefit pension plans in the UK and in the US were closed, some time ago, for future pension accrual. In Japan the Group has two pension plans that cover all employees. One of the plans is a funded cash balance plan and the other is an unfunded plan based on career-average salary.

The pension plans in Japan, UK, Sweden and the US are so called funded plans where the pension obligations are financed through pension funds whose operations are regulated by the legislation in the relevant country. The pension funds are separate legal entities with their own Board of Directors/Trustees etc., which might consist of representatives from both the company and the employees, which are responsible for the management of the pension fund asset.

SEKm	2016							Total
	UK	Sweden	US	Japan	Germany	Other		
Present value of obligation	1,357	1,105	456	218	872	239	4,247	
Fair value of plan assets	-1,389	-588	-284	-139	–	-120	-2,520	
Surplus/Deficit¹	-32	517	172	79	872	119	1,727	
Total funding level (%)	102	53	62	64	–	50	59	
Duration	21	22	15	11	12	14	18	
Actuarial assumptions (%)								
Discount rate	2.7	2.5	3.8/4.1	0.6	1.6	1.6	2.3	
Inflation	3.2	1.5	–	–	1.7	1.7	2.2	
Sensitivity analysis (%)								
Discount rate (-0,5%)	11.0	11.5	6.9	5.5	5.9	9.5	9.1	
Discount rate (+0,5%)	-9.5	-9.9	-6.2	-5.2	-5.3	-8.9	-8.0	
Inflation (+0,5%)	6.0	8.0	–	–	1.2	1.5	4.0	

¹ SEK 32m have been recorded as other non-current asset and SEK 1,759m have been recorded as provision for pensions.

Group notes

SEKm	2015						Total
	UK	Sweden	US	Japan	Germany	Other	
Present value of obligation	1,330	836	422	185	856	208	3,837
Fair value of plan assets	-1,360	-545	-252	-123	-	-162	-2,442
Surplus/Deficit ¹	-30	291	170	62	856	46	1,395
Total funding level (%)	102	65	60	66	-	78	64
Duration	20	21	14	11	12	14	17
Actuarial assumptions (%)							
Discount rate	3.8	3.3	3.9 / 4.3	0.9	2.0	2.0	3.1
Inflation	3.1	1.5	-	-	-	2.0	2.4
Sensitivity analysis (%)							
Discount rate (-0,5%)	10.1	10.6	6.7	5.6	5.7	6.3	8.1
Discount rate (+0,5%)	-8.8	-9.2	-6.2	-5.3	-5.2	-6.9	-7.1
Inflation (+0,5%)	3.6	7.5	-	-	-	2.1	3.0

¹ SEK 30m have been recorded as other non-current asset and SEK 1,425m have been recorded as provision for pensions.

Specification of net provisions for pensions and other post-employment benefits recognized in the balance sheet

SEKm	2016	2015
Present value of obligations for unfunded plans	1,125	1,025
Present value of obligations for funded plans	3,188	2,812
Fair value of plan assets	-2,586	-2,442
Net provisions for defined benefit plans	1,727	1,395

The schedules are showing the obligations of the defined benefit plans in Husqvarna Group and the assumptions used to determine these obligations. As well as the assets relating to the benefit plans, the amounts

recognized in the income statement, other comprehensive income and balance sheet. The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

The schedules include reconciliations of the opening and closing balances of the present value of the defined benefit obligation, as well as opening and closing balances of the fair value of plan assets and of the changes in net provisions during the year. In a few countries, the Group provides mandatory lump sum payments, in accordance with law or collective agreements, in conjunction with retirement. These obligations are included in the present value of the defined benefit obligation and amount at year-end to SEK 43m (40). Husqvarna Group has no post-employment medical plans. Further information regarding pension cost is available in note 4.

The movement in the present value of the net defined benefit obligation

SEKm	2016			2015		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Opening balance, January 1	3,837	-2,442	1,395	4,243	-2,408	1,835
Current service cost	110	7	117	104	6	110
Past service costs and gains/losses on settlements	2	-	2	-9	-	-9
Interest expenses	114	-79	35	117	-80	37
	4,063	-2,514	1,549	4,455	-2,482	1,973
Remeasurements:						
Return on plan assets	-	-305	-305	-	20	20
Actuarial gains and losses due to changes in demographic assumptions	-8	-	-8	-1	-	-1
Experience assumptions	59	-	59	-174	-	-174
Actuarial gains and losses due to changes in financial assumptions	531	-	531	-254	-	-254
	582	-305	277	-429	20	-409
Exchange rate differences on foreign plans	-30	95	65	54	-68	-14
Divestments and transfers	-122	95	-27	-	-	-
Contributions:						
- Employers	-76	-61	-137	-88	-67	-155
- Plan participants	5	-5	-	-	-	-
Payments from plans:						
- Benefit payments	-175	175	-	-82	82	-
- Settlements	-	-	-	-73	73	-
Closing balance, December 31	4,247	-2,520	1,727	3,837	-2,442	1,395

Plan assets comprise of the following¹:

	2016		2015	
	SEKm	%	SEKm	%
Equity instruments				
– Equities	1,115	44.3	1,036	42.4
Debt securities				
– Government bonds	179	7.1	183	7.5
– Corporate bonds	310	12.3	323	13.2
– Index-linked bonds	305	12.1	300	12.3
– Interest rate funds	502	19.9	454	18.6
Properties	31	1.2	14	0.6
Liquid funds	19	0.8	18	0.7
Assets held by insurance company	59	2.3	114	4.7
Total	2,520	100.0	2,442	100.0

¹ Approximately 98% (99) of total plan assets refers to listed assets.

None of the assets above refers to shares in the Parent Company or real estates occupied by the group.

For the funded defined benefit pension plans (Sweden, UK and US represent around 90% of total pension assets) the Group's strategy is a combination of matching the assets with the liabilities and trying to achieve as high return as possible within the investment guidelines. This is partly done by investing in longer duration bonds designed to match the development of the debt and also by investing in corporate bonds, index-linked bonds and shares with the purpose of achieving a high return in various market conditions long term. As the maturity of the pension commitments decreases and/or the value of the assets reaches a satisfactory level in relation to the debt, the Group will gradually reduce the investment risk by shifting into assets with lower volatility.

Husqvarna Group is through its defined benefit obligations exposed to a number of risks, of which the following have the greatest impact on the Group's pension liability:

Discount rate

The discount rate reflects the estimated timing of benefit payments and is used for measuring the present value of the obligation. A fluctuation in the discount rate will have a material effect on the pension obligation but will also impact the interest income and expense reported in the finance net. To determine the discount rate, AA-rated corporate bonds indexes matching the duration of the pension obligations are applied in most countries. When valuing Swedish pension liabilities Husqvarna Group uses mortgage bonds when determining discount rate.

Inflation risk

Most of the obligations are linked to inflation and an increase in inflation leads to higher debt. The return of the majority of the plan assets has a low correlation with inflation, while the holdings of index-linked bonds are protected against a rise in inflation and thus compensates for the increase in the deficit that would occur otherwise.

Longevity risk

Since most of the pension obligations mean that those covered by the plan will receive benefits for life, higher life expectancy assumptions have a significant impact on the pension liabilities.

The company expects to make contributions of approximately SEK 151m (148) to the plans during 2017.

The weighted average duration of the defined benefit obligation is 18 years (17).

Note 21 Other provisions

SEKm	Provisions for restructuring	Warranty commitments	Claims	Other	Total
Opening balance, January 1, 2016	124	455	380	440	1,399
Provisions made	–	438	–	99	537
Provisions used	–45	–439	–27	–175	–686
Unused amounts reversed	–	–1	–	–3	–4
Exchange rate differences	–18	27	31	41	81
Closing balance, December 31, 2016	61	480	384	402	1,327
Current provisions	55	255	–	193	503
Non-current provisions	6	225	384	209	824

Provisions for restructuring

Provisions for restructuring refer to the expected payments to be incurred in the coming years as a consequence of the Group's decision to close some factories, rationalize production and reduce personnel. The amounts are based on the group management's best estimates and are adjusted when changes to these estimates are known.

Warranty commitments

Provisions for warranty comprise all potential expenses for repairing or replacing products sold. Provisions are made when the products are sold and are normally limited to 24 months.

Claims

Provisions for claims refer to claim reserves in Husqvarna Group's insurance companies mainly due to product liabilities but also property damage and business interruptions. The provisions are estimated based on actuarial calculations.

Other

Other provisions are in all material aspects referring to payroll related provisions.

Note 22 Other liabilities

SEKm	2016	2015
Accrued holiday pay	220	195
Other accrued payroll expenses	671	587
Other accrued expenses	1,094	1,008
Value added tax	65	58
Personnel taxes and other taxes	65	51
Other operating liabilities	397	181
Total	2,512	2,080

Group notes

Note 23 Pledged assets and contingent liabilities**Pledged assets**

SEKm	2016	2015
Pension obligations ¹	106	98
Real estate mortgages	31	30
Total	137	128

¹ Refers to endowment that is pledged in favor of the recipient.

Contingent liabilities

SEKm	2016	2015
On behalf of external counterparties		
Guarantees and other commitments	109	103
Total	109	103

In addition to the above contingent liabilities, guarantees for fulfillment of contractual undertakings are provided as part of Husqvarna Group's normal course of business. There was no indication at year-end that any payment will be required in connection with any contractual guarantees. Furthermore, there is an obligation, in the event of dealer's bankruptcy, to buy back repossessed Husqvarna Group products from certain North American dealers financing their floorplanning with an external finance company. During 2016 goods amounting to a value of SEK 5m (8) were bought back in connection with floorplanning activities.

Husqvarna Group is involved in commercial, product liability and other disputes in the ordinary course of business. Such disputes involve claims for compensatory damages, property damage or personal injury compensation and occasionally also punitive damages. The company is self-insured to a certain extent, and is also insured against excessive liability losses for certain claims. Husqvarna Group continuously monitors and evaluates pending claims and disputes, and take action when deemed necessary. The company believes that these activities help to minimize the risks. Due to the complexity of these disputes, it is difficult to predict a favorable outcome of each claim and an adverse outcome affecting the consolidated financial position and result could occur.

Note 24 Related party transactions

Sales to related parties are carried out on market-based terms. See the Parent Company's directly owned subsidiaries in the Parent Company's note 16, Shares in subsidiaries. Information about the Board of Directors and Group Management and compensation to those are reported in note 4, Employees and employee benefits. No unusual transactions have occurred between Husqvarna Group and the Board of Directors or Group Management. The value of those business transactions are insignificant.

Note 25 Subsequent events**Acquisition of Pullman Ermator AB**

Husqvarna Group acquired Pullman Ermator AB January 12, 2017. Pullman Ermator, headquartered in Smedjebacken, Sweden, is a market leader in dust and slurry management solutions including dust extractor systems, dry/wet vacuums, and air scrubbers for the light construction industry. The acquired product range complements the Construction Division's market leading cutting, drilling and grinding systems and supports the Construction Division's ambition to grow in the surface preparation market. Sales synergies are expected from distributing the Pullman Ermator range of products in the Construction Division's distribution network.

In 2016, the unaudited preliminary sales of Pullman Ermator amounted to approximately SEK 300m. The acquisition is expected to have a limited positive effect on the Group's operating income and net income for 2017. Pullman ermator has around 50 employees, located mainly in Sweden and in the fully-owned subsidiary Ermator Inc. headquartered in Tampa, Florida in the U.S.

The acquisition analysis has not yet been finalized and thus remains preliminary.

Parent Company income statement

SEKm	Note	2016	2015
Net sales	3	14,231	12,763
Cost of goods sold	5	-10,288	-9,376
Gross income		3,943	3,387
Selling expenses	5, 8	-1,139	-1,385
Administrative expenses	5	-927	-814
Other operating income and operating expenses	6	1	-1
Operating income	4, 7, 9	1,878	1,187
Income from financial items			
Income from participation in Group companies	10	3,999	1,402
Financial income	11	75	62
Financial expenses	11	-1,063	-572
Income after financial items		4,889	2,079
Appropriations	12	-204	-99
Income before taxes		4,685	1,980
Income tax	13	-141	-135
Net Income		4,544	1,845

Parent Company comprehensive income statement

SEKm	2016	2015
Net Income	4,544	1,845
Other comprehensive income		
<i>Items that may be reclassified to the income statement:</i>		
Cash flow hedges		
Result arising during the period, net of tax	-44	42
Reclassification adjustments to the income statement, net of tax	-28	-80
Other comprehensive income, net of tax	-72	-38
Total comprehensive income	4,472	1,807

Parent Company balance sheet

SEKm	Note	Dec 31, 2016	Dec 31, 2015
Assets			
<i>Non-current assets</i>			
Intangible assets	14	1,683	1,633
Property, plant and equipment	15	1,490	1,335
<i>Financial assets</i>			
Shares in subsidiaries	16	29,128	29,136
Derivatives	19	0	4
Other non-current assets	17, 19	59	46
Deferred tax assets	13	113	233
Total non-current assets		32,473	32,387
<i>Current assets</i>			
Inventories	18	1,513	1,414
<i>Receivables</i>			
Trade receivables	19	414	348
Receivables from Group companies	19	3,633	2,621
Derivatives	19	477	446
Other receivables	19, 20	86	70
Prepaid expenses and accrued income	20	165	106
Cash and cash equivalents	19	412	238
Total current assets		6,700	5,243
Total assets		39,173	37,630
Equity and liabilities			
<i>Restricted equity</i>			
Share capital		1,153	1,153
Revaluation reserve		4	4
Statutory reserves		18	18
Reserve related to R&D expenses		174	–
<i>Non-restricted equity</i>			
Share-premium reserve		2,605	2,605
Fair value reserve		–38	34
Profit or loss brought forward		14,584	13,904
Net Income		4,544	1,845
Total equity		23,044	19,563
<i>Provisions</i>			
Other provisions	23	108	127
Total provisions		108	127
<i>Non-current liabilities</i>			
Borrowings	19	4,547	4,194
Derivatives	19	44	11
Total non-current liabilities		4,591	4,205
<i>Current liabilities</i>			
Borrowings	19	1,353	1,892
Liabilities to Group companies	19	7,481	10,136
Trade payables	19	920	770
Tax liabilities		15	7
Derivatives	19	1,064	425
Other liabilities	21	597	505
Total current liabilities		11,430	13,735
Total equity and liabilities		39,173	37,630

Parent Company cash flow statement

SEKm	Note	2016	2015
Cash flow from operations			
Income after financial items		4,889	2,079
<i>Non cash items</i>			
Depreciation/amortization and impairment	5, 14, 15	550	484
Capital gains and losses		7	1
Other non cash items		-76	-33
Taxes paid		0	0
Cash flow from operations, excluding change in operating assets and liabilities		5,370	2,531
Change in operating assets and liabilities			
Change in inventories		-99	35
Change in trade receivables		-66	-16
Change in inter-company receivables/liabilities		-3,740	-27
Change in other operating assets		-106	310
Change in operating liabilities and provisions		862	-334
Cash flow from operating assets and liabilities		-3,149	-32
Cash flow from operations		2,221	2,499
Investments			
Paid shareholder's contribution	16	-	-3
Investments in intangible assets	14	-463	-519
Investments in property, plant and equipment	15	-293	-345
Sale of property, plant and equipment and intangible assets		0	0
Cash flow from investments		-756	-867
Cash flow from operations and investments		1,465	1,632
Financing			
New borrowings		1,625	795
Repayment of borrowings		-1,855	-1,007
Dividend paid to shareholders		-944	-945
Group contribution paid/received		-124	-408
Transfer of treasury shares		7	5
Cash flow from financing		-1,291	-1,560
Total cash flow		174	72
Cash and cash equivalents at beginning of year		238	166
Cash and cash equivalents at year-end		412	238

Parent Company statement of changes in equity

SEKm	Share capital	Restricted reserves ⁴	Reserve related to R&D expenses	Share-premium reserve	Fair value reserve ⁵	Profit or loss brought forward	Total
Opening balance January 1, 2015	1,153	22	–	2,605	72	14,829	18,681
Total comprehensive income	–	–	–	–	–38	1,845	1,807
Share-based payments	–	–	–	–	–	15	15
Transfer of treasury shares ¹	–	–	–	–	–	5	5
Dividend SEK 1.65 per share	–	–	–	–	–	–945	–945
Closing balance December 31, 2015	1,153	22	–	2,605	34	15,749	19,563
Total comprehensive income	–	–	–	–	–72	4,544	4,472
Share-based payments	–	–	–	–	–	23	23
Transfer of treasury shares ¹	–	–	–	–	–	7	7
Hedge for LTI-programs	–	–	–	–	–	–77	–77
Change of restricted reserve related to capitalized R&D ²	–	–	174	–	–	–174	–
Dividend SEK 1.65 per share ³	–	–	–	–	–	–944	–944
Closing balance December 31, 2016	1,153	22	174	2,605	–38	19,128	23,044

¹ Options exercised related to 2009 LTI-program

² The reserve related to R&D and IT development expenses is only applied in the parent company. Information about the accounting principle is available in the Parent Company's note 1.

³ Total dividend 2016 amounts to SEK 946m, of which Husqvarna AB received SEK 2m for B-shares in third party share swap agreement.

⁴ Revaluation and statutory reserves.

⁵ Cash flow hedges, net of tax, which are recognised in other comprehensive income.

Information regarding the Parent Company's shares, share capital and share-premium reserve is available in the Group's note 18.

Parent Company notes

Note 1 Parent Company's accounting principles

Husqvarna AB's (publ) Annual Report has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's standard RFR 2. The Parent Company follows the International Financial Reporting Standards (IFRS) adopted by EU, to the extent possible within the framework for the Swedish Annual Accounts Act and Swedish Safe-guarding of Pension Commitments Act (Tryggandelagen), and considering the relationship between accounting and taxation. The Parent Company is following the same principles as described in the Group's note 1, with the below exceptions.

Segments

Information is reported in accordance with the Swedish Annual Accounts Act and contains disclosures of net sales divided by geography.

Intangible assets

The Parent Company amortize all brands on a straight-line basis during the useful life, which according to group policy is estimated at 10 years.

Property, plant and equipment

The Parent Company uses methods for depreciations described in the section "Property, plant and equipment" in the Group's note 1 with some exceptions, which is described below.

For a certain type of production equipment, the Parent Company applies productivity based depreciations where the capacity utilisation of the equipment determines the depreciation cost.

Shares in subsidiaries

Shares in subsidiaries are reported at cost deducted for impairment. Expenses and potential additional purchase price, related to an acquisition are included in the acquisition value of the investment. Investments are tested annually for impairment or if there is an indication that the book value of the investment is higher than the recoverable amount. Dividends are reported as income.

Pensions

Husqvarna Group applies IAS 19 Employee Benefits for pension assets and liabilities. The Parent Company applies the Swedish Safe-guarding of Pension Commitments Act (Tryggandelagen).

Group contributions

The Parent Company applies the alternative rule in RFR 2, and accounts for both group contribution received and paid as appropriations.

Contingent liabilities

The Parent Company has signed guarantees in favor of subsidiaries which in accordance with IFRS are classified as a financial guarantee. However, the Parent Company applies RFR 2 and recognizes these guarantees as contingent liabilities.

Leasing

The Parent Company applies RFR 2 and recognizes all leasing as operating leases.

Reserve related to R&D expenses

The Parent Company capitalizes R&D and IT development expenses in the balance sheet. From 2016 and forward, a restricted reserve is presented for internally generated R&D and IT development expenses, where an amount equal to this year's capitalization is transferred from free reserves to restricted reserves. The restricted reserve dissolves in line with amortizations.

Note 2 Financial risk management

Husqvarna Group applies common risk management for all units. Group Treasury is part of the Parent Company and the description of financial risk management, available in the Group's note 19, is in all material aspects applicable also for the Parent Company.

Note 3 Net sales distribution

Net sales are distributed on the following geographic markets:

Net sales

SEKm	2016	2015
Europe	10,614	9,378
North America	1,569	1,375
Rest of the World	2,048	2,010
Total ¹	14,231	12,763

¹ Net sales amounted to SEK 14,231m (12,763), of which SEK 11,024m (9,844) referred to sales to Group companies and 3,207m (2,919) to external customers.

Note 4 Employees and employee benefits

Average number of employees

	2016			2015		
	Men	Women	Total	Men	Women	Total
Board, President and CEO and Group Management	17	6	23	16	6	22
Sweden	1,340	412	1,752	1,335	413	1,748
Total	1,357	418	1,775	1,351	419	1,770

Salary and remuneration

SEKm	2016			2015		
	Salaries and remunerations (whereof bonuses)	Social expenses	Pension expenses	Salaries and remunerations (whereof bonuses)	Social expenses	Pension expenses
Board, President and CEO and Group Management	80 (40)	32	14	64 (25)	24	13
Other employees	930	324	81	906	306	74
Total	1,010	356	95	970	330	87

For further information regarding remunerations to the Board of Directors, President and CEO and the Group Management together with the Group's long term incentive program see the Group's note 4.

Parent Company notes

Note 5 Expenses by nature

SEKm	2016	2015
Costs for supplies and raw materials	7,401	6,691
Remuneration to employees	1,461	1,387
Amortization/depreciation and impairment	550	484
Cost for restructuring and staff reduction program	–	55
Other	2,942	2,958
Total	12,354	11,575

Note 6 Other operating income and operating expenses

SEKm	2016	2015
Other operating income		
Gain on sale of:		
Operations and shares	1	–
Total	1	–
Other operating expenses		
Loss on sale of:		
Property, plant and equipment	–	–1
Total	–	–1

Note 7 Fees to auditors

SEKm	2016	2015
EY		
Audit fees for the annual audit engagement	6	5
Audit fees not included in the annual audit engagement	0	0
Tax advices	2	2
Other services	1	9
Total fees to EY¹	9	16

¹⁾ Of the total fee to EY 2015, SEK 9m was related to non-audit fees initiated before EY was elected as auditor. All non-audit fees for projects initiated before EY was elected as auditor has been closed.

Note 8 Exchange rate gains and losses in operating income

SEKm	2016	2015
Exchange rate gains and losses in operating income ¹	–2	162
Total	–2	162

¹⁾ Included in selling expenses within operating income.

Operating income includes SEK 57m (119) of foreign exchange hedging result previously reported in other comprehensive income. Information related to the accounting of fair value in financial instruments is presented in the Group's note 1.

Note 9 Operating leases

There are no material contingent expenses or restrictions among the Parent Company's operating leases. Expenses for rental payments for facilities, machinery etc. (minimum lease payments) amounted to SEK 56m (59) in 2016.

Future minimum lease payments are allocated as follows:

SEKm	2016	2015
Within 1 year	49	63
1–5 years	132	72
>5 years	–	10
Total	181	145

Note 10 Income from participation in Group companies

SEKm	2016	2015
Dividends	4,007	1,402
Impairment	–8	–
Total	3,999	1,402

Note 11 Financial income and expenses

SEKm	2016	2015
Financial income		
Interest income		
– from subsidiaries	72	61
– from others	3	1
<i>whereof Interest income</i>		
– on deposits	17	33
– on derivatives held for trading	58	29
Total financial income	75	62
Financial expenses		
Interest expenses		
– to subsidiaries	–17	–10
– to others	–274	–229
<i>whereof Interest expenses</i>		
– on loans	–130	–141
– on cashflow hedges, interest derivatives	–40	–30
– on derivatives held for trading ¹	–121	–68
Exchange rate differences		
– on borrowings	–226	31
– on derivatives held for trading ²	–524	–345
Other financial expenses	–22	–19
Total financial expenses	–1,063	–572
Financial income and expenses, net	–988	–510

¹⁾ Interest expense on derivatives held for trading includes interest expense on derivatives for hedging net investments SEK –89m (–40).

²⁾ Currency exchange rate difference on derivatives held for trading includes currency exchange rate differences on derivatives for hedging net investments SEK –775m (–320).

Note 12 Appropriations

SEKm	2016	2015
Group contribution, received	4	8
Group contribution, paid	-208	-132
Accumulated depreciation in excess of plan on:		
Buildings	-	25
Total	-204	-99

Note 13 Tax

SEKm	2016	2015
Current tax on income for the period	-1	-4
Deferred tax expense	-140	-131
Total	-141	-135

Theoretical and actual tax rate

	2016		2015	
	Tax, %	SEKm	Tax, %	SEKm
Profit before tax	-	4,685	-	1,980
Theoretical tax rate	-22.0	-1,031	-22.0	-436
Non-taxable/non-deductible income statement items, net	18.7	877	15.6	307
Change in valuation of deferred tax	0.3	13	-0.1	-1
Withholding tax	0.0	0	-0.3	-5
Actual tax rate ¹	-3.0	-141	-6.8	-135

¹ Actual tax rate in the Parent Company is explained by non-taxable dividends from subsidiaries of SEK 4,007m (1,402).

Changes in deferred taxes

SEKm	Opening balance, Jan 1, 2016	Recognized in income statement	Recognized in comprehensive income statement	Closing balance, Dec 31, 2016	Opening balance, Jan 1, 2015	Recognized in income statement	Recognized in comprehensive income statement	Closing balance, Dec 31, 2015
	Non-current assets	-7	-	-	-7	-2	-5	-
Provision for pensions and similar commitments	24	11	-	35	24	-	-	24
Other provisions	22	2	-	24	9	13	-	22
Financial and operating liabilities	-10	-	20	10	-20	-	10	-10
Tax losses carried forward	204	-153	-	51	343	-139	-	204
Deferred tax assets and liabilities, net	233	-140	20	113	354	-131	10	233

Deferred tax assets and liabilities

SEKm	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Non-current assets	-	-	7	7	-7	-7
Provisions for pensions and similar commitments	35	24	-	-	35	24
Other provisions	24	22	-	-	24	22
Financial and operating liabilities	10	-	-	10	10	-10
Tax losses carried forward	51	204	-	-	51	204
Deferred tax assets and liabilities, net	120	250	7	17	113	233

Parent Company notes

Note 14 Intangible assets

SEKm	Product development	Brands	Other	Total	SEKm	Product development	Brands	Other	Total
2016					2015				
Opening accumulated acquisition value	1,445	1,742	726	3,913	Opening accumulated acquisition value	1,238	1,742	434	3,414
Investments	244	–	219	463	Investments	223	–	296	519
Sold, scrapped	–16	–	–114	–130	Sold, scrapped	–16	–	–4	–20
Closing accumulated acquisition value	1,673	1,742	831	4,246	Closing accumulated acquisition value	1,445	1,742	726	3,913
Opening accumulated amortization and impairment	956	1,034	290	2,280	Opening accumulated amortization and impairment	828	915	199	1,942
Amortization ¹	151	118	125	394	Amortization ¹	128	119	91	338
Impairment	16	–	2	18	Impairment	16	–	4	20
Sold, scrapped	–16	–	–113	–129	Sold, scrapped	–16	–	–4	–20
Closing accumulated amortization and impairment	1,107	1,152	304	2,563	Closing accumulated amortization and impairment	956	1,034	290	2,280
Closing balance, December 31, 2016	566	590	527	1,683	Closing balance, December 31, 2015	489	708	436	1,633

¹ In the income statement amortization is accounted for within cost of goods sold by SEK 297m (272), within selling expenses by SEK 0m (0) and within administrative expenses by SEK 97m (66).

Note 15 Property, plant and equipment

SEKm	Land and land improvements ²	Buildings and leasehold improvements	Machinery and technical installations	Other equipment	Construction in progress and advances	Total
2016						
Opening accumulated acquisition value	18	348	1,090	217	727	2,400
Investments	–	7	186	16	84	293
Sold, scrapped	–	–	–58	–6	–	–64
Reclassification	–	13	469	–26	–456	–
Closing accumulated acquisition value	18	368	1,687	201	355	2,629
Opening accumulated depreciation and impairment	6	186	729	144	–	1,065
Depreciation ¹	1	12	107	14	–	134
Impairment	–	–	3	1	–	4
Sold, scrapped	–	–	–58	–6	–	–64
Reclassification	–	–	28	–28	–	–
Closing accumulated depreciation and impairment	7	198	809	125	–	1,139
Closing balance, December 31, 2016	11	170	878	76	355	1,490
2015						
Opening accumulated acquisition value	21	294	1,121	58	593	2,087
Investments	–	19	68	16	242	345
Sold, scrapped	–4	–2	–18	–7	–1	–32
Reclassification	1	37	–81	150	–107	–
Closing accumulated acquisition value	18	348	1,090	217	727	2,400
Opening accumulated depreciation and impairment	9	175	747	38	–	969
Depreciation ¹	1	12	98	15	–	126
Sold, scrapped	–4	–1	–18	–7	–	–30
Reclassification	–	–	–98	98	–	–
Closing accumulated depreciation and impairment	6	186	729	144	–	1,065
Closing balance, December 31, 2015	12	162	361	73	727	1,335

¹ In the income statement depreciation is accounted for within cost of goods sold by SEK 129m (121), within selling expenses by SEK 1m (1) and within administrative expenses by SEK 4m (4).

² The net book value for land is SEK 7m (7).

Note 16 Shares in subsidiaries

Country	Subsidiaries	Registration number	Holding,%	Net book value, SEKm 2016	Net book value, SEKm 2015
Belgium	Husqvarna Finance Belgium SA	0899.846.135	100	9,322	9,322
Belgium	Husqvarna Belgium SA	0400.604.654	100	1,172	1,172
Canada	Husqvarna Canada Corp.	82354277RT0001	100	271	271
Colombia	Husqvarna Colombia S.A.	900.047.189-0	95	1	1
Denmark	Husqvarna Danmark A/S	26205328	100	16	16
Estonia	Husqvarna Eesti Osühing	11159436	100	0	0
Latvia	SIA Husqvarna Latvija	40003760065	100	3	3
Slovakia	Husqvarna Slovensko s.r.o.	36437115	100	0	5
South Africa	Husqvarna South Africa (Proprietary) Limited	2005.025971.07	100	19	19
Sweden	Husqvarna Försäkrings AB	516406-0393	100	273	273
Sweden	Husqvarna Intellectual Property Holding AB	556745-5893	100	0	3
Sweden	Husqvarna Holding Aktieföretag	556037-1964	100	12,499	12,499
Sweden	Motorsågen 1 AB	559084-0129	100	0	–
US	Millhouse Insurance Company	20-4233540	100	79	79
US	Husqvarna U.S. Holding, Inc.	34-1946153	100	5,473	5,473
Total				29,128	29,136

There is also a number of subsidiaries to the subsidiaries, a detailed specification of Group companies is available on request from Husqvarna AB, Investor Relations.

Note 17 Other non-current assets

SEKm	2016	2015
Receivables Group	39	45
Other long-term receivables	20	1
Total	59	46

Note 18 Inventories

SEKm	2016	2015
Supplies including raw materials	421	383
Products in progress	2	2
Finished products	1,089	1,029
Advances to suppliers	1	0
Total	1,513	1,414

Provisions for obsolescence are included in the value of the inventory. Provision made during the year amount to SEK 64m (54) and SEK 23m (44) has been reversed.

Inventories valued to net realizable value amounted to SEK 77m (55) referring to finished products and SEK 0m (0) referring to raw materials.

Note 19 Financial assets and liabilities

Financial assets and liabilities per category

SEKm	Financial assets valued at fair value	Financial assets for which hedge accounting is applied	Other financial assets	Total
2016				
Assets				
Derivatives	256	221	–	477
Receivables Group companies ¹	–	–	3,672	3,672
Trade receivables	–	–	414	414
Other receivables	–	–	9	9
Cash and cash equivalents	–	–	412	412
Total	256	221	4,507	4,984
2015				
Assets				
Derivatives	291	159	–	450
Receivables Group companies ¹	–	–	2,666	2,666
Trade receivables	–	–	348	348
Other receivables	–	–	8	8
Cash and cash equivalents	–	–	238	238
Total	291	159	3,260	3,710

¹ For long-term receivables to Group companies, see note 17.

Parent Company notes

SEKm	Financial liabilities valued at fair value	Financial liabilities for which hedge accounting is applied	Other financial liabilities	Total
2016				
Liabilities				
Borrowings	–	–	5,900	5,900
Liabilities to Group companies	–	–	7,481	7,481
Trade payables	–	–	920	920
Derivatives	839	269	–	1,108
Total	839	269	14,301	15,409

2015				
Liabilities				
Borrowings	–	–	6,086	6,086
Liabilities to Group companies	–	–	10,136	10,136
Trade payables	–	–	770	770
Derivatives	321	115	–	436
Total	321	115	16,992	17,428

Future undiscounted cashflows of loans and other financial liabilities as of December 31, 2016¹

SEKm	2017	2018	2019	2020	2021	>2021	Total
Bonds, bank loans and other loans	–1,471	–2,501	–948	–25	–1,216	–	–6,161
Liabilities to Group Companies	–7,481	–	–	–	–	–	–7,481
Derivative liabilities, interest rate	–18	–21	–7	2	3	–	–41
Derivative liabilities, foreign exchange	–871	–	–	–	–	–	–871
Trade payables	–920	–	–	–	–	–	–920
Total financial liabilities	–10,761	–2,522	–955	–23	–1,213	–	–15,474

¹ Please note that the table includes the forecast future nominal interest payment and, thus, does not correspond to the net book value in the balance sheet.

Derivatives

The main part of the Group's derivatives is held by the Parent Company. Disclosures regarding the derivatives are available in the Group's note 19.

Trade receivables

Husqvarna AB's trade receivables amount to SEK 414m (348) as per December 31, 2016. Trade receivables past due but not impaired amount to SEK 31m (12) as of December 31, 2016.

Ageing analysis for past due, but not impaired trade receivables

SEKm	2016	2015
<3 months	19	6
>3 months	12	6
Total	31	12

Provision for overdue accounts receivables

SEKm	2016	2015
Opening balance, January 1	11	10
New provisions	12	3
Reversed unused provisions	–2	–1
Impairment of trade receivables	–5	–1
Closing balance, December 31	16	11

The credit risk in financial assets is described in the Group's note 19.

Borrowings

The main part of the borrowings in Husqvarna Group is reported within the Parent Company. For disclosures regarding fair value and interest exposure, see the Group's note 19.

Note 20 Other current assets

SEKm	2016	2015
Value added tax	71	56
Miscellaneous short-term receivables	15	14
Prepaid rents and leases	4	4
Prepaid insurance premiums	2	2
Other prepaid expenses	159	100
Total	251	176

Note 21 Other liabilities

SEKm	2016	2015
Accrued holiday pay	120	113
Other accrued payroll expenses	225	200
Other accrued expenses ¹	201	145
Personnel taxes and other taxes	51	47
Total	597	505

¹ Pension obligations, guaranteed by company owned endowment insurance has historically been accounted for gross. Now it is accounted for net, and last year's figures are adjusted.

Note 22 Provisions for pensions**Specification of the net provision for pensions**

SEKm	2016	2015
Present value of the funded pension obligations	578	542
Fair value of plan assets	-589	-546
Surplus/deficit of the pension fund	-11	-4
Surplus of the pension fund, not recognized	11	4
Net provision for pensions	-	-

Specification of the change in the net provision for pensions

SEKm	2016	2015
Opening balance, January 1	-	2
Costs for pensions recognized in the income statement	24	22
Benefits paid	-24	-24
Closing balance, December 31	-	-

Of total net provisions, SEK 0m (0) is within the scope of the Swedish Safe-guarding of Pension Commitments Act.

Pension costs recognized in the Income statement

SEKm	2016	2015
Own pensions		
Current service costs	-	-2
Benefits paid	24	24
Pension costs	24	22
Insured pensions		
Insurance premiums	73	65
Total net expenses for pensions	97	87

Of total net expenses of SEK 97m (87), SEK 52m (45) is recognized in cost of goods sold, SEK 11m (12) in selling expenses and SEK 34m (30) in administration expenses. The expected payments 2017 for own pensions amounts to SEK 23m.

Principal actuarial assumptions at balance sheet date

%	2016	2015
Discount rate	2.5	3.3

The major categories of plan assets as a percentage of total plan assets and the return on these categories

%	2016	Return	2015	Return
Equity instruments	39	16	45	17
Debt instruments	61	5	55	0
Total	100	8	100	7

The employees are covered by pension plans in addition to statutory social security insurance. Such pension plans are classified as either defined contribution plans or defined benefit plans. The pension plans are funded which imply that there are assets in a legal entity that exist solely to finance benefits to employees and former employees. White collar employees, born 1978 or earlier, are covered by a final salary collectively bargained defined benefit plan (ITP2). The old-age pension benefit of the plan is financed primarily through a pension fund. Employees born 1979 or later are covered by ITP 1, which is a defined contribution pension plan.

More information about pensions are presented in Group notes 4 and 20.

Note 23 Other provisions

SEKm	Provisions for re-structuring	Warranty commitments	Other	Total
Opening balance January 1, 2016	73	44	10	127
Provisions made	-	39	8	47
Provisions used	-24	-37	-	-61
Unused amounts reversed	-	-5	-	-5
Closing balance, December 31, 2016	49	41	18	108
Current provisions	45	21	-	66
Non-current provisions	4	20	18	42

Provisions for restructuring

See the Group's note 21 for further information regarding Husqvarna Group's restructuring programmes.

Warranty commitments

Provisions for warranty comprises all potential expenses for repairing or replacing products sold and are normally limited to 24 months.

Note 24 Pledged assets and contingent liabilities**Pledged assets**

SEKm	2016	2015
Pension obligation ¹	106	98
Total	106	98

¹ Refers to endowment that is pledged in favor of the recipient.

Contingent liabilities

SEKm	2016	2015
On behalf of Group companies		
Pension obligation	424	473
On behalf of external counterparties		
Bank guarantee	95	90
Pension obligation	11	10
Total	530	573

As described in Note 23 to the Group's Financial Statements, the Husqvarna Group is exposed to certain contingent liabilities regarding commercial guaranties, commercial litigation, and related disputes. Husqvarna AB, as the Parent Company of the Group, may be directly liable for such obligations (for example, if it is directly named in such a lawsuit) and/or may have indirect liability for the same, such as when an intra-company guarantee is in place. Please refer to such Note for more details.

Note 25 Related party transactions

Sales to related parties are carried out on market-based terms. Information about the Board of Directors and Group Management and compensation to those are reported in the Group's note 4, Employees and employee benefits. No unusual transactions have occurred between the Parent Company and the Board of Directors or Group Management. The value of those business transactions are insignificant.

Note 26 Subsequent events

No significant events have occurred subsequent to the balance sheet date that would have a material impact on the Parent Company's financial statements.

Parent Company notes

Note 27 Proposed distribution of earnings

The Board of Directors proposes a dividend for 2016 of SEK 1.95 per share (1.65) corresponding to a total dividend payment of SEK 1,116m (944) based on the number of outstanding shares at the end of 2016. It is also proposed that the dividend will be paid in two installments to better match the Group's cash flow profile, with one payment of SEK 0.65 per share in April and the remaining SEK 1.30 per share in October.

The proposed record dates are April 6, 2017 for the first payment and October 6, 2017 for the second payment.

SEKt	2016
The following profits are at the disposal of the AGM:	
Share premium reserve	2,605,747
Retained earnings	14,544,572
Net income	4,544,267
Total profit available for allocation	21,694,586

SEKt	2016
The Board proposes the following allocation of available profits:	
Dividend to the shareholders of SEK 1.95 per share ¹	1,115,557
To be carried forward	20,579,029
Total	21,694,586

¹ Calculated on the number of outstanding shares as of December 31, 2016.

The Board is of the opinion that the dividend proposed above is justifiable on both the Company and the Group level with regard to the demands on the Company and Group equity imposed by the type, scope and risks of the business and with regard to the Company and the Group's financial strength, liquidity and overall position.

Declaration by the Board of Directors and the President and CEO

The Board of Directors and the President and CEO declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations.

The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, March 8, 2017

Tom Johnstone
Chairman of the Board

Magdalena Gerger
Board member

Ulla Litzén
Board member

David Lumley
Board member

Katarina Martinson
Board member

Bertrand Neuschwander
Board member

Daniel Nodhäll
Board member

Lars Pettersson
Board member

Kai Wärm
President and CEO
and Board member

Soili Johansson
Board member and
employee representative

Annika Ögren
Board member and
employee representative

Our audit report was issued on March 8, 2017
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Audit report

To the general meeting of the shareholders of Husqvarna AB (publ), corporate identity number 556000-5331

Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts of Husqvarna AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 44–109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2016, and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2016, and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

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

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

Key Audit Matters

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

Valuation and existence of inventory

Inventory represents a significant portion of the total assets of the Group. The value of inventory, net of provisions for obsolescence, as of December 31, 2016, was 9.2 billion SEK. The total reserve for obsolescence as of December 31, 2016, amounted to 0.4 billion SEK. We have consequently assessed that valuation and existence of inventory represents a key audit matter. The Group's inventory is carried at the lower of the acquisition value in accordance with the weighted average cost formula and the net realizable value. The net realizable value reflects the estimated write-down for older articles, physically damaged goods, excess inventory and selling expenses. The Group's pronounced seasonality in sales together with weather-dependent products increase the difficulty in estimating the value of inventory. Additional information regarding provisions for obsolescence as well as the portion of inventory which are carried at net realizable value after selling expenses are disclosed in group note 16 ("Inventory").

The existence of inventory is addressed in all entities that hold inventory. We have attended stock counts for all material inventory locations. We have performed audit procedures on the acquisition value of all inventories, from components to finished goods. Our audit to determine that inventory has been carried at the lower of acquisition value and net realizable value is performed by means of reviewing inventory aging as well as inventory turnover for each respective product grouping as well as by means of review of obsolete items. At the group level we have furthermore performed audit procedures related to the reserve for internal profits in inventory.

Impairment tests of goodwill and other assets with indefinite lives

Goodwill and other assets with indefinite useful lives amounted to 9.1 billion SEK as of December 31, 2016. We have consequently assessed that goodwill and other assets with indefinite lives represent a key audit matter.

Management conducts impairment tests annually as well as in cases where impairment indicators have been identified. The recoverable amount for each cash generating unit is determined as the value in use, which is computed under the discounted cash flow method based on forecasted future results. Key assumptions in these computations are expected growth, margin and appropriate discount rates.

The impairment test process is to its nature based on assumptions and judgements, not least due to it being based on estimates of the future developments in the market and other financial factors that are affected by expected future market or economic conditions. The underlying computations are furthermore complex.

As part of our audit we have assessed and audited key parameters, the application of acknowledged valuation theory, the discount rate (referred to as WACC – "Weighted Average Cost of Capital") and other source data that has been applied by the Group. We have for instance compared parameters applied to external data sources, such as expected inflation or assessments of future market growth and have assessed the sensitivity of the Group's valuation model. We have included valuation specialists in our audit team in order to perform this work. Specific emphasis has been placed on the sensitivity of the computations, including performing an independent assessment of whether there is a risk that reasonable likely events could give rise to a situation where the recoverable amount would be lower than the carrying amount. This assessment has also addressed the Group's historical success at prognostication.

We have finally assessed the appropriateness of disclosures in Group note 14 ("Intangible assets"), in particular with regards to the disclosures provided as to key sensitivities when computing the value in use.

Income taxes

The Group conducts its operations in a significant amount of tax jurisdictions, all of which have their own rules and legislation regarding cross-border transactions. Consequently the Group is subject to audits by local tax authorities in each country where they conduct operations. The parent company is the key party in a so called principal structure and thus holds a number of patents, trademarks and similar assets. From time to time entities within the Group are subject to ongoing tax proceedings that may range from tax audits to tax litigation at multiple levels of the court systems. The provisions for income taxes, which to their nature are based on estimation, are material. Income taxes represent a key audit matter in that the underlying issues are complex, they are inherently judgmental and the amounts involved are material.

We have audited the completeness and valuation of the amounts recorded as both current and deferred income taxes, including uncertain tax positions. For such matters we have as part of our audit procedures assessed communication with the tax authorities as well as performing an independent assessment of whether a provision is required or not. With regards to deferred tax assets we have reviewed the Group's assessments as to whether the carrying amount is expected to be realized by means of taxable income in the future, where tax planning opportunities may be considered. We have included tax professionals at both a corporate level and for the cross border level in order to analyze and test the assumptions made upon reaching the Group's tax positions, including - as appropriate - validation of assumptions by obtaining audit evidence. As part of our audit we have used the Group's projections/assessments as well as applying our own understanding of each relevant tax legislation. We have - where relevant - assess the Group's historical ability to prognosticate the outcome of income tax matters. Finally we have assessed the appropriateness of disclosures provided in group note 2 ("Key estimates and assumptions") as well as Group note 11 ("Tax").

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 1–43 and 113–120. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director intends to liquidate the company, to cease operations, or has 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 ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Husqvarna AB AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director 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.

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 Managing Director in any material respect:

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism 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. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that 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 situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' statement of rationale and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm March 8, 2017
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Definitions and reconciliations of alternative performance measures

Definitions

Capital employed

Total liabilities and equity less non-interest bearing debt including deferred tax liabilities.

Capital expenditure

Investments in property, plant and equipment and intangible assets.

Capital turnover rate

Net sales divided with average net assets.

Earnings per share after dilution

Net income attributable to owners of the Parent Company divided by the weighted average number of shares outstanding (net of treasury shares), after dilution.

Equity/assets ratio

Equity as a percentage of total assets.

Equity per share, after dilution

Equity attributable to owners of the Parent Company divided by the weighted average number of shares outstanding (net of treasury shares), after dilution.

Gross margin

Gross income as a percentage of net sales.

Interest bearing liabilities

Long-term and short-term borrowings, net pension liability and fair value derivative liabilities.

Liquid funds

Cash and cash equivalents, short term investments and fair value derivative assets.

Net assets

Total assets exclusive of liquid funds and interest-bearing assets less operating liabilities, non-interest-bearing provisions and deferred tax liabilities.

Net debt/EBITDA (seasonally-adjusted)

Average Net Debt in relation to EBITDA. (This definition has been applied effective 2016. All comparative periods have been adjusted accordingly.)

Net debt/equity ratio

Net debt in relation to total equity.

Net sales growth

Net sales as a percentage of net sales the preceding period.

Operating margin

Operating income as a percentage of net sales.

Operating working capital

Inventories and trade receivables less trade payables.

Return on capital employed

Operating income plus financial income as a percentage of average capital employed.

Return on equity

Net income attributable to owners of the Parent Company as a percentage of average equity, excluding non-controlling interests.

Definitions and reconciliations of alternative performance measures

The European Securities and Markets Authority (ESMA) has issued guidelines on Alternative Performance Measures (APMs) for listed issuers. The guidelines apply to APMs disclosed by issuers on or after July 3, 2016.

APMs refer to measures used by management and investors to analyze trends and performance of the Group's operations that cannot be directly read or derived from the financial statements. These measures are relevant to assist management and investors in analyzing the Group's performance. Investors should not consider these APMs as substitutes, but rather as additions, to the financial reporting measures prepared in accordance with IFRS. It should be noted that these APMs as defined, may not be comparable to similarly titled measures used by other companies.

Adjusted

As reported adjusted for currency translation effects (i.e. excluding transaction and hedging effects) and material acquisitions/divestments. There are no material acquisitions/divestments in the periods disclosed within this report. Net sales and operating income are disclosed adjusted for currency translation effects as Husqvarna Group is a global company generating significant transactions in other currencies than the reporting currency (SEK) and the currency rates have proven to be volatile. Refer to page 48–49 of this report for adjusted measures.

EBITDA

EBITDA is a measure of earnings before interest, taxes, depreciation, amortization and impairment charges. EBITDA measures Husqvarna Group's operating performance and the ability to generate cash from operations, without considering the capital structure of the Group or its fiscal environment. For a reconciliation of EBITDA refer to page 45.

Items affecting comparability

To assist in understanding Husqvarna Group's operations, we believe that it is useful to consider certain measures and ratios exclusive of items affecting comparability. Items affecting comparability includes items that are non-recurring, have a significant impact and are considered to be important for understanding the operating performance when comparing results between periods. The items affecting comparability are disclosed on page 45. All measures and ratios in this report have been disclosed including items affecting comparability first and then excluding items affecting comparability as a second measure when deemed appropriate.

Net debt

Net debt is a measure to describe the Group's gearing and its ability to repay its debts from cash generated from the Group's ordinary business (see operating cash flow below). It's also used to analyze how future net interest costs will impact earnings. Net debt is defined as total interest-bearing liabilities plus dividend payable, less liquid funds and other interest-bearing assets. For a reconciliation of net debt refer to page 47.

Operating cash flow

Operating cash flow is a measure of the amount of cash generated by the Group's ordinary business operations. The measure is defined as total cash flow from operations and investments, excluding acquisitions and divestments. For a reconciliation of operating cash flow refer to page 46.

Five-Year Review

Income and key ratios, SEKm	2016	2015	2014 ¹	2013 ²	2012 ^{2,3}
Net sales	35,982	36,170	32,838	30,307	30,834
Husqvarna	17,960	17,624	15,449	–	–
Gardena	5,033	4,669	4,212	–	–
Consumer Brands	8,888	9,936	9,838	–	–
Construction	4,101	3,941	3,339	–	–
Gross income	11,096	10,174	9,350	8,019	8,291
Gross margin, %	30.8	28.1	28.5	26.5	26.9
EBITDA*	4,382	3,980	3,315	2,586	2,737
EBITDA margin, %	12.2	11.0	10.1	8.5	8.9
Operating income	3,218	2,827	1,581	1,608	1,675
Operating income excl. items affecting comparability*	3,218	2,980	2,348	1,608	1,931
Operating margin, %	8.9	7.8	4.8	5.3	5.4
Operating margin excl. items affecting comparability, %*	8.9	8.2	7.2	5.3	6.3
Husqvarna excl. items affecting comparability, %*	12.9	13.0	13.0	–	–
Gardena excl. items affecting comparability, %*	11.8	12.7	9.1	–	–
Consumer Brands excl. items affecting comparability, %*	0.0	–1.2	–1.6	–	–
Construction excl. items affecting comparability, %*	13.9	11.8	10.6	–	–
Income after financial items	2,796	2,483	1,256	1,180	1,175
Net Income	2,104	1,888	824	916	1,027
Of which depreciation, amortization and impairment	–1,164	–1,153	–1,734	–978	–1,062

Financial position and key ratios, SEKm	2016	2015	2014 ¹	2013 ²	2012 ^{2,3}
Total assets	32,978	29,669	29,176	26,762	27,906
Net assets	21,198	19,436	19,322	18,049	19,279
Husqvarna	8,675	7,896	7,083	–	–
Gardena	6,144	5,699	5,810	–	–
Consumer Brands	4,256	3,744	3,922	–	–
Construction	2,967	2,718	2,677	–	–
Operating working capital	8,763	7,923	7,453	7,065	8,374
Total equity	14,365	13,061	12,088	11,390	11,008
Net debt*	6,833	6,375	7,234	6,659	8,271
Return on capital employed, %	13.7	12.4	7.6	7.7	7.4
Return on equity, %	15.2	14.6	6.7	8.1	8.8
Capital turn-over rate, times	1.7	1.7	1.7	1.6	1.5
Net debt/equity ratio	0.48	0.49	0.60	0.58	0.75
Equity/assets ratio, %	44	44	41	43	39

Cash flow, SEKm	2016	2015	2014 ¹	2013	2012 ³
Operating cash flow ^{6*}	1,666	1,732	1,274	1,411	1,499
Capital expenditure	1,889	1,388	1,386	1,078	776

Other key ratios	2016	2015	2014 ¹	2013	2012 ³
Earnings per share after dilution, SEK	3.66	3.28	1.43	1.60	1.78
Equity per share after dilution, SEK	25.0	22.7	21.1	19.9	19.2
Average number of shares after dilution, millions	574.1	574.2	573.1	572.8	572.6
Dividend per share, SEK ⁴	1.95	1.65	1.65	1.50	1.50
Dividend pay-out ratio, % ⁵	53	50	115	94	84
Salaries and remunerations, SEKm	4,680	4,508	4,157	3,758	4,016
Average number of employees	12,704	13,572	14,337	14,156	15,429

¹ 2014 has been restated due to a correction.

² Husqvarna Group has a brand-driven organization, which was fully effective as of January 1, 2015. 2014 has been restated accordingly, there is no comparative information per division before then.

³ 2012 has been restated due to the amended IAS 19.

⁴ As proposed by the Board.

⁵ Dividend pay out ratio is defined as total dividend in relation to net income excluding non-controlling interest.

⁶ Cash flows related to hedging of financing have been moved from operations to financing activities (SEK –64m for 2015, SEK 151m for 2014, SEK 402m for 2013 and SEK –355m for 2012).

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

Quarterly Data

Income, SEKm	Year ¹	Q1	Q2	Q3	Q4	Full year
Net sales	2016	11,361	11,504	7,349	5,768	35,982
	2015	10,928	12,263	7,307	5,672	36,170
	2014	9,685	11,045	6,785	5,323	32,838
Operating income	2016	1,166	1,729	431	-108	3,218
	2015	1,112	1,675	405	-365	2,827
	2014	908	1,373	332	-1,032	1,581
Operating income excl. items affecting comparability*	2016	1,166	1,729	431	-108	3,218
	2015	1,112	1,675	405	-212	2,980
	2014	908	1,373	332	-265	2,348
Operating margin excl. items affecting comparability, %*	2016	10.3	15.0	5.9	-1.9	8.9
	2015	10.2	13.7	5.5	-3.7	8.2
	2014	9.4	12.4	4.9	-5.0	7.2
Income for the period	2016	761	1,259	205	-121	2,104
	2015	788	1,143	196	-239	1,888
	2014	620	967	199	-962	824
Earnings per share after dilution, SEK	2016	1.32	2.19	0.36	-0.21	3.66
	2015	1.37	1.98	0.34	-0.42	3.28
	2014	1.08	1.68	0.35	-1.68	1.43
Financial position, SEKm	Year ¹	Q1	Q2	Q3	Q4	Full year
Net debt*	2016	8,254	7,511	6,454	6,833	6,833
	2015	10,172	8,146	6,666	6,375	6,375
	2014	8,698	7,603	6,450	7,234	7,234
Operating working capital	2016	10,987	10,775	9,363	8,763	8,763
	2015	11,511	10,459	8,634	7,923	7,923
	2014	9,943	9,475	8,014	7,453	7,453
Net sales by division, SEKm	Year	Q1	Q2	Q3	Q4	Full year
Husqvarna	2016	5,457	5,721	3,752	3,030	17,960
	2015	5,342	5,727	3,519	3,036	17,624
	2014	4,358	5,038	3,264	2,789	15,449
Gardena	2016	1,518	1,995	1,002	518	5,033
	2015	1,319	1,795	1,060	495	4,669
	2014	1,152	1,712	879	469	4,212
Consumer Brands	2016	3,419	2,682	1,553	1,234	8,888
	2015	3,343	3,643	1,708	1,242	9,936
	2014	3,393	3,410	1,776	1,259	9,838
Construction	2016	967	1,106	1,042	986	4,101
	2015	924	1,098	1,020	899	3,941
	2014	782	885	866	806	3,339
Operating margin by division, %	Year	Q1	Q2	Q3	Q4	Full year
Husqvarna	2016	15.5	18.0	9.8	2.4	12.9
	2015	16.8	17.5	9.1	0.5	12.7
	2014	15.3	16.2	13.2	3.3	13.0
Gardena	2016	14.9	22.5	5.0	-25.2	11.8
	2015	15.5	22.1	10.7	-25.9	12.5
	2014	15.4	23.3	-0.8	-39.7	9.1
Consumer Brands	2016	1.9	5.5	-5.2	-10.3	0.0
	2015	-0.3	4.9	-7.0	-15.7	-1.5
	2014	1.3	2.8	-7.8	-12.5	-1.6
Construction	2016	9.2	16.2	14.9	14.7	13.9
	2015	8.0	14.6	14.1	1.9	10.0
	2014	10.4	13.2	12.4	6.0	10.6

¹⁾ 2014 has been restated due to a correction

* Alternative Performance Measure, refer to page 113 for definitions and reconciliations.

The Share

Listing and trading volume

The Husqvarna shares have been listed on Nasdaq Stockholm since June 2006.

A total of 329 million shares (415) were traded in 2016, with a total value of SEK 21.0bn (24.8), corresponding to an average daily trading volume of 1.3 million shares (1.7) or SEK 83m (99).

The turnover velocity for the Husqvarna B-share was 68 percent (88) in 2016. During 2016, the price of the A-share and the B-share increased 28 percent to SEK 71.

According to the EU Markets in Financial Instruments Directive (MiFID), a share can also be traded on a "Multilateral Trading Facility" (MTF), i.e. on markets other than the stock exchange where it is listed. The Husqvarna share is traded on several MTFs including BATS Chi-X and Turquoise. However, the Nasdaq Stockholm exchange accounts for the majority of trading.

Dividend and dividend policy

The Board of Directors has proposed a dividend of SEK 1.95 per share (1.65) for 2016, divided into two payments. SEK 0.65 to be paid in April, 2017 and SEK 1.30 to be paid in October, 2017. The dividend represents 53 percent (50) of income for the year. The policy is that the dividend normally shall exceed 40 percent of income for the year.

Repurchase of shares

The AGM 2016 authorized the Board of Directors to repurchase a maximum of one percent of the total number of outstanding B-shares to ensure the Group's commitments for existing long-term incentive programs, or to enter into equity swap agreements with a third party for the same purpose. During 2016 the Company entered into swap agreements totalling 1,300,000 B-shares. At year-end, the total number of repurchased and swapped shares amounted to 4,263,233 B-shares (3,343,015) corresponding to 0.74 percent (0.58) of the total number of outstanding shares.

Conversion of shares

Shareholders who hold A-shares are entitled to convert their A-shares into B-shares. 300,917 A-shares were converted to B-shares in 2016.

Analyst coverage

There are currently around 10 analysts who analyze and follow Husqvarna Group and give recommendations on the share.

ADR

Husqvarna Group sponsors a Level 1 American Depositary Receipt (ADR) program in the US. The ADRs, which each represent two ordinary B-shares, are publicly traded in the US on the OTC Market, under symbol HSQVY. The ADR is a USD denominated security, and the associated dividends are paid to investors in USD. Citibank is ADR depositary bank.

More information on www.citi.com/dr

Key facts

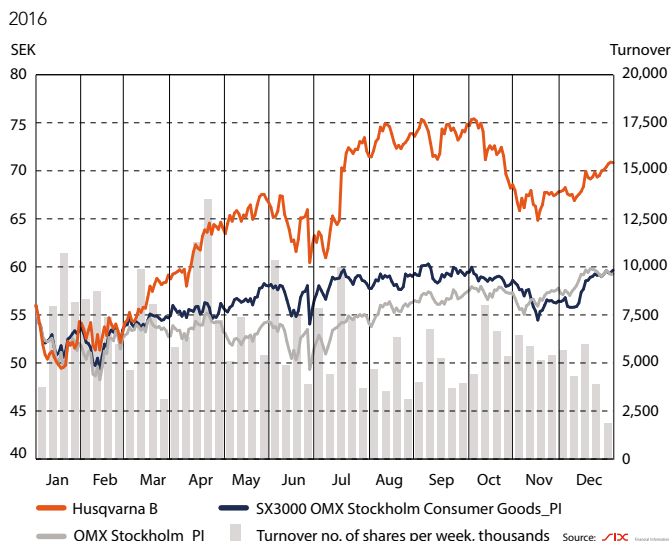
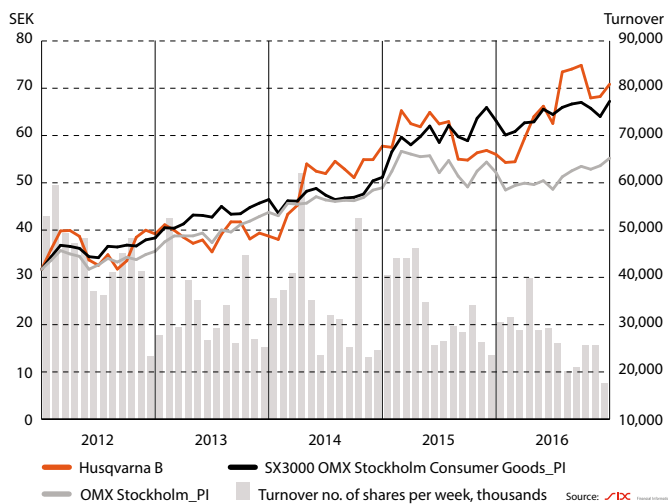
Husqvarna shares

Listing:	Nasdaq Stockholm
Number of shares:	576,343,778
Market capitalization at year-end 2016:	SEK 41bn
Ticker codes:	Bloomberg: HUSQA SS, HUSQB SS Thomson Reuters: HUSQa.ST, HUSQb.ST Nasdaq Stockholm: HUSQ A, HUSQ B
ISIN codes:	A-share SE0001662222 B-share SE0001662230

Husqvarna ADR

Ticker code:	HSQVY
ISIN code:	US4481031015
Ratio:	Two ordinary B-shares equal one ADR

Husqvarna B, price development



Share capital and number of shares

	Share capital, SEK	Quotient value, SEK	Number of A-shares	Number of B-shares	Total number of shares
Husqvarna before listing 2006	495,000,000	100			4,950,000
2006: stock-split and bonus issue	592,518,306	2	9,502,275	286,756,878	296,259,153
2007: bonus issue	770,273,790	2	98,380,020	286,756,875	385,136,895
2008: no transactions	770,273,790	2	98,380,020	286,756,875	385,136,895
2009: rights issue	1,152,687,556	2	147,570,030	428,773,748	576,343,778
2010: conversion from A-shares to B-shares	1,152,687,556	2	134,755,087	441,588,691	576,343,778
2011: conversion from A-shares to B-shares	1,152,687,556	2	129,460,339	446,883,439	576,343,778
2012: conversion from A-shares to B-shares	1,152,687,556	2	127,699,058	448,644,720	576,343,778
2013: conversion from A-shares to B-shares	1,152,687,556	2	126,593,868	449,749,910	576,343,778
2014: conversion from A-shares to B-shares	1,152,687,556	2	122,425,469	453,918,309	576,343,778
2015: conversion from A-shares to B-shares	1,152,687,556	2	113,694,826	462,648,952	576,343,778
2016: conversion from A-shares to B-shares	1,152,687,556	2	113,393,909	462,949,869	576,343,778

Largest shareholders in Husqvarna AB

			Change during the year	
	Capital, %	Votes, %	Capital, %	Votes, %
Investor	16.8	32.9	0.0	0.2
Lundbergföretagen AB	7.5	25.0	0.0	0.1
Didner & Gerge Funds	4.7	2.7	0.0	0.0
Swedbank Robur Funds	3.0	1.1	-0.7	-0.2
Lannebo Funds	2.5	1.8	0.3	0.2
AMF Insurance & Funds	2.0	0.7	-0.3	-0.1
Norges Bank	1.8	1.5	-0.1	0.0
Second Swedish National Pension Fund	1.7	0.6	0.8	0.3
Handelsbanken Funds	1.7	0.6	-0.8	-0.3
If Skadeförsäkring AB	1.4	3.8	-0.3	0.0
Total for the 10 largest shareholders	43.1	70.6	-1.9	2.9

Shareholding by size in Husqvarna AB

Size of holding	Votes, %	No. of shareholders	% of shareholders
1-1,000	2.3	42,594	80.0
1,001-10,000	4.2	9,436	17.7
10,001-100,000	2.8	923	1.7
100,001-1,000,000	5.2	201	0.4
1,000,001-	85.5	85	0.2
Total	100.0	53,239	100.0

Share data

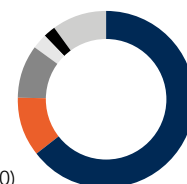
	2016	2015	2014
Earnings per share, SEK	3.67	3.29	1.43
Earnings per share after dilution, SEK	3.66	3.28	1.43
Cash flow per share, operating, SEK	2.91	3.02	2.22
Cash flow per share, operating, after dilution, SEK	2.90	3.02	2.22
Equity per share, SEK	25.0	22.7	21.1
Dividend per share, SEK ¹	1.95	1.65	1.65
Yield, % ²	2.7	2.9	3.4
Dividend payout ratio, %	53	50	115
Year-end price, A-share, SEK	71	56	58
Highest price, A-share, SEK	76	68	60
Lowest price, A-share, SEK	49	51	37
Year-end price, B-share, SEK	71	56	58
Highest price, B-share, SEK	76	68	60
Lowest price, B-share, SEK	49	51	37
Number of shareholders	53,239	54,494	55,234
Market capitalization, SEKm	40,806	32,241	33,265

¹ Dividend 2016 as proposed by the Board.² Dividend/year-end share price.

Source: Holdings/Euroclear as of December 30, 2016.

Distribution of shareholders by country

■ Sweden	64.5 % (68.9)
■ US	11.0 % (9.3)
■ UK	9.7 % (8.3)
■ Norway	2.6 % (2.1)
■ Luxembourg	2.4 % (3.4)
■ Other countries	9.8 % (8.0)



Further information concerning the share

The following information, and more, is available on www.husqvarnagroup.com/en/r

- Share price development
- Shareholder ownership structure
- Conversion of A-shares
- Analyst coverage
- Repurchase of shares
- Share capital

Heritage

Turning technology into opportunity

For more than 325 years, curiosity and passion for innovation have led to a long line of successful products and solutions in very different areas – from weapons, sewing machines and motorcycles to market-leading outdoor power products for customers around the globe. Husqvarna Group constantly looks for better ways to push the industry forward and make a difference to those who shape green spaces and urban environments through leadership in sustainable, user-centered solutions.



1689–1989

Weapons factory

When Swedish weapons production takes off in the late 17th century, hydropower is needed to handle certain mechanical operations. The drill works at the waterfalls in Husqvarna in southern Sweden is the first production facility. The last shotgun is produced in 1989.

1872–1997

Sewing machines

The machinery for producing rifles turns out to be well suited for manufacturing sewing machines. The operation is divested in 1997.

1874–1978

Kitchen equipment

Production expands to kitchen equipment in cast iron such as meat grinders and later, stoves and ovens. Husqvarna's meat grinders are a huge export success with over 12 million sold worldwide.

1896–1962

Bicycles

Husqvarna bicycles become very popular and many patents are registered. The last Husqvarna bicycle is produced in 1962.

1903–1987

Motorcycles

Lightweight yet powerful engines give Husqvarna a reputation worldwide as the producer of the most successful track racing and motocross bikes. The operation is divested in 1987.

1918

Lawn mowers

When Norrahammars Ironworks in Sweden is acquired, the product range expands to include heating boilers and lawn mowers. Husqvarna's first motorized lawn mower for commercial use is manufactured in 1947.

1959

Chainsaws

As demand for bicycles, mopeds and motorcycles declines, Husqvarna's expertise in engines leads to new product areas. 1959 marks the start of the production of chainsaws.

1968

Construction products

Husqvarna's first power cutter is a redesigned chainsaw.

1969

Anti-vibration

Launch of the world's first chainsaw with an integrated anti-vibration system that decreases the risk for forestry workers of getting "vibration white fingers." Ergonomics has been an important part of Husqvarna's design ever since.

1973

Automatic chain brake

The world's first automatic chain brake followed by the Trio Brake™ (1999) decreases the risk of injury for forestry workers.

1978

Outdoor products in focus

Electrolux acquires Husqvarna and outdoor product operations continue to expand through acquisitions such as AB Partner and Jonsereds AB.



1980s

Strengthened position in US

Organic growth and the acquisitions of Poulan/WeedEater and Roper Corp expand the Group's operations in the US.

1995

Robotic lawn mower

Husqvarna pioneers the world's first commercialized solar-powered robotic mower.

2002

Diamond tools

The construction business doubles in size through the acquisition of Diamant Boart.

2005

X-Torq®

New engine technology for two-stroke engines increases gear ratio while reducing fuel consumption and emissions.

2006

Stocklisted

Husqvarna is listed on Nasdaq Stockholm.

2007

Watering equipment and expansion in Japan

The acquisitions of Gardena, Zenoah and Klippo bring strong brands, complementary products and geographic expansion.

2008

Expanded presence in China

Production in China is increased through the acquisition of Jenn Feng and a new production facility.

2009

Demolition robot

Husqvarna's first remote-controlled demolition robot is launched.

2009

AutoTune™

AutoTune™ is a technological and environmental breakthrough in professional chainsaws. It regulates the flow of fuel, optimizing performance and minimizing emissions.

2012

Powerful battery products

Husqvarna's battery products demonstrate similar performance as petrol-powered machines, but without the noise and direct emissions.

2016

X-CUT

Husqvarna's first proprietary saw chain, X-CUT, was launched. Its excellent cutting performance optimizes the chainsaw experience and more saw chains will be introduced in the coming years.

Annual General Meeting 2017

The Annual General Meeting ("AGM") of Husqvarna AB (publ) will be held at 4:00 p.m. on Tuesday, April 4, 2017 at the Elmia Congress Center, Hammarskjöld Hall, Elmiavägen 15, Jönköping, Sweden.

Participation

Shareholders who intend to participate in the AGM must:

- Be registered in the register of shareholders maintained by Euroclear Sweden AB as of Wednesday, March 29, 2017.
- Notify the Company of their intention to attend stating the number of assistants attending (maximum two) no later than Wednesday, March 29, 2017.

Notice of participation

Notice of intent to participate can be given:

- By post to Husqvarna AB, c/o Euroclear Sweden AB, P.O. Box 191, SE-101 23 Stockholm, Sweden.
- By telephone at +46 36 14 70 10 between 9:00 a.m. and 4:00 p.m. weekdays.
- At www.husqvarnagroup.com/agm.

Notice should include the shareholder's name, social security number or company registration number if any, address and telephone number. Information provided together with the notice will be made subject to data processing and will be used solely for the AGM 2017. Shareholders may vote by proxy, in which case a power of attorney must be submitted to Husqvarna prior to the AGM.

Shares registered by nominees

To participate in the AGM, shareholders whose shares are nominee-registered must have their shares temporarily registered in their own name on Wednesday, March 29, 2017. To ensure that such registration is made prior to Wednesday, March 29, 2017, shareholders must inform the nominee well in advance of this date.

Dividend

The Board of Directors has proposed a dividend for financial year 2016 of SEK 1.95 per share to be paid in two installments, firstly SEK 0.65 per share with Thursday, April 6, 2017 as the first record day, secondly SEK 1.30 per share with Friday, October 6, 2017 as the second record day. Assuming the AGM resolves in accordance with the Board of Directors' proposal, the estimated date for payment of the dividend from Euroclear Sweden AB is Tuesday, April 11, 2017 for the first part of the dividend and Wednesday, October 11, 2017 for the second part.

The last day for trading in Husqvarna shares with a right to the first part of the dividend is Tuesday, April 4, 2017. The last day for trading in Husqvarna shares with a right to the second part of the dividend is Wednesday, October 4, 2017.

Financial information 2017

April 4	Annual General Meeting
April 21	Interim Report Jan–March
July 18	Interim Report Jan–June
October 20	Interim Report Jan–September



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Market data, statistics and market shares are estimates made by Husqvarna Group.

Factors affecting forward-looking statements

This report contains forward-looking statements in the sense referred to in the American Private Securities Litigation Reform Act of 1995. Such statements comprise, among other things, financial goals, goals of future business and financial plans. These statements are based on present expectations and are subject to risks and uncertainties that may give rise to major deviations of the result due to several aspects. These aspects include, among other things: consumer demand and market conditions in the geographical areas and lines of business in which Husqvarna Group operates, the effects of currency fluctuations, downward pressure on prices due to competition, a material reduction of sales by important distributors, any success in developing new products and in marketing, outcome of any product responsibility litigation, progress when it comes to reach the goals set for productivity and efficient use of capital, successful identification of growth opportunities and acquisition objects, and to integrate these into the existing business and successful achievement of goals to make the supply chain more efficient.



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