

## Corporate Governance Report

# 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 value for its shareholders as well as striving to operate in a sustainable manner. 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 Swedish Code, as revised in 2015, expressly states that a principle task of the Board of Directors is to define appropriate guidelines to govern the Company's conduct in society, with the aim of ensuring its long-term value creation capability. The Company's sustainability ambitions are described briefly on pages 30–34 and in more detail in the Group's Sustainability Report, which can be found at [www.husqvarnagroup.com](http://www.husqvarnagroup.com).

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 2016 AGM will take place at 4 p.m. on Wednesday, April 6, 2016 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden.

The Company prepares the AGM agenda with influence 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 2015, the share capital amounted to SEK 1,153m, represented by 113,694,826 A-shares and 462,648,952 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 2015, 8,730,643 A-shares were converted to an equivalent number of B-shares.

On December 31, 2015, the number of shareholders was 54,494. Of the total number of shares, foreign shareholders accounted for approximately 31%. Investor AB is the single largest shareholder with a holding of approximately 16.8% of the share capital and approximately 32.7% of the votes as of December 31, 2015. 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 24.9% of the votes on December 31, 2015. For further information on the Husqvarna shares and shareholders, see page 108.

### 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;
- 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 (if 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).

<sup>1)</sup> The AGM 2014 resolved to appoint Ernst & Young as auditor for the period from the AGM 2014 up until the end of AGM 2018, 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 2016 AGM.

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 2016 AGM was announced on September 25, 2015. The members of the Nomination Committee (and corresponding appointing shareholders) for the 2016 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 <sup>1</sup>	–

<sup>1</sup> Chair 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, 2015. 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 of Directors. Normally, the starting point for such recommendations is a survey conducted each year by the Chair of the Board of Directors to assess the Board's work, composition, qualifications, experience and efficiency, the results of which are shared and discussed with the Nomination Committee. The Nomination Committee also meets separately with the Company's President and CEO, and occasionally with individual Board members.

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 of Directors, as well as 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 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](mailto:nominationcommittee@husqvarnagroup.com).

While there is no cut-off date for proposals, it was recommended in the September 25, 2015 notice of the formation of Nomination Committee that such shareholders proposals should be received by the Company no later than February 3, 2016.

For the 2016 AGM, the Nomination Committee announced its required proposals along with the notice of the AGM, which was published on the website on March 3, 2016. 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, Sweden or in 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](http://www.husqvarnagroup.com/agm). For the 2016 AGM, such notice was published on March 7, 2016. Shareholders who are listed in the share registry on the record day (i.e. Thursday, March 31, 2016) and wish to be represented at the AGM must register to do so with the Company by no later than Thursday, March 31, 2016.

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. 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 AGM;<sup>1</sup>
- Adoption of statutory financial documentation;
- Discharge of liability for the Board members and President and CEO;
- Disposition of the Company's profit;
- Number of Board members;<sup>1</sup>
- Remuneration to Board members, committee members and external auditors<sup>1</sup>;
- Election of external auditor (every fourth year according to the Articles of Association)<sup>1</sup>;
- Election of Chair of the Board;<sup>1</sup>
- Election of Board members;<sup>1</sup>
- 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);

<sup>1</sup> Indicates agenda items for which the Nomination Committee makes a proposal.

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 President and 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 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 President and 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

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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 of Directors 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;
- 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 2015

The AGM 2015 was held on April 21, 2015 in Jönköping, Sweden with 839 shareholders attending in person or by proxy, representing 50% of the total number of shares and 72% 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 2014, together with the Board of Directors' 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 28, 2015, and SEK 1.10 per share to be paid on October 28, 2015.
- The Board of Directors and the President and CEO were discharged from liability for the financial year 2014.
- The Nomination Committee's proposal for the number of Board members and the election of Tom Johnstone, Magdalena Gerger, Ulla Litzén, Katarina Martinson, Daniel Nodhäll, David Lumley, Lars Pettersson and Kai Wärn as Directors of the Board. Tom Johnstone was appointed Chair of the Board.
- The Nomination Committee's proposed remuneration to the Board of SEK 5,260t in total, of which SEK 1,725t to the Chair of the Board and SEK 500t 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 175t to the Chair of the Audit Committee and SEK 80t to each of the other two members of the Audit Committee was resolved, as well as SEK 100t to the Chair of the Remuneration Committee and SEK 50t 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 of Directors' 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 2015, LTI 2015, to be offered to 70 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 Class B-shares.
- The Board of Directors 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 of Directors was authorized, on one or more occasions during the period up to the next AGM, to sell Class 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 2015, the Board of Directors 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 AGM in 2016.

### Annual General Meeting 2016

The Annual General Meeting 2016 of Husqvarna AB will be held at 4 p.m. on Wednesday, April 6, 2016 at the Elmia Congress Center, Elmiavägen 15 in Jönköping, Sweden. For more information regarding the AGM 2016, see page 110.

### The Board of Directors

According to Husqvarna AB's Articles of Association, the Board of Directors 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 eight Board members elected by the AGM (see table on page 51). 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 chief executive officer;
- 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 President and 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

## Board of Directors

		Attendance 2015							
Name		Nationality	Independence <sup>1</sup>	Board meetings	Audit Committee	Remuneration Committee	Authorized fees, total in SEK <sup>2</sup>	Holdings, number of A-shares <sup>3</sup>	Holdings, number of B-shares <sup>3</sup>
Lars Westerberg <sup>4</sup>	Board Chair Committee member	SE	Yes/Yes	3/3		1/1		–	–
Tom Johnstone <sup>5</sup>	Board Chair Committee Chair	UK	Yes/No	9/9		6/6	1,825	990	14,800
Magdalena Gerger		SE	Yes/No	9/9			500	4,300	–
Ulla Litzén	Committee Chair	SE	Yes/Yes	9/9	7/7		675	–	10,000
David Lumley <sup>6</sup>		US	Yes/Yes	6/9		2/5	550	–	6,252
Katarina Martinson	Committee member	SE	Yes/No	9/9	7/7		580	113,478	378,737
Daniel Nodhäll	Committee member	SE	Yes/No	9/9	7/7		580	–	10,000
Lars Pettersson	Committee member	SE	Yes/No	9/9		6/6	550	–	5,000
Kai Wärn		SE	No/Yes	9/9			–	–	163,634
Soili Johansson	Employee representative	SE	–	9/9			–	225	750
Annika Ögren	Employee representative	SE	–	8/9			–	–	–
Carita Spångberg <sup>7</sup>	Employee representative	SE	–	9/9			–	–	–
Lotta Widehäll <sup>7</sup>	Employee representative	SE	–	9/9			–	–	–
<b>Total</b>				<b>9</b>	<b>7</b>	<b>6</b>	<b>5,260</b>	<b>118,993</b>	<b>589,173</b>

<sup>1</sup>Refers to independence in relation to the Company and management, and independence in relation to major shareholders.

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

<sup>3</sup>Refers to December 31, 2015 and includes related parties and holdings through legal persons.

<sup>4</sup>Resigned at the 2015 AGM, remuneration presented during 2014.

<sup>5</sup>Board Chair as of the 2015 AGM.

<sup>6</sup>Committee member as of the 2015 AGM.

<sup>7</sup>Deputy.

the President and 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 2015, 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. Evaluation of the Chair of the Board shall also be carried out annually. 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, see above.

### 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 of Directors in 2015, 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 2015, the Board held nine meetings, of which three were by telephone, two were held in Huskvarna, Sweden, and four were held in Stockholm, Sweden.

At Board meetings, the Company's President and 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 litigations and follows up on the Company's compliance work.

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 three members, none of whom may be employed by the Company, and at least one of whom must be independent of the Company and have auditing or accounting expertise. 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 2015 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 and the General Counsel. Other members of Group Management are present to report on matters as relevant.

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In 2015, the Audit Committee held seven 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 and solicits reports on auditing work and the closing of the books. At least once a year, the Committee meets separately with the Company's internal auditor. 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 the executive management of the Company, (b) monitor and evaluate programs for variable remuneration for Group Management, and (c) monitor and evaluate current remuneration structures and levels in the Company. The Remuneration Committee is also increasingly taking 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 2015 were Tom Johnstone (Chair), Lars Pettersson 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 2015, the Remuneration Committee held six meetings, which fulfils the charter criteria that it shall meet at least twice a year. All Committee meetings follow an adopted agenda plan, which 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 President and CEO is evaluated once a year. The Remuneration Committee reports on its findings and recommendations at each Board meeting held in person, and if relevant, at Board meetings by telephone.

### 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 AGM 2014 up until the end of the AGM 2018. The auditor-in-charge is Hamish Mabon.

As per the decision taken at the 2015 AGM, the auditor's fee until the 2016 AGM shall be paid on the basis of approved invoices. For more information see, Note 7.

### Organization and Executive Management

Husqvarna's organization and Executive Management is based on a brand-driven organization with four separate reporting divisions: Husqvarna, Gardena, Consumer Brands and Construction. Each division has its own President, who in turn reports to the President and 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, Group policies, processes, instructions and guidelines. For more information about Husqvarna's divisions please see pages 20-27. This brand-driven organization became fully effective on January 1, 2015, and replaced the Company's earlier structure that was based on the three business areas: Europe/Asia Pacific, Americas and Construction.

In the new organization, Husqvarna Group's Executive Management consists of the President & CEO, the Executive Team (as described below) and Group Management (as described below). Clear roles and responsibilities apply for each of the Group functions as well as for the divisions. In the new organization, 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 the Executive Team.

### The President and CEO

The President and 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 legislation or ordinances, including applicable competition law. The President and CEO shall also ensure compliance with goals, policies and strategic plans, and also update these when necessary. The President and CEO appoints all members of Group Management.

### The Executive Team

The Executive Team has eight members and is comprised of the President and CEO, the four Division Presidents and the three Group Staff function heads (see "Group Staff Functions" below). The Executive Team makes decisions on (a) enhancing Group synergies, (b) internal financial and business follow-up, (c) external financial reporting for Board approval, (d) Group governance, (e) Group staffing plans, and (f) issue resolution. Executive Team meetings are chaired by the President and CEO. The Executive Team meets monthly by video and/or telephone and quarterly in person.

### Group Management

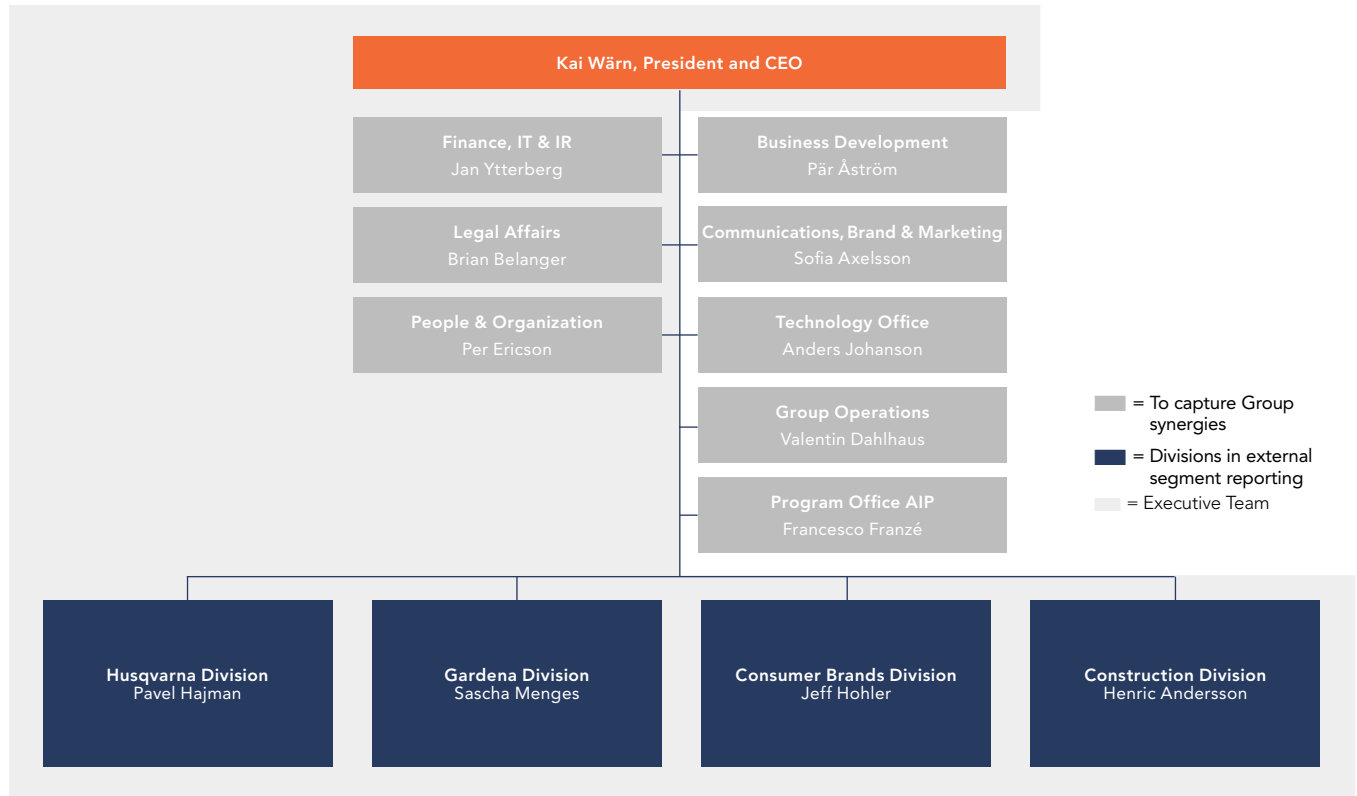
Group Management has 13 members and consists of the eight members of the Executive Team plus the heads of each of the five Group Strategic Functions (see "Group Strategic functions" below). Group Management is the management team for the Company and makes decisions on matters related to (a) the Group's strategic and business development, (b) budgets, (c) external affairs, (d) Board reporting, (e) risk management and mitigation as well as (f) Group policies and guidelines. Group Management meetings are chaired by the President and CEO. Group Management meets monthly by video and/or telephone and quarterly in person.

### Group Staff Functions

Husqvarna has three "Group Staff Functions" as follows:

1. Finance, Information Technology & Investor Relations. This function is primarily responsible for the Group's financial reporting as well as for Tax, Internal Audit, Group IT and Investor Relations (IR).
2. Legal Affairs. The Legal Affairs function is responsible for the Group's Legal Affairs, enterprise risk management, real estate management and sustainability strategy. Legal Affairs also

## Group Management Structure



deploys policies and rules for the Group's legal and ethical compliance and reporting.

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 business in line with such a 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. In 2015, this function also assumed responsibility for internal and external Group communications.
3. Technology Office. This function leads the Group's technology and innovation management. 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.

5. Program Office – Accelerated Improvement Program and Other Initiatives. This function has been responsible for following up on the Accelerated Improvement Program (see page 11) and other cost-related initiatives.

### External information

Husqvarna's Board has adopted an information policy that complies with the information disclosure requirements of 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;
- 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](http://www.husqvarnagroup.com)

## Corporate Governance Report

# Internal control over financial reporting

## Husqvarna Group's process for internal control is designed 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. The control environment also includes laws and other external regulations.

The Board of Directors is ultimately responsible for ensuring good internal controls, including that the Company has formalized routines 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 legislation, applicable 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 established Rules of Procedure and clear instructions for its work, that 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 auditing and reporting processes, and to ensure the quality of such processes. The activities of the Audit Committee during the year are described in greater detail on page 51.

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 President and 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 President and CEO, regarding the right to sign for the Company, as well as within various internal manuals, various policies, routines and codes. The Board approves, on an annual basis, certain Group policies and the Code of Conduct. 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 insufficient 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 provision, provision 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, i.e. specifications of the control activities that shall be included in each business process to ensure and maintain a uniform level of internal control over financial reporting within the Group. Control activities are integrated in processes for accounting and financial reporting and include, among other things, routines 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 running a project to identify and standardize key processes and controls within the Group. The control function, like financial responsibility, follows the Company's organizational and responsibility structure.

Husqvarna Group also has a function for 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 the Internal Control function 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 Husqvarna Group in each country where the Group has subsidiaries. The duties of the 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

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 routines are communicated and explained in quarterly newsletters from the Group's accounting function.

### Monitoring activities

Husqvarna Group maintains a comprehensive financial reporting system for monitoring operations, which 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. The manual is reviewed and updated regularly.

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 ensure 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 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 both by the external and internal auditors in their audit work, which is presented to the Audit Committee.

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, 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 CFO, the President and CEO, and the Audit Committee. Besides correcting 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 progress to eliminate the internal control weaknesses.



## Corporate Governance Report

## Board of Directors and Auditors

**Tom Johnstone***Chairman 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. Chairman of the Remuneration Committee.

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

**Previous positions:** President and 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 Wärn***Board member*

Born 1959. M. Sc. in Mechanical Engineering, the Royal Institute of Technology, Stockholm, Sweden. Elected 2014. President and CEO of Husqvarna AB.

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

**Holdings in Husqvarna:** 100,000 B-shares (Legal person), 63,634 B-shares (Own).

**Magdalena Gerger***Board member*

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

**Other major assignments:** Board member of Investor AB and IFN (Research Institute of Industrial Economics). Member of IVA (Royal Academy of Engineering Sciences) and the Swedish Trade Federation.

**Previous positions:** Senior Vice President responsible Global Fresh Dairy, Arla Foods 2005-2009. Management consultant, Futoria AB, 2004. Category Director (UK and Ireland) Nestlé UK Ltd, 2000-2003, 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 an MBA, Massachusetts Institute of Technology, US. Elected 2010. Chairman of the Audit Committee.

**Other major assignments:** Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB and NCC 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, Illinois, US; MSJ Journalism, Northwestern University Medill School of Journalism, Evanston, Illinois, US and an MBA, Northwestern University Kellogg School of Management, Evanston, Illinois, 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, Wisconsin, US President Rubbermaid Home Products, Newell-Rubbermaid Inc., Atlanta, Georgia, US President and CEO, EAS Inc., Golden, Colorado, US President Brunswick Bicycles, Brunswick Corp., Lake Forest, Illinois, US President OMC International and Senior Vice President Marine Power Group, Outboard Marine Corp., Waukegan, Illinois, US General Manager Wilson Sporting Goods Co., Chicago, Illinois, US

**Holdings in Husqvarna:** American depository receipts (ADR) B 6,252.

**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, LE Lundberg Kapitalförvaltning AB, Indutrade AB, Fidelio Capital AB, AniCura AB, Lyko AB and Greenfood 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.

## Corporate Governance Report

**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 Chairman of KP-Komponenter A/S. Board member of Festo AG, AB Industrivärden, Indutrade AB, LKAB, L E Lundberg-företagen AB and Uppsala University. **Previous positions:** President and CEO of AB Sandvik 2002–2011 and various positions within AB Sandvik 1978–2002.

**Holdings in Husqvarna:** 5,000 B-shares.

**Auditors****Hamish Mabon**

Ernst & Young AB

Born 1965.

Authorized Public Accountant.

**Other audit assignments include:**

AB Tetra Pak and

If Skadeförsäkring AB.

**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 Spångberg**

*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, 2015.

## Corporate Governance Report

Group Management<sup>1</sup>**Kai Wärn***President and 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 and CEO of Seco Tools AB 2004–2010. Various positions at ABB 1985–2004.

**Holdings in Husqvarna:** 63,634 B-shares (Own), 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:** 10,453 B-shares.

**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:** 42,867 B-shares.

**Jeff Hohler***President, Consumer Brands Division*

Born 1965. B.Sc. in Journalism, Bowling Green State University, US and an 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:** 7,329 B-shares.

**Henric Andersson***President, Construction Division*

Born 1973. M.Sc. in Industrial Engineering & Management, Linköping Institute of Technology, Linköping, 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 2002–2004. Various positions in product and business management, Husqvarna 1997–2001.

**Holdings in Husqvarna:** 14,190 B-shares.

<sup>1</sup> During the year the following members of Group Management have ended their employment.; Ulf Liljedahl, Alan Shaw, Anders Ströby and Olle Wallén.

All holdings in Husqvarna AB shares are as of December 31, 2015.





### Jan Ytterberg

*Senior Vice President and 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, 5,865 B-shares.



### Brian Belanger

*General Counsel and Senior Vice President, Group Staff Legal Affairs, Husqvarna Board Secretary*

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

**Previous positions:** Vice President Legal Affairs Husqvarna Asia/Pacific Region, Husqvarna Group 2009–2012. Acting General Counsel Husqvarna Americas, Husqvarna Group 2013. Associate General Counsel, Husqvarna Americas, Husqvarna Group 2006–2009, Partner, Cohen & Grigsby, P.C. 2000–2006.

**Holdings in Husqvarna:** 7,785 B-shares.



### Per Ericson

*Senior Vice President, Group Staff People & Organization*

Born 1963. Forest Engineer, US. Forestry Studies and 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.

**Holdings in Husqvarna:** 18,183 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:** 12,946 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 & Marketing in Husqvarna/Pfaff Sewing machines 1998–2005.

**Holdings in Husqvarna:** 7,335 B-shares.



### Anders Johanson

*Senior Vice President, Technology Office & CTO*

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, KTH, 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, Gambio 2008. Director Business office and head of Business Consulting, Volvo IT 2006–2007. Various positions within Nobel Biocare 1996–2000.

**Holdings in Husqvarna:** 0 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:** 2,305 B-shares.



### Francesco Franzé

*Senior Vice President, Program Office – Accelerated Improvement Program 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 Dishwashers, Electrolux 1998–2003. Various positions within Operations in Electrolux Professional, 1989–1999.

**Holdings in Husqvarna:** 17,676 B-shares.