Directors' report

The Board of Directors and the President of Bong AB (publ.), corporate ID no. 556034-1579, domiciled in Kristianstad, hereby submit their annual report for the financial year 1 January 2010 – 31 December 2010 for the Parent Company and the Group.

Bong is the leading provider of specialised packaging and envelope products in Europe and offers solutions for distribution and packaging of information, advertising materials and lightweight goods. Important growth areas in the Group are the ProPac packaging concept and Russia. After the merger with Hamelin's envelope division the Group has sales of about SEK 3.5 billion and some 2,500 employees in 15 countries. Bong has strong market positions, especially in the Nordic region, Germany, France and the UK, and the Group sees interesting possibilities for continued expansion and development. Bong is a public limited company and its shares are listed on NASDAQ OMX Stockholm, Small Cap.

Markets

The European Envelope Manufacturers Association (FEPE) volume statistics indicated a fall in volume in 2010 of about 5 per cent compared with 2009. Russia and Eastern Europe, however, went against the flow; these markets grew 5-10% compared with 2009.

Consolidation in the envelope industry continued through Bong's merger with Hamelin's envelope division, which created the largest provider of specialised packaging and envelope products in Europe.

The packaging market, in which Bong is active with its ProPac range, is significantly larger and more multifaceted than the envelope market. Market statistics for the niches where Bong is active are unavailable or difficult to obtain. Bong's assessment is that demand for packages such as those used in e-commerce, mail order and retail trade have been positively affected by the recent market upswing and these are expected to have strong growth potential over time.

Sales and earnings

Consolidated sales rose 21 per cent in 2010 and totalled SEK 2,326 million (1,915). The strengthening of the Swedish Krona against the euro and British Pound had a negative impact on consolidated sales. Excluding foreign exchange effects, consolidated sales were up by 31 per cent compared with 2009. On a like-for-like basis, sales excluding foreign exchange effects grew by approximately 5 per cent, while ProPac sales measured in the same manner grew by 31 per cent.

Operating loss was SEK –91 million (profit: 65) including costs related to the merger with Hamelin's envelope division as well as other non-recurring items for a total of SEK –157 million. Of these costs of SEK –157 million, SEK –19 million are direct transaction costs in connection with the Hamelin merger, SEK –123 million in write-downs and restructuring costs to streamline the organisation and achieve significant synergies of SEK 90–100 million after two years as well as SEK –15 million in other non-recurring items. The other non-recurring items of SEK –15 million consist of SEK –8 million for the restructuring program in the Nordic region and Belgium, SEK –6 million relating to early settlement of a lease on a former production building in Germany and SEK –1 million relating to extra costs in connection with the Finnish port workers' strike in March 2010 when paper had to be redistributed among the Group units. Compared with 2009, the appreciation of the Swedish Krona, especially against the euro, had a negative impact on operating profit of SEK 4 million on a like-for-like basis.

Bong's exclusive Tyvek® agreement had a positive impact on earnings, as did strong sales of gift bags to the retail sector.

Prices for uncoated fine paper, Bong's largest input material, rose in several increments during the period. Bong has worked intensively to pass on the price increases, although this occurs with a certain lag. Consequently, margins and profit were negatively affected during the period.

Net financial items totalled SEK –41 million (–35), loss before tax was SEK –132 million (31) and loss after tax amounted to SEK –97 million (24).

Cash flow

Cash flow after investments totalled SEK 25 million (169), before the cash purchase and transaction costs associated with the Hamelin merger of SEK 302 million and other acquisitions in 2010.

Despite rising paper prices and build-up of inventories for Tyvek, the Group managed to reduce working capital with SEK 28 million (98) on an annual basis.

Financial position

Cash and cash equivalents at 31 December 2010 totalled SEK 149 million (74), while undrawn credit facilities amounted to SEK 319 million at 31 December 2010. Total available cash and cash equivalents amounted to SEK 469 million.

Consolidated equity at 31 December 2010 was SEK 531 million (598). The non-cash issue in connection with the Hamelin merger of SEK 130 million, less transaction costs of SEK 2 million increased shareholders' equity, while translation of the net asset value of foreign subsidiaries to Swedish kronor and changes in the fair value of derivative instruments reduced consolidated equity by SEK 98 million. The interest-bearing net loan debt increased during the period by SEK 473 million to SEK 1,062 million (589). Net loan debt includes a provision for final payment of the purchase sum relating to the acquisition of Hamelin's envelope business of SEK 26 million. Translation of net loans in foreign currency to Swedish kronor reduced the Group's net loan debt by SEK 46 million. At 31 December 2010, the debt/equity ratio was 2.0 (0.9) and the equity/assets ratio was 21 per cent (36).

Capital expenditure

Net investments in 2010 amount to SEK –330 million (–15), including the acquisition of Hamelin's envelope division along with the acquisitions of Tycon in Luxembourg, Image Envelopes in the UK, remaining shares in the subsidiary Voet (12 per cent), Taberg in Stockholm and 90 per cent of shares in Bong CSK in Poland, which then became a wholly owned company. The sales of a building in Germany made a positive contribution to cash flow of SEK 18 million. The effects of the merger with Hamelin's envelope division are reported in a separate section.

Merger with Hamelin's envelope division

Bong's merger with Hamelin's envelope business creates a strong company, well equipped for the new market. To a large extent, the two companies' sales organisations, market presence and production resources complement each other well. The new company has a unique strength through its presence in the major markets of Britain, France, and Germany as well as in the Nordic region.

To sum up:

- Bong will be the leading company in specialty packaging and envelopes in Europe
- Stronger platform for accelerated product development and growth
- Larger geographic coverage and broader line of products
- Significant synergies that enhance efficiency and competitiveness

The transaction was completed through Bong's acquisition of Hamelin's entire envelope business. Payment for the acquired operations was made partly through the non-cash issue of 4,352,768 new shares and convertible bonds with a combined nominal value of EUR 4 million to Groupe Hamelin's holding company Holdham S.A., as resolved by the extraordinary general meeting of Bong on 22 October 2010. Bong took over or refinanced the debt that existed in Hamelin envelopes business and paid a cash purchase price, for a total amount of about EUR 45 million. As part of the purchase price Holdham extended a shareholder loan to Bong of EUR 7.5 million. Bong acquired all companies that comprised

Hamelin's envelope division through the acquisition of the holding company CADIX SAS. The acquisition also included two items for assets and liabilities for the UK and France, respectively. The companies were consolidated as of 1 October 2010. A final payment of SEK 26 million was made in January 2011.

According to the preliminary acquisition price allocation, the acquired assets were allocated as follows: intangible assets of SEK 7 million, property plant and equipment SEK 294 million and goodwill SEK 143 million. The acquired business contributed net sales of SEK 387 million during the fourth quarter of 2010. However, this contribution to earnings cannot be separated due to restructuring measures. Transaction costs were SEK 19 million.

Costs associated with the Hamelin merger

In addition to transaction costs, the Hamelin merger gave rise to costs of SEK –123 million relating to write-downs and restructuring costs. Two restructuring programmes were initiated in the fourth quarter of 2010, one on the European continent to move part of production volumes to France and the UK, respectively, and the integration of Hamelin's operations with Bong's. The project will continue in 2011.

The other project that was initiated in the UK involves integration between two of Hamelin's operations and Bong. This project, which was regulated in the agreement between Bong and Hamelin, involves a significant shift of operations from a Hamelin division outside the envelope business to Bong, as well as the spin-off of British John Dickinson Ltd. from Hamelin's administrative organisation.

The merger with Hamelin's envelope division provides Bong with a broader production base, which in turn allows optimisation of where production for various countries takes place. Bong endeavours to locate production as close to the end customer as possible to achieve maximum efficiency in the logistics chain.

Extraordinary general meeting

The company held an extraordinary general meeting on 22 October 2010. The extraordinary general meeting resolved in accordance with the Board's proposal to increase the company's share capital by SEK 43,527,680 through the issue of 4,352,768 new shares, and to issue convertible bonds with a combined nominal value of EUR 4 million. Holdham S.A. subscribed for all new shares and all convertible bonds. Payment for the new shares and convertible bonds was made in kind through shares in Cadix S.A.S. The value of the capital contributed in kind was SEK 130 million. Through the share issue own Holdham owns 24.9 per cent of all shares in Bong and the convertible bonds correspond with an additional 5 per cent at full conversion.

Bong's Board of Directors

The extraordinary general meeting also resolved to increase the number of Board members to seven and elected Stéphane Hamelin and Eric Joan as new Board members with effect from 12 November 2010 until the end of the next AGM. Patrick Holm resigned from the Board.

EU commission investigation

In September 2010 the EU commission carried out inspections of several companies in the envelope and paper industry in Europe, including Bong in Sweden. The commission's investigation is currently underway. Against this background, Bong is not able to reasonably assess the outcome of the commission's judicial review.

Significant events after the end of the financial year

Final payment to Hamelin.

The final payment of SEK 26 million of the purchase sum relating to the acquisition of Hamelin's envelope business was made in January 2011.

Acquisition of Egå Offset

On 3 January 2011 Bong acquired the Danish envelope and printing company Egå Offset's business in Århus. Through the acquisition Bong acquires an envelope printing facility and becomes a major supplier of printed envelopes in all of Denmark through its Danish subsidiary Bong Bjørnbak A/S.

Egå Offset, a family business specialising in printing and sales of envelopes, is an important regional player in the Jutland region. The unit has annual sales of around SEK 30 million and 17 employees. The acquisition is expected to make a positive contribution to Bong's earnings starting in the first quarter of 2011.

Employees

The average number of employees during the period was 1,540 (1,220). On 31 December 2010 Bong had 2,497 (1,210) employees. These figures include the companies acquired in 2010.

Environment

Bong's environmental work is aimed at minimising the environmental effects of both end products and processes.

At present, Bong is working actively to improve production methods so that polluting emissions are minimised, to eco-label as large a portion of the range as possible, and to boost knowledge and awareness of environmental issues among its employees. Besides imposing demands on its own operations, Bong is also trying to influence suppliers and customers to design their products so that ecocycle thinking and conservation of natural resources are prioritised.

In order to further rationalise environmental efforts, the company is working according to a plan for environmental certification with the objective that all plants in the Group will be certified to ISO 14 001. The facilities in Wuppertal, Germany, Nybro and Kristianstad in Sweden, Tönsberg in Norway, Milton Keynes and Washington in the UK, Luxembourg, and Evreux and Angoulême in France are certified. The plants in Kavi, Finland, and Derby, UK, are working on certification.

In 2008, the industry took the initiative in the establishment of a new pan-European environmental certification standard: Paper by Nature. In 2009, Bong began efforts to obtain certification of its products according to this eco-label. The eco-label is applied to paper products such as envelopes, books and note pads. It takes into account the potential environmental impact of raw materials and manufacturing processes. Paper by Nature guarantees that the raw materials come from sustainably managed forests and that the products have been manufactured in certified facilities. Paper by Nature covers the environmental impact of manufacturing as well as energy aspects, emissions to water and air and environmentally harmful substances. The plants in Wuppertal, Astrach in Germany, Kristianstad in Sweden and Washington and Derby in the UK, Evreux, Angoulême and Limoges in France and Venlop in the Netherlands are certified by the Paper by Nature Association.

Environmental certification of the products is an important aspect, and labelling with the Nordic Ecolabel (the Swan) is therefore a natural part of Bong's Scandinavian range.

During 2009, the Group conducted operations that required an environmental permit under the Environmental Code in Nybro through the subsidiary Bong Sverige AB. Net sales in the operation requiring an environmental permit in Nybro amounted to SEK 155 million.

Research and development

The Group does not conduct any research and development activities. However, active efforts are purs1ued to meet the customers' needs for different envelopes and packaging solutions.

Parent Company

The activities of the Parent Company include administration of operating subsidiaries and Group management functions. Net sales were SEK 27 million (0) and the period's profit before tax was SEK 24 million (21). Investments for 2010 amounted to SEK 17 million (2), excluding investments in equities in subsidiaries. The investments are IT related and pertain to a common platform for administrative systems in the Group. Credits granted but not utilised amounted to SEK 319 million (308 at 31 December 2009).

Board's proposed 2011 guidelines for remuneration to senior executives

The 2010 AGM approved remuneration guidelines and other terms of employment for the chief executive and other senior executives. The extraordinary general meeting on 22 October revised these guidelines. The Board of Directors of Bong AB (publ) proposes that the 2011 AGM resolve on remuneration to the President and other senior executives as follows: "Senior executives" refers to executives included in the management group, which currently consists of the company's President/CEO, Chief Financial Officer (CFO), Business Manager Nordic and Managing Director ProPac International AB, Business Manager Central Europe, Business Manager United Kingdom and Business Manager France and Spain.

Remuneration shall consist of fixed salary, variable remuneration, other benefits and pension. Total compensation must be at market rates and competitive to ensure that the Bong Group can attract and retain competent senior management.

The variable portion of the salary shall have a predetermined ceiling, according to the basic principle that the variable salary portion can amount to no more than 60 per cent of the fixed annual salary. The variable portion is based on achievement of two or three of the following interim goals: 1) the Group's EBT[1)], 2) the Group's cash flow, 3) earnings in the business unit, and 4) individual/qualitative goals. The basic principle is that the variable remuneration is paid in accordance with the agreed-upon weighting between the interim goals if the interim goal has been achieved. The variable portion is based on an earning period of one year. The goals for the senior executives are established by the Board of Directors.

Pension benefits shall primarily be defined-contribution, but also occur for legal reasons as defined-benefit, although not at the Group Management level. Variable remuneration is not pensionable. The Group Management is entitled to pensions under the ITP plan or the equivalent. The retirement age is 65 years. In addition to the ITP plan, some members of the Group Management are also entitled to an increased occupational pension premium of up to 30 per cent of their fixed salary.

The Group Management's employment contracts include provisions governing remuneration and termination of employment. According to these agreements, employment can ordinarily terminate at the request of the employee with a period of notice of 3–24 months and at the company's request with a period of notice of 6–24 months. In the event of termination by the company, the period of notice and the period during which severance pay is payable shall not together exceed 24 months.

Remuneration to the President and other senior executives is prepared by the Board of Directors' Compensation Committee and finalised by the Board based on the recommendation of the Compensation Committee.

These guidelines apply to those persons who are included in the Group Management during the period the guidelines are in force. The guidelines apply to the employment contracts entered into after the AGM's resolution, and to any changes in existing contracts. The Board of Directors is entitled to disregard the above guidelines if it finds that special reasons exist to justify this in a particular case.

[1] Earnings Before Tax

Supplementary information

The cost of Group Management's variable remuneration – at maximum outcome, which assumes that all bonus-related goals are achieved – can be calculated to be about SEK 8.5 million (excluding social security contributions). The calculation is based on the current composition of the Group Management.

Resolution at extraordinary general meeting to implement long-term variable remuneration

The Extraordinary General Meeting of 22 October 2010 resolved to implement long-term variable remuneration ("LVR").

Background and rationale

In light of the acquisition of Hamelin's envelope division, it is essential to strengthen the new senior management's mutual long-term commitment to implementation of the extensive integration of the two companies.

LVR is designed to encourage and drive long-term value growth in the Bong Group. It presumes that participants will continue to be employees in the Group in order to benefit and the participants agree not to sell any shares in Bong during the duration of the compensation programme. The Board believes that LVR will strengthen the participants' long-term commitment and create common goals for existing shareholders and senior executives. LVR is explained in greater detail below.

In order to be able to implement LVR appropriately and cost-effectively, the AGM resolved to authorize the Board to acquire treasury shares on the stock exchange and also resolved that the acquired treasury shares should be transferred to the participants in LVR according to the terms and conditions specified below.

A. Long-term variable remuneration

The Extraordinary General Meeting resolved to implement long-term variable remuneration ("LVR"), as stated in the following guidelines.

1. The opportunity to participate in LVR is being offered to six senior executives in the Group.
2. The duration of the LVR is approximately three years.
3. The senior executives participating in the LVR are entitled to receive a onetime payment provided that predetermined and measurable performance criteria are met.
4. One requirement for LVR to be paid is that the implicit value per share ("IVPS") through 2013 increases to at least SEK 71, corresponding with an increase of at least 187 per cent compared with the value on the date that the Hamelin merger was announced. Each participant will then have the right to receive LVR equivalent to 1.5 times their annual salary[1]. For maximum LVR, involving an allocation of 3 times the annual salary of each participant, IVPS must increase to at least SEK 90, equivalent to an increase of at least 265 per cent. LVR will be calculated proportionately for outcome between those guidelines. IVPS is determined as EBITDA[2] 2013 multiplied by a multiple of 6 and minus the average net debt during the second half of 2013. Any capital increases during the program are added to the actual net debt. The EBITDA 2013 calculation will be reduced by any negative deviation from planned EBITDA 2012. Maximum LVR amounts to SEK 45 million. The amount to be paid will be charged against EBITDA in the calculation.
5. Provided that applicable performance criteria are met, the outcome of LVR will be determined as soon as possible after publication of Bongs Year-End Report for 2013 and, subject to the terms set out in points A6 and B (ii) 5 below, will be paid no later than 30 April 2014 as follows:
   (i) 50 per cent of LVR will be payable in cash, and
   (ii) 50 per cent of LVR will be payable in shares in Bong ("LVR shares"). The number of shares to which each participant will be entitled shall be determined by the ratio between the achieved LVR and the average volume-weighted share price in March 2014.
6. The right to receive LVR is subject to the following conditions:
   (i) the participant must not sell any shares in Bong before the end of 2013,
   (ii) the participant must not give notice of termination of employment in the Bong Group before the end of 2013, and
   (iii) the participant must not have been given notice of termination of employment before the end of 2012. In the event that the participant is dismissed in 2013 the participant shall remain entitled to LVR.
7. Participants shall not be entitled to sell LVR shares before the end of 2014.
8. The Board of Directors shall be entitled to resolve upon a reduction of LVR if the Board considers that a distribution in accordance with the above terms – taking into consideration the financial results and position of the Company, as well as the Group's development in general and conditions in the stock market – would be manifestly unreasonable.
9. Participation in LVR presupposes that such participation is legally possible and that such participation in Bong's assessment is possible with reasonable administrative cost and financial efforts.
10. The Board shall be responsible for the particulars and the handling of LVR within the frame of the above principal guidelines and shall also be entitled to make such minor adjustments which may prove necessary due to legal or administrative circumstances.

[1] Annual salary refers to each participant's gross fixed salary for 2011.

[2] Earnings Before Interest Taxes Depreciation and Amortization.

B. Hedging measures

(i) The Board of Directors is authorised to take decisions on acquisition of treasury shares on the stock exchange to enable provision of LVR shares as stated in LVR on the following terms and conditions.

1. The authorisation may be used on one or more occasions, however before the date of the 2011 annual general meeting.
2. The number of shares needed for delivery of LVR shares to participants in LVR, though not more than 400,000 shares, may be acquired to secure delivery thereof. In the event that the acquired shares should remain after LVR share payment is complete, they shall remain in Bong's ownership and be used for future incentive programmes or as otherwise decided by the General Meeting.
3. Purchase in accordance with point 2 will take place on NASDAQ OMX Stockholm to a price which is within the registered spread at any time, i.e. an interval between the highest buying rate and the lowest selling rate.

(ii) Transfer of acquired treasury shares to participants in LVR.

In order to enable delivery of LVR shares according to LVR, the extraordinary general meeting resolved to transfer treasury shares subject to the following terms and conditions.

1. The number of shares needed for delivery of LVR shares to participants in LVR, though not more than 400,000 shares (corresponding to the repurchased shares under B (i) 2 above), may be transferred no later than 30 April 2014.
2. The right to acquire shares shall accrue to participants in LVR, with a right of each of the participants to acquire the maximum number of shares according to the terms of the scheme.
3. Transfer of shares to participants in LVR will be effected as soon as possible after publication of the year-end report for 2013, though no later than 30 April 2014.
4. The transfer of shares shall take place free of charge.
5. In the event the maximum amount of treasury shares set forth in this point 1 above is insufficient to cover the amount of shares required for delivery of LVR Shares to participants in LVR, Bong shall be entitled to (a) pay an amount corresponding to such failing number of shares in cash, or (b) take such further hedging measures as are necessary to enable the delivery of all LVR shares.

The reason for deviating from the shareholders' preferential right on the transfer of shares is to give Bong the possibility to transfer LVR Shares to the senior executives participating in LVR.

Costs of LVR

Costs related to LVR are primarily fixed gross salaries. These cost are estimated at approximately SEK 45 million plus social security expenses.

Percentage of total number of shares

The number of shares in Bong will amount to 17,480,995. LVR will entail acquisition of a total of a maximum of 400,000 shares as set forth in definition in B (i) 2 above, corresponding to 2.3 percent of the total number of outstanding shares in Bong. Upon full conversion of the outstanding convertible loan this percentage decreases to 2.1 per cent.

LVR will not entail any dilutive effects as the Board proposed hedging the programme through delivery of already issued shares to participants.

Ownership

Bong's principal owners, with stakes of more than ten per cent of the votes and capital, are Holdham S.A. with 25 per cent of the votes and capital, Melker Schörling (corporate ownership) and Alf Tönnesson (corporate ownership), both with about 22 per cent of the votes and capital. Skandia Liv and Fata Morgana AB each own about 4 per cent of the votes and capital in the company. The total number of ordinary shares was 17,480,995 at 31 December 2010. All shares carry the same rights.

There are no restrictions on the transferability of the shares due to legal regulations or rules in the Articles of Association.

Bong is not aware of any agreements between direct shareholders in Bong that entail restrictions in the right to transfer shares.

In the event of a public offer, no agreements are triggered that would have a material effect on Bongs earnings or position.

Appointment and removal of Board members and amendment of the Articles of Association

The company's Board of Directors shall consist of at least four and at most nine members. The members are elected at a General Meeting of Shareholders for the period until the end of the first Annual General Meeting (AGM) held after appointment of the member.

The Articles of Association can be amended at the AGM or a General Meeting of Shareholders.

Risks and opportunities

Like all business operations, Bong's operations are associated with risks and opportunities. The specific factors judged to have the greatest impact on Bong's operations are presented below.

Operating risks and opportunities

Market development

Historically, the envelope market has followed the general economic trend. In Eastern Europe, a generally growing economy still drives envelope consumption. In Western Europe, the connection between general economic growth and envelope consumption is not as strong as before. Dependence on the trend in the advertising market has increased in recent years due to the fact that direct mail (DM) envelopes account for an increasing share of Bong's volumes. With the aid of more sophisticated databases with personal information, a market is being created for highly converted envelopes intended for addressed direct mail.

At the same time, administrative mail as a whole is tending to decline as a result of the fact that the Internet and e-mail are replacing a certain type of mail, such as order confirmations, bank statements, etc. Other types of administrative mail, known as transaction mail, stand up well in competition with the new communication channels.

The strong demand for packages in retail trade – both in distance selling and traditional selling – is creating great opportunities for Bong to meet the need for package-like envelopes and packages. Growth in envelopes for market communications and e-commerce is over time expected to compensate for the decrease in administrative mail. Bong is following this trend closely and taking the appropriate steps.

Postage and charges

Changes in postage and charges can lead to changes in letter and mail volumes. Postage increases have a negative impact on volumes, while postage decreases have a positive impact. Postage is usually based on weight or size. More large markets are using weight-based postage. A transition from weight- to size-based postage could lead to changes in Bong's product mix and cause a shift towards small envelope sizes.

Industry structure and price competition

The European envelope industry is in a phase of increasing consolidation and restructuring. The rate of consolidation declined in 2007 and 2008, only to speed up again in 2009 and 2010 as a result of the financial crisis. The biggest envelope companies in Europe represent around 75 per cent of the total market. But several of the big markets are still rather fragmented. It is Bong's impression that the previous overcapacity in the industry has decreased somewhat.

Paper prices

Uncoated fine paper is the single most important input material for Bong. The cost of fine paper is about 50 per cent of the total cost. Under normal conditions, Bong can compensate for price increases, sometimes with some time lag.

Dependence on individual suppliers and/or customers

Uncoated fine paper is Bong's most important input material and is mainly purchased from three large suppliers. Delivery disruptions from any of the three suppliers could affect Bong negatively in the short term. In a longer time perspective, Bong does not have any suppliers that are critical to its operations.

The Group's dependence on individual customers is limited. The biggest customer accounts for 8 per cent of annual sales, and the 25 biggest customers account for 39 per cent of total sales.

Capital needs and investments

All companies in the European envelope industry have roughly the same production equipment. The age of the machinery is of limited importance for production efficiency, but newer machines generally have higher capacity. Machine wear is low, and production control and automation are crucial for cost-effective production. In general, the long life of the machines inhibits scrapping and consolidation of the industry.

On the other hand, the low investment need leads to very good cash-generating capacity. At year-end, the Group's machinery consisted of about 250 envelope machines and 150 overprinting presses. During a period around the turn of the millennium, large investments were made in renewal and upgrading of the machinery to raise productivity. An important element has been increased robotisation. The investment need in existing structure is judged to be limited during the next few years and clearly less than the Group's depreciation costs.

Financial risk management

Information regarding goals and applied principles for financial risk management, use of financial instruments and exposure to currency risks, interest rate risks and liquidity risks is provided in note 1.

European commission investigation

In September 2010 the EU commission carried out inspections of several companies in the envelope and paper industry in Europe, including Bong in Sweden. The commission's investigation is currently underway. Against this background, Bong is not able to reasonably assess the outcome of the commission's judicial review.

Disputes

Bong is not currently involved in any legal disputes.

Environment

Bong complies with the environmental laws and rules that apply in each country to this type of industrial production. By means of measurements and regular inspections, Bong has ensured that emission limits are not exceeded, for example. There are no indications that the laws in this area will change in such a way that Bong would be affected to any significant extent or that Bong would be unable to comply with these requirements in the future.

Sensitivity analysis

Important factors that affect Bong's earnings and financial position are the volume trend for envelope sales, the price trend for envelopes, paper prices, payroll costs, currency rate changes and interest rate levels. The table below shows how Bong's 2010 earnings would have been affected by a change in a number of business-critical parameters. Reported effects should be regarded merely as an indication of how profit after financial items would have been affected by an isolated change in the particular parameter.

Parameter	Change	Impact on earnings after financial items, SEK million
Price	+/– 1%	23 +/–
Volume	+/– 1%	13 +/–
Papper prices	+/– 1%	12 –/+
Payroll costs	+/– 1%	5 –/+
Interest level borrowing	+/– 1%-point	10 –/+

Corporate Governance Report

Effective and clear corporate governance helps secure the confidence of Bong's stakeholder groups while also increasing focus on business benefits and shareholder value in the company.

Bong's Board of Directors and management strive, by means of great transparency, to make it easier for the individual shareholder to follow the company's decision pathways and to clarify where in the organisation responsibilities and powers lie.

Corporate governance

Corporate governance within Bong AB ("Bong") is based on applicable legislation, the regulatory framework for NASDAQ OMX Stockholm and various internal guidelines. The most recent version of the Swedish Code of Corporate Governance ("the Code") was published in February 2010 and covers all listed companies as from 1 February 2010.

Bong applies the Code, and in those cases the company has chosen to disregard the rules of the Code, a reason is given in the appropriate section of the Corporate Governance Report.

Bong is a Swedish limited liability company listed on the Stockholm Stock Exchange

Bong is a Swedish public limited liability company whose shares are traded on the OMX Nordic Exchange Stockholm in the Small Cap segment. Bong has around 1,300 shareholders. The operation is European with subsidiaries in fourteen countries. The number of employees is approximately 2,500.

Responsibility for management and control of Bong is divided between the shareholders at the General Meeting of Shareholders, the Board of Directors, its elected committees and the President/CEO, according to the Swedish Companies Act, other acts and ordinances, the Code and other applicable rules governing listed companies, the Articles of Association and the Board's internal policy instruments.

The purpose of corporate governance is to define a clear division of responsibilities and roles between owners, Board of Directors, executive management and appointed control bodies.

Corporate governance report 2010

Owner influence

Governance of Bong is exercised via the General Meeting of Shareholders, the Board of Directors and the President. The highest decision-making body in Bong is the General Meeting of Shareholders.

The Annual General Meeting (AGM) elects the company's Board of Directors. The duties of the AGM also include adopting the company's financial statements, deciding how to distribute the earnings, and deciding whether or not to discharge the members of the Board and the CEO from liability. The AGM also elects Bong's auditors.

About 30 shareholders, representing 76 per cent of the total number of shares and votes in the company, participated in Bong's Annual General Meeting on 18 May 2010 in Kristianstad. All Board members and the company's auditors were present at the AGM.

Board of Directors

Bong's Board of Directors decides on the Group's overall strategy and on the acquisition and disposal of business entities and real property.

The work of the Board is regulated by the Swedish Companies Act, the Articles of Association and the rules of procedure adopted by the Board for its work.

According to the Articles of Association, the Board of Directors shall consist of at least four and at most nine members. Since the 2010 Extraordinary General Meeting of Shareholders, Bong's Board of Directors has consisted of seven EGM-elected members without deputies and two employee members with two deputies. The Chairman of the Board is Mikael Ekdahl. The statutory meeting of the Board of Directors was on 12 November 2010. The other members of the Board are Alf Tönnesson (Deputy Chairman), Christian W Jansson, Ulrika Eriksson, Stéphane Hamelin, Eric Joan and Anders Davidsson, President and CEO.

Remuneration of the Board

The Chairman of the Board received a fee of SEK 300 thousand for 2010 (300). The amount comprises part of the total director's fee determined by the AGM. No other fee was paid. There is no agreement on pension, severance pay or other benefits.

Information about remuneration of the Board of Directors, as resolved by the 2010 AGM and the EGM on 22 October 2010 can be found in note 4.

Board members elected by the AGM or EGM

Mikael Ekdahl (born 1951)
Member since 2001 and Chairman of the Board since 2003.
L.L.M., graduate economist, Lund University.
Other appointments/positions: Attorney and partner in Mannheimer Swartling Advokatbyrå. Chairman of the Board of Marco AB, Absolent AB and EM Holding AB, vice chairman of Melker Schörling AB, board member of AarhusKarlshamn AB and Konstruktions-Bakelit AB.
Terminated board appointments/partnerships over the past five years: Börje Jönsson Åkeri AB.
Shareholding in Bong (private and via related party): 40,000 shares

Ulrika Eriksson (born 1969)
Board member since 2008.
Graduate economist
Other appointments/positions: Director for Apoteket Konsument. Board member of ProPac International AB.
Terminated board appointments/partnerships over the past five years: –
Previous positions: Several executive positions in Apoteket AB, CEO of Retain Service-handel Sverige AB/AB Svenska Pressbyrån 2001–2005.
Shareholding in Bong (private and via company): 20,000 shares

Anders Davidsson (born 1970)
Board member since 2004.
Graduate economist.
Other appointments/positions: President and CEO of Bong AB Board. Member of AarhusKarlshamn AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong: 182,600 equities

Christian W. Jansson (born 1949)
Board member since 2007.
Graduate economist.
Other appointments/positions: Managing director of KappAhl AB. Chairman of the Board of Apoteket AB, board member of Confederation of Swedish Enterprise, Svensk Handel AB, Kontanten AB, Fata Morgana AB and Vivoline Medical AB.
Terminated board appointments/partnerships over the past five years: Doro AB
Shareholding in Bong (private and via company): 745,246 shares

Alf Tönnesson (born 1940).
Board member since 1989.
Engineering and business education.
Other appointments/positions: Chairman of International Masters Publishers AB (IMP AB), Aktiebolaget Cydonia, NE Nationalencyklopedin AB, Stabenfeldt AB, Fyrklövern AB and Postpac AB, board member of Fleur de Santé AB, Purity Vodka AB and Bra Böcker AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (via Aktiebolaget Cydonia): 3,825,339 shares

Stéphane Hamelin (born 1961).
Elected at the Extraordinary General Meeting on 22 October 2010, effective 12 November 2010.
Other appointments/positions: Chairman of the Hamelin board since 1989.
Terminated board appointments/partnerships over the past five years: –
Previous positions: Active at Borloo law firm from 1984–1989.
Shareholding in Bong (private and via company): 4,352,768

Eric Joan (born 1964).
Elected at the Extraordinary General Meeting on 22 October 2010, effective 12 November 2010.
Graduate of Ecole Polytechnique Universitaire de Lille and Harvard Business School.
Other appointments/positions: MD and CEO for Hamelin.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0

Employee representative

Peter Harrysson (born 1958).
Board member since 1997.
Other appointments/positions: Repairman at Bong Sverige AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0

Christer Muth (born 1954).
Board member since February 2009.
Other appointments/positions: Internal sales, customer service, Bong Sverige AB.
Terminated board appointments/partnerships over the past five years: –
Shareholding in Bong (private and via company): 0