

Board of 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 2012 – 31 December 2012 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. The Group has annual sales of approximately SEK 3 billion and about 2,200 employees in 15 countries. Bong has strong market positions, in most of the important markets in Europe, 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 market continued to decline throughout the year. According to the trade organisation FEPE, the market declined in 2012 by about 8 per cent compared with 2011. Demand has been negatively affected by the economic uncertainty in Europe. Bong's assessment is that volumes decreased most in Spain, France and the UK, while the trend in Germany and the Nordic region was less negative. Volumes in Russia and Eastern Europe are still expected to grow.

Consolidation of the industry continued. Essentially all participants in the envelope market are working to reduce capacity and cut costs. For example, the Mayer group announced during the second half of the year that it would close two of its factories in Britain. Consolidation of the industry also continued as Printeos (formerly Tompla) acquired KRPA in the Czech Republic. A few small companies in countries such as Germany and Italy went bankrupt during the year.

The packaging market, where Bong markets the Propac range, is much bigger than the envelope market. The market is also much more multifaceted. Market statistics for the niches where Bong is active are lacking or difficult to obtain. In Bong's assessment, demand for packages used in sectors including e-commerce, mail order and retail is still growing and strong growth potential is expected over time.

SALES AND EARNINGS

Consolidated sales for the period reached SEK 2,946 million (3,203). Exchange rate fluctuations had an impact on sales of SEK -57 million during the period compared with 2011. A calendar-related effect between the years had an impact on sales of about SEK -25 million.

Bong's total Propac sales totalled SEK 486 million (507) and at fixed exchange rates are about the same level as 2011. Sales of gift packaging, bubble bags and the new machinery concept (packaging machines and cold seal technology for e-commerce and mail order businesses) are increasing, while sales of some more mature products are declining. All of Bong's key suppliers of fine paper announced and implemented price increases during the first six months of the year. Bong then raised its customer prices, which is necessary to restore margins to an acceptable

level. Operating profit was SEK 16 million (40) including restructuring costs and capital gains, the majority of which were attributable to a building in France that was sold with capital gains of SEK 17 million.

Net financial items in 2012 totalled SEK -71 million (-63), profit before tax was SEK -55 million (-23) and profit after tax was SEK -54 million (-16).

Revaluation of deferred tax had a negative impact on the result of SEK -14 million, mainly due to the change in the Swedish corporate tax rate.

INTEGRATION AND RESTRUCTURING PROGRAMME

Restructuring costs of a total of SEK 57 million were charged against the result for the year. They include SEK 40 million initiated in Q2 and SEK 17 million initiated in Q4. Since the merger with Hamelin's envelope division in 2010, additional synergistic effects relating to both production staff and administrators have been identified. Costs of SEK 40 million pertain to measures to achieve these synergies, raise productivity and improve Bong's competitiveness. The measures will affect a number of markets in Continental Europe and Sweden. Costs of SEK 17 million mainly pertain to the closure of the British production facility in Washington and the Swedish envelope printer DM Qvert.

The corresponding figure for restructuring costs in 2011 was SEK 23 million. Compared with last year, the previously implemented restructuring programme yielded clear results in the form of lower fixed costs in production, sales and administration.

All restructuring measures are proceeding according to plan and are expected to generate annual cost savings of about SEK 50 million when fully implemented Q2 2013.

The impact on the Group's cash flow for this and the previously implemented restructuring programme was about SEK -55 million in 2012.

NEW RESTRUCTURING PROGRAMMES 2013

In order to maintain our long-term competitiveness and restore profitability to a satisfactory level, further restructuring programmes have been announced in early 2013. The cost of these restructuring programmes is estimated at about SEK 50-60 million and will be expensed during the first half of 2013. These restructuring programmes will affect most of

Bong's markets. The annual savings are estimated to be about SEK 55 million, with full effect expected in late 2014.

CASH FLOW

Cash flow after investing activities was SEK -37 million (137).

Investing activities and acquisitions during the period affected cash flow with a net of SEK -36 million (-12).

FINANCIAL POSITION

Cash and cash equivalents at 31 December 2012 totalled SEK 112 million (151). The Group had unutilised credit facilities of SEK 209 million at 31 December 2012. Total available cash and cash equivalents amounted to SEK 321 million.

Consolidated equity at 31 December 2012 amounted to SEK 407 million (496). Translation of the net asset value of foreign subsidiaries to SEK, acquisition of minority share, result for the period, and changes in the fair value of derivative instruments reduced consolidated equity by SEK 89 million.

The interest-bearing net loan debt increased during the period by SEK 7 million to SEK 954 million (947). Translation of net loans in foreign currency to Swedish crowns reduced the Group's net loan debt by SEK 28 million.

CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net negative impact on cash flow of SEK -36 million (-12), including acquisitions of SEK -13 million and other investments of SEK -23 million. The net investments mainly include an investment in a new business system for the Group. Also included is the sale of a property in France, which had a positive impact on cash flow of SEK 25 million, as well as the sale of machinery of SEK 10 million.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

ANGUS & WRIGHT

In January 2013, Bong exercised its option to acquire the remaining 50% stake in the part-owned British company Angus & Wright. The company, which sells packaging machines along with cold seal materials to e-commerce and mail order companies, is being consolidated beginning with January and initially only a minor impact on the Group's performance is expected.

EMPLOYEES

The average number of employees during the period was 2,271 (2,431). The number of employees at 31 December 2012 was 2,218 (2,318). The decrease is a result of the restructuring measures taken in 2011 and 2012. Bong continually works on improving productivity and downsizing staffing to meet current demand.

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 14001. The plants in Wuppertal in Germany, Nybro and Kristianstad in Sweden, Tönsberg in Norway, as well as Milton Keynes and Derby in the UK, Sandweiler in Luxembourg, Evreux and Angoulême in France, Kavi in Finland and Estonia are certified.

In 2009, Bong began efforts to obtain certification of its products according to the pan-European environmental certification standard Paper by Nature. 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.

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.

RESEARCH AND DEVELOPMENT

The Group conducts some research and development activities. In addition, active efforts are pursued to meet customer needs for different envelopes and packaging solutions.

PARENT COMPANY

The Parent Company's business extends to management of operating subsidiaries and Group management functions. Sales were SEK 38 million (28) and earnings before tax were SEK 3 million (-19).

Investments for the period amounted to SEK 7 million (6). The investments are primarily IT-related and pertain to a common platform for administrative systems in the Group. Credits granted but not utilised amounted to SEK 209 million (290).

BOARD'S PROPOSED 2013 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2013 AGM resolve on remuneration to the President and other senior executives as follows: "Senior executives" here refers to executives included in the management group, which currently consists of the company's President/CEO and Business Area Manager Nordic Region, Chief Financial Officer

(CFO), Business Area Manager Bong Packaging Solutions AB, Business Area Manager Central Europe, Business Area Manager UK and Managing Area Director Bong France and Bong Spain. Remuneration shall consist of fixed salary, variable remuneration, other benefits and pension. The aggregate remuneration shall be market-related and competitive in order to ensure that the Bong Group can attract and retain competent senior executives. In addition to the above variable compensation, from time to time a long-term incentive scheme may be approved.

The variable component of the salary shall have a predetermined ceiling, the basic principle being that the variable salary portion can amount to no more than 60 per cent of the fixed annual salary. The variable component is based on earnings and cash flow as well as 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 component is based on a vesting period of one year. The goals for 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. 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 Group Management are also entitled to an increased occupational pension premium of up to 30 per cent of their fixed salary.

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 4-12 months and at the company's request with a period of notice of 6-18 months. In the event of termination by the company, the period of notice and the period during which compensation is payable shall not together exceed 18 months.

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

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 9 million (excluding social security contributions). The calculation is based on the current composition of the Group Management.

OWNERSHIP

Bong's principal owners, with stakes of more than ten per cent of the votes and capital, are Holdham S.A., with 25% 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 on 31 December 2012. 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 Bong's 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 Russia and Eastern Europe, a generally growing economy still drives envelope consumption. In Western Europe, the connection between general economic growth and envelope consumption is no longer as strong as it has been, given IT developments and associated digitisation.

Demand for envelopes for direct mail varies with the economy. With the aid of more sophisticated databases with personal information, a market is being created for highly sophisticated envelopes intended for personally addressed direct mail. Large promotional mailings in envelopes are declining in frequency and scope over time.

The use of envelopes for administrative letters has already declined with respect to account statements, order confirmations, etc. as part of digitisation and internet penetration. Other parts of the transaction-related mailings, such as invoices, still hold their own in the competition with the newer technology. The strong demand for packaging in both e-commerce and traditional retail creates great opportunities for Bong to create growth in their specialty packaging line (Propac). Packaging customers also present an opportunity for cross-selling of envelopes. Over time, growth in the packaging area is expected to compensate for the decline in envelopes. Bong is closely monitoring developments and is very active in specialty packaging to ensure sustained growth in Propac.

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 market has undergone accelerating consolidation since 2009 as a result of the protracted financial crisis. The three largest envelope companies represent about 70 per cent of the total market. However, some of the major markets are still fairly fragmented. Bong believes that overcapacity in the industry has fallen slightly.

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, 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 major 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 6 per cent of annual sales, and the 25 biggest customers account for 35 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 230 envelope machines and 140 overprinting presses. 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.

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 EC's investigation is currently underway. Against this background, Bong is not able to reasonably assess the outcome of the EC's judicial review.

DISPUTES

Bong has no material pending 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 2012 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%	29 +/-
Volume	+/- 1%	15 +/-
Paper prices	+/- 1%	15 -/+
Payroll costs	+/- 1%	8 -/+
Interest level borrowing	+/- 1%-point	8 -/+

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 public limited liability company whose shares are traded on the NASDAQ OMX Stockholm in the Small Cap segment. Bong has around 1,200 shareholders.

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 2012

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 25 shareholders, representing 54 per cent of the total number of shares and votes in the company, participated in Bong's Annual General Meeting on 16 May 2012 in Malmö. All Board members and the company's auditors were present or represented at the AGM.

Bong's principal shareholders can be seen under the heading Ownership, page 13.

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, e.g. 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 2012 AGM, when Alf Tönnesson declined re-election, Bong's Board of Directors has consisted of six AGM-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 16 May 2012. The other members of the Board are Stéphane Hamelin (vice chairman), Christian W. Jansson, Ulrika Eriksson, Eric Joan and Anders Davidsson, President and CEO.

The Board has appointed from among their number two committees: the Audit Committee and Remuneration Committee.

REMUNERATION OF THE BOARD

The Chairman of the Board received a fee of SEK 400 thousand for 2012 (400). The amount comprises part of the total director's fee determined by the AGM, as well as for the chairman of the Audit Committee. 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 2012 AGM, can be found in Note 4.

BOARD MEMBERS ELECTED BY THE AGM

Mikael Ekdahl (b. 1951).

Member since 2001 and Chairman of the Board since 2003.

L.L.M., degree in business administration, 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, and board member of AarhusKarlshamn AB.

Terminated board appointments/partnerships over the past five years: – Shareholding in Bong (private and via related party): 60,000 shares.

Ulrika Eriksson (b. 1969).

Board member since 2008.

Degree in business administration.

Other appointments/positions: Senior Executive Vice President, Apoteket AB. Board member of Bong Packaging Solutions AB.

Terminated board appointments/partnerships over the past five years: –

Previous positions: Various executive positions at Apoteket AB

and Reitan Servicehandel i Sverige AB.

Shareholding in Bong (private and via company): 20,000 shares.

Anders Davidsson (b. 1970).

Board member since 2004.

Degree in business administration.

Other appointments/positions: President and CEO of Bong AB. Chairman of the Board of Bong Packaging Solutions AB, board member of Bong Sverige AB, Bong Suomi Oy, Bong UK Ltd and Bong Belgium S.A.

Terminated board appointments/partnerships over the past five years: Aarhus Karlshamn AB.

Shareholding in Bong: 182,600 shares.

Christian W. Jansson (b. 1949).

Board member since 2007.

Dr. h.c. (Econ.); degree in business administration.

Other appointments/positions: Chairman of the Board of Apoteket AB, Svensk Handel AB and Vivoline Medical AB, as well as board member of KappAhl AB, BRIS, Confederation of Swedish Enterprise, Kontanten AB and Fata Morgana AB.

Terminated board appointments/partnerships over the past five years: Carmel Pharma AB.

Shareholding in Bong (private and via company): 745,246 shares.

Stéphane Hamelin (b. 1961).

Board member since 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): 4,331,620.

Eric Joan (b. 1964).

Board member since 2010.

Graduate of Ecole Polytechnique Universitaire de Lille and Harvard Business School.

Other appointments/positions: CEO of Hamelin.

Terminated board appointments/partnerships over the past five years: –

Shareholding in Bong (private and via company): 0.

EMPLOYEE MEMBERS

Peter Harrysson (b. 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 (b. 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.

RULES OF PROCEDURE FOR THE BOARD

The Board of Directors has adopted written rules of procedure and issued written instructions concerning the division of responsibilities between the Board and the President. There are instructions regarding information to be furnished regularly to the Board of Directors. During financial year 2012, the Board of Directors held six meetings in addition to the statutory meeting. The CEO provided board members with information at all regular meetings about the financial position of the Group and significant events in the company's operations.

The Board meets at least four times a year in addition to the statutory meeting. One of the meetings can be held at one of the Group's units and be combined with an in-depth review of this unit.

Key issues that the Board of Directors addressed in 2012 include:

15 February	Year-end report and progress report from auditors
16 May	Q1 2012 interim report and statutory board meeting after the 2011 annual general meeting
12 July	Q2 2012 interim report
14 September	Visit to subsidiary
14 November	Q3 2012 interim report
19 December	Budget 2013

INDEPENDENT MEMBERS AND ATTENDANCE AT BOARD MEETINGS

Bong complies with the Stockholm Stock Exchange's listing agreement and the Code with regard to requirements on independent Board members.

COMPOSITION OF THE BOARD OF DIRECTORS AND NUMBER OF FORMAL MEETINGS IN 2012

	Independent of company ¹	Independent of major shareholders ¹	Attendance at Board meetings
Mikael Ekdahl	Yes	No	6
Ulrika Eriksson	Yes	Yes	6
Anders Davidsson	No	No	6
Christian W Jansson	Yes	Yes	5
Alf Tönnesson through 16 May 2012	Yes	No	2
Stéphane Hamelin	Yes	No	6
Eric Joan	Yes	No	5

¹ The assessment of the independence of the Board members has been made in accordance with NASDAQ OMX Stockholm's Rules for Issuers and criteria of independence.

RESTRICTIONS ON VOTING RIGHTS

The company's articles of association do not contain any limitations in respect of how many votes each shareholder may cast at a General Meeting of Shareholders.

NOMINATION COMMITTEE

The AGM has appointed a special Nomination Committee whose task is to submit proposals to the AGM in consultation with the principal owners on the composition of the Board of Directors.

The Nomination Committee for the 2013 AGM consists of four members: Alf Tönnesson, chairman (Aktiebolaget Cydonia), Mikael Ekdahl (Melker Schörling AB), Peter Edwall (Ponderus Securities AB) and Erik Sjöström (Skandia). Since Bong's principal shareholders represent about 70 per cent of votes, it is only natural that two of them, Melker Schörling AB and Alf Tönnesson, via firms are represented on the Nomination Committee. Furthermore, said shareholders consider it to be natural that a representative from one of the largest shareholders in terms of votes should serve as Chairman of the Committee. The Nomination Committee has dealt with the issues that follow from the Code. The Nomination Committee has had one formal meeting and regular contacts.

REMUNERATION COMMITTEE

The Board of Directors has appointed a remuneration committee consisting of Mikael Ekdahl, chairman, and Stéphane Hamelin.

The Committee's task is to review and give the Board recommendations regarding the principles for remuneration, including performance-based remuneration to the company's senior executives. Questions concerning the President's terms of employment, remuneration and benefits are prepared by the remuneration committee and decided by the Board of Directors.

The President's salary consists of a fixed portion and a variable portion. The variable component, which is re-examined annually, is dependent on the achievement of goals for the company and the President.

The Remuneration Committee met on one occasion in 2012 at which both members participated.

AUDIT COMMITTEE

The Board of Directors has appointed an audit committee consisting of Mikael Ekdahl, chairman, and Christian W. Jansson. Since Bong's principal shareholders represent about 70 per cent of votes it is only natural that one of them is represented on committee along with an additional independent board member. Since other members of the Board cover other activities within the Group, this has been deemed sufficient. The Audit Committee shall oversee that the company's accounts are prepared with full integrity for the protection of the interests of shareholders and other parties. The Audit Committee met three times in 2012 at which both members participated.

EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2012 AGM elected accounting firm PricewaterhouseCoopers AB, with authorized auditor Eric Salander as principal auditor, for a one-year mandate period.

The auditors review the Board's and the President's administration of the company and the quality of the company's audit documents.

The auditors report the results of their review to the shareholders via the Audit Report, which is presented at the AGM. In addition, the auditors submit detailed accounts to the Board of Directors at least once a year.

PRESIDENT AND GROUP MANAGEMENT

The President leads the day-to-day management of the company in accordance with the Board's guidelines and directions. The President is responsible for keeping the Board of Directors informed and ensuring that the Board has all the factual material needed to make informed decisions. The President is a member of the Board of Directors. The President also keeps the Chairman of the Board informed, by continuous dialog, of the development of the Group.

The President and others in the Group Management hold formal meetings once a month as well as a number of informal meetings to go through the results of the previous month and discuss strategy questions.

In 2012, Bong's Group Management consisted of 6 people, none of whom are women. The Group consists of the Parent Company Bong AB and a number of subsidiaries, as reported in Note 14.

Reporting by subsidiaries takes place on a monthly basis. The boards of the subsidiaries preferably consist of members of Bong's corporate management and the Parent Company's board of directors.

REMUNERATION TO GROUP MANAGEMENT

The 2012 AGM decided that the Group Management's salaries should consist of a fixed basic salary plus variable performance-based remuneration. The variable remuneration can be paid for performance that exceeds what is normally expected of a member of the Group Management after an evaluation has been made of individual performances and the company's reported profit.

The extent to which pre-established goals for the company and the senior executive have been achieved is taken into account when establishing the variable remuneration.

The total remuneration for members of the Group Management should be at a competitive level.

INTERNAL CONTROL

The Board of Directors is responsible for ensuring that there is a good system for internal control and risk management.

Responsibility for creating good conditions for working with these matters is delegated to the President. Both Group Management and managers at different levels in the company bear this responsibility in their respective areas. Powers and responsibilities are defined in policies, guidelines and instructions for authorisation rights.

THE BOARD'S STATEMENT REGARDING INTERNAL CONTROL

According to the Code, the Board of Directors shall annually submit a description of the company's system for internal control and risk management regarding financial reporting. This report is prepared in accordance with the Code.

ORGANISATION FOR INTERNAL CONTROL

Internal control regarding financial reporting is a process designed to provide reasonable assurance regarding the reliability of the external and financial reporting and whether the financial statements are prepared in accordance with generally accepted accounting principles, applicable acts and ordinances and other requirements on listed companies. The internal control activities are included in Bong's administrative procedures. Internal control regarding financial reporting in Bong can be described in accordance with the following framework.

CONTROL ENVIRONMENT

Internal control in Bong is based on a control environment that includes values and management culture, follow-up, a clear and transparent organisational structure, division of duties, the duality principle, quality and efficiency of internal communications.

The basis of the internal control regarding financial reporting consists of a control environment with organisation, decision-making channels, powers and responsibilities that have been documented and communicated in governing documents such as internal policies, guidelines and instructions, as well as job descriptions for controlling functions. Examples are rules of procedure for the Board and President, instructions for financial reporting, information policy and authorisation instructions.

CONTROL ACTIVITIES

The control activities include both general and more detailed controls intended to prevent, detect and correct errors and non-conformances. The control activities are devised and documented at the corporate and departmental level.

The internal regulatory framework with policies, guidelines and instructions comprises the most important tool for furnishing information and instructions for the purpose of securing the financial reporting. In addition, a standardised reporting package is used by all subsidiaries in order to ensure consistent application of Bong's principles and coordinated financial reporting. Bong also has a self-assessment process relating to internal controls.

RISK ASSESSMENT

Bong continuously evaluates the risks surrounding reporting that may arise. Furthermore, the Board of Directors is responsible for ensuring compliance with insider laws and standards for furnishing information. The overall financial risks are defined and taken into consideration in establishing the Group's financial goals.

The Group has an established, but changeable, system for management of business risks that is integrated in the Group's control process for business planning and performance. In addition, seminars are routinely held on business risks and risk assessment within the Group. There are procedures for ensuring that significant risks and control deficiencies are, when necessary, detected by the Group Management and the Board of Directors on a periodic basis.

INFORMATION AND COMMUNICATIONS

In order to ensure effective and correct information, both internally and externally, good communications are required. Within the Group there are guidelines for ensuring that relevant and essential information is communicated within the Group, within each unit and between the management and the Board of Directors. Policies, manuals and work descriptions are available on the company's intranet and/or in printed form. In order to ensure that external information is correct and complete, Bong applies an information policy adopted by the Board of Directors.

FOLLOW-UP

The President is responsible for ensuring that internal control is organised and followed up in accordance with the guidelines established by the Board of Directors. Financial governance and control are exercised by the Group accounting function. The financial reporting is analysed monthly at the detailed level. The Board of Directors has regular access to financial reports, and the company's financial situation is dealt with at every Board meeting. Every quarterly report is gone through by the Board of Directors. The President is responsible for ensuring that independent objective reviews are performed for the purpose of systematically evaluating and proposing improvements in the Group's processes for governance, internal control and risk management. In view of this and how the financial reporting has otherwise been organised, the Board of Directors finds no need for a special internal auditing function.

PROPOSED DISTRIBUTION OF EARNINGS

The Board of Directors proposes that the earnings available for distribution, SEK 543,136,532, be carried forward.

BOARD'S OPINION CONCERNING PROPOSED DIVIDEND

Bong's current priority is to reduce debt and improve profitability. Therefore, the Board proposes that no dividend be paid for 2012. No dividend was paid for 2011.