

# Board of Directors' report

The Board of Directors and the Chief Executive Officer ("CEO") of Bong AB (publ.), corporate ID no. 556034-1579, registered headquarters in Kristianstad, hereby submit their annual report for the financial year 1 January 2014 – 31 December 2014 for the Parent Company and the Group ("Bong" or the "Company").

Bong is one of the leading providers of speciality 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 packaging within retail and e-commerce and the envelope market within Eastern Europe. The Group has annual sales of approximately SEK 2.5 billion and around 1,800 employees in 16 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 Stockholm (Small Cap).

## MARKETS

The market decline of the European envelope market in 2014 was around 5 per cent compared with 2013, according to our forecasts. Bong's assessment is that the market will continue to decrease at the same pace during 2015, meanwhile company consolidations and restructuring processes continue.

Many small companies are closing operations and the bigger companies are consolidating as well as reducing production capacity. The special packaging market, where Bong is present, is still growing and is much bigger and much more fragmented.

## SALES AND EARNINGS

Consolidated sales for the period reached SEK 2,533 million (2,564). The main reason for the drop in sales is the continued downturn in the envelope market, which resulted in both lower volumes and pricing pressures and had a negative impact on Bong's gross earnings. In addition, exchange rate fluctuations had a positive impact on sales of SEK 111 million during the period compared with 2013.

Bong's total Propac sales amounted to SEK 415 million (417). Currency fluctuations have had a positive impact on Propac sales of SEK 18 million compared with the corresponding period in 2013. Bong decided during the second half of 2014 to change the Propac organisation and the range in order to give the customers an even better offering and service. The new set-up within light packaging will be launched during the first half of 2015.

Operating profit was SEK -123 million (-109) including costs for an extensive restructuring programme of SEK -105 million (-69) and also extraordinary costs of SEK -30 million for the settlement with the EU Commission regarding anti-competitive behaviour and write-down of buildings of SEK -15 million. The yearly impairment test of goodwill indicated no write-down need. A write-down of goodwill of SEK 15 million was made in 2013.

The restructuring measures announced in late 2013 are now to a large extent being rolled out throughout the Group. When fully implemented the measures are expected to reduce fixed costs by SEK 150-200 million annually. Structural costs to achieve these savings are expected to reach around SEK 150 million. The reserved costs during the period relate to all major geographic markets.

Net financial items for the period amounted to SEK -55 million (-67). Earnings before tax were SEK -178 million (-176) and reported earnings after tax were SEK -150 million (-141).

## CASH FLOW

Cash flow after investing activities for the period was SEK 94 million (-91). Payments for the ongoing restructuring programme had a negative impact on cash flow for the year of SEK -38 million (-66). Investments and acquisitions affected cash flow by a net amount of SEK -3 million (-28). The improvement in cash flow is related to improved underlying results excluding one-time costs and a decreased working capital.

## FINANCIAL POSITION

Cash and cash equivalents on 31 December 2014 amounted to SEK 97 million (82). The Group had unutilised credit facilities of SEK 61 million on the same date. Total available cash and cash equivalents thus amounted to SEK 158 million (142). Consolidated equity at the end of December 2014 was SEK 377 million (522). Translation of the net asset value of foreign subsidiaries to Swedish krona and changes in the fair value of pension debt and derivative instruments increased consolidated equity by SEK 9 million. The interest-bearing net loan debt decreased during the period by SEK 12 million to SEK 790 million (802). Translation of net loans in foreign currency to Swedish krona increased the Group's net loan debt by SEK 42 million. The revaluation of the pension debt according to IAS 19 increased the Group's net loan debt by SEK 35 million.

## CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net impact on cash flow of SEK -3 million (-28), of which SEK -1 million relates to payment for acquisitions reported in previous years and SEK -2 million relates to other net investments. The net investments include an investment in production equipment and a business system for the Group. Also included were the sale of machinery and other production equipment and a sale of real estate, which had a positive impact on cash flow of SEK 34 million.

## EMPLOYEES

The average number of employees during the period was 1,873 (2,051). The number of employees on 31 December 2014 was 1,833 (1,961). Bong continually works to improve productivity and adjust staffing to meet current demand and the reduction is the result of the implemented restructuring programme.

## 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 ISO 14001 certified. The plants in Solingen in Germany 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, Kaavi in Finland and Estonia are certified.

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.

## EVENTS AFTER THE END OF THE FINANCIAL YEAR

No material events have occurred after the end of the financial year.

## 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 certain Group management functions, Note 38. Sales were SEK 0.7 million (21) and earnings before tax for the period were SEK -73 million (-28).

Investments for the period amounted to SEK 0 million (6). Credits granted but not utilised amounted to SEK 61 million (60).

## BOARD'S PROPOSED 2015 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2015 AGM resolve on remuneration to the CEO and other senior executives as follows: "Senior executives" here refers to executives included in the management group, which currently consists of the Company's CEO and Business Area Manager Nordic Region, Chief Financial Officer (CFO), Business Area Manager Central Europe, Business Area Manager UK and Business Area 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. 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 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 24 months.

Remuneration of the CEO 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 TO THE BOARD OF DIRECTORS PROPOSAL

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 stakeholdings of more than ten per cent of the votes and capital, are Holdham S.A., with 33.7 per cent of the votes and capital, and Paulsson Advisory AB with about 12.2 per cent of the votes and capital. Nordea AB and FR & R Invest AB each own about 7.4 per cent of the votes and capital in the Company. The total number of ordinary shares was 156,659,604 on 31 December 2014. 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 financial position.

## APPOINTMENT AND REMOVAL OF BOARD MEMBERS AND AMENDMENT OF THE ARTICLES OF ASSOCIATION

The Company's Board of Directors shall consist of a minimum of four and a maximum of 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 no longer as strong as it has been, given IT developments and associated digitization.

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.

Administrative mailings as a whole has already declined with respect to account statements, order confirmations, etc. as part of digitisation and internet penetration. Other parts of 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. 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.

## 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. Several 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 2011 as a result of the financial crisis. The three largest envelope companies represent about 60 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 term 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 4 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 in the industry.

On the other hand, the low investment needs lead to very good cash-generating capacity. At year-end the Group's machinery consisted of about 175 envelope machines and 130 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 2014 Bong reached a settlement with the European Commission. For Bong this finally concludes an investigation that has been ongoing since 2010 regarding alleged infringement of European competition law between five envelope companies during the period October 2003 to April 2008. As a result of the settlement, Bong will pay EUR 3,118,000 to the European Commission during the first quarter of 2015.

## DISPUTES

Bong has no on-going or pending material 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. 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 2014 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%       | 25 +/-  |
| Volume                   | +/- 1%       | 13 +/-  |
| Paper prices             | +/- 1%       | 12 +/-  |
| Payroll costs            | +/- 1%       | 7 +/-   |
| Interest level borrowing | +/- 1%-point | 7 +/-   |

## 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 PRINCIPLES

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 of 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 NASDAQ Stockholm in the Small Cap segment. Bong has around 1,700 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 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 2014

### OWNER INFLUENCE

Governance of Bong is exercised via the General Meeting of Shareholders, the Board of Directors and the CEO. 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.

Around 34 shareholders, representing 69 per cent of the total number of shares and votes in the Company, participated in Bong's Annual General Meeting on 21 May 2014 in Kristianstad. 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 Shareholders, page 9.

### 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 estate.

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.

From the time of the statutory meeting of the Board of Directors on 21 May 2014 until the end of September 2014, the Board consisted of six AGM-elected members without deputies and two employee members with two deputies with Stéphane Hamelin as the Chairman of the Board. The CEO and Board Member Anders Davidsson resigned from his position in September 2014 and Stéphane Hamelin replaced him as CEO. At the same time Board Member Eric Joan replaced Stéphane Hamelin as Chairman of the Board. The other Members of the Board are Mikael Ekdahl (vice chairman), Christian Paulsson and Ulrika Eriksson.

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

### REMUNERATION OF THE BOARD

The Chairman of the Board of Directors Eric Joan received a fee of SEK 90,000 (0) for his time as Chairman of the Board of Directors and Stéphane Hamelin received SEK 180,000 for his time as Chairman of the Board of

Directors since the 2014 Annual General Meeting. Stéphane Hamelin also received remuneration of SEK 15,000 (0) for serving as member of the Audit Committee until October 1, 2014. No other fees were paid. There is no agreement on pension, severance pay or other benefits. The amounts correspond to the amounts stipulated by the 2014 AGM, including a voluntary reduction of 10 percent.

Information about remuneration of the Board of Directors, as resolved by the 2014 Annual General Meeting, can be found in Note 4.

### BOARD MEMBERS ELECTED BY THE AGM

Eric Joan (b. 1964).

Chairman of the Board since October 2014

Graduate from Polytech 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.

Stéphane Hamelin (b. 1961).

Board member since 2010 and Chairman of the Board from May 2013 to September 2014.

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 (privately and through companies): 52,850,282

Mikael Ekdahl (b. 1951)

Board member since 2001 and Chairman of the Board from 2003 to May 2013.

LL.B and MSc Business and Economics, Lund University

Other directorships/positions: Partner since 1984 of Mannheimer Swartling.

Chairman in Marco AB and Absolent AB; Vice chairman in Melker Schörling AB.

Terminated board appointments/partnerships over the past five years:

Aarhuskarlshamn AB

Holding in Bong (privately and via closely related parties): 60,000

Ulrika Eriksson (b. 1969)

Board member since 2008.

Master in Business and Economics

Other directorships/positions: Executive VP, Apoteket AB

Terminated board appointments/partnerships over the past five years:

Bong Packaging Solutions AB.

Previous positions: Various managing positions within Apoteket AB and Reitan Servicehandel in Sverige AB.

Holding in Bong (privately and through companies): 100,000

Christian Paulsson (b. 1975)

Board member since 2014.

Master in Business and Economics

Other directorships/positions: Director IBS AB, Apper Systems AB,

Vendator AB, Caperio Holding AB, Huntway AB and Paulsson Advisory AB.

Terminated board appointments/partnerships over the past five years:

Bong Packaging Solutions AB. Previous positions: Executive VP and CEO at

IBS AB, CEO at Lage Jonason AB

Holding in Bong (through company): 19,126,695

## EMPLOYEE REPRESENTATIVES

Peter Harrysson (b. 1958).

Board member since 1997.

Other directorships/positions: Factory worker in Bong Sverige AB.

Terminated board appointments/partnerships over the past five years: –  
Holding in Bong: 0

Christer Muth (b. 1954).

Board member since 2009.

Other directorships/positions: Sales and customer service, Bong Sverige AB.

Terminated board appointments/partnerships over the past five years: –  
Holding in Bong: 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 CEO. There are instructions regarding information to be furnished regularly to the Board of Directors. During financial year 2014, the Board of Directors held eight 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 2014 include:

- 12 February Year-end report and progress report from auditors
- 21 May Q1 2014 interim report and statutory board meeting after the 2014 AGM
- 4 July Q2 2014 interim report
- 11 September Visit to subsidiary
- 28 October EU Commission settlement
- 12 November Q3 2014 interim report
- 17 December Budget 2015

## INDEPENDENT MEMBERS AND ATTENDANCE AT BOARD MEETINGS

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

## COMPOSITION OF THE BOARD OF DIRECTORS AND NUMBER OF FORMAL MEETINGS IN 2014

|   | Independent<br>of company <sup>1</sup> | Independent<br>of major<br>shareholders <sup>1</sup> | Attendance<br>at Board<br>meetings |
|---|--|--|------------------------------------|
| Eric Joan   | Yes                                    | No   | 8                                  |
| Stéphane Hamelin                                      | No                                     | No   | 9                                  |
| Mikael Ekdahl   | Yes                                    | Yes  | 7                                  |
| Ulrika Eriksson                                       | Yes                                    | Yes  | 9                                  |
| Anders Davidsson<br>(Resigned in September<br>2014)   | No                                     | No   | 6                                  |
| Christian Paulsson<br>(from May 2014)                 | Yes                                    | Yes  | 7                                  |
| Christian W Jansson<br>(from May 2013 to May<br>2014) | Yes                                    | Yes  | 1                                  |

<sup>1</sup> The assessment of the independence of the Board members has been made in accordance with NASDAQ 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 to how many votes each shareholder may cast at a General Meeting of Shareholders.

## NOMINATION COMMITTEE

The Annual General Meeting appoints a 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 elected by the 2014 AGM consisted of three members: Stéphane Hamelin (Holdham S.A.), Christian Paulsson (Paulsson Advisory AB) and Ulf Hedlundh (Svolder AB). Stéphane Hamelin was appointed Chairman of the Nomination Committee.

Since Bong's principal shareholders (Holdham S.A. and Paulsson Advisory AB), represented about 45 per cent of votes, it was only natural that they were represented on the Nomination Committee. Furthermore, said shareholders considered it to be natural that a representative from one of the largest shareholders in terms of votes should serve as Chairman of the Nomination Committee. The Nomination Committee has dealt with the issues that follow from the Code. The Nomination Committee has had one formal meeting with regular contacts in between.

## REMUNERATION COMMITTEE

The Board of Directors has appointed a Remuneration Committee consisting of Christian Paulsson, chairman, Mikael Ekdahl and Stéphane Hamelin.

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

The CEO'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 results for the Company and the CEO.

The Remuneration Committee met on one occasion in 2014, at which all members participated.

## AUDIT COMMITTEE

The Board of Directors has appointed an Audit Committee consisting of Mikael Ekdahl, chairman, and Christian Paulsson and Stéphane Hamelin. Since Bong's principal shareholders represent about 45 per cent of votes it is only natural that both of them are represented on the Audit 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 2014, at which all members participated.

## EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2014 AGM elected accounting firm PricewaterhouseCoopers AB, with authorised auditor Eric Salander as principal auditor, and authorised auditor Christer Olausson as co-auditor, for a one-year mandate period.

The auditors review the Board's and the CEO'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 and report to the Audit Committee at each of its meetings.

## THE CEO AND GROUP MANAGEMENT

The CEO leads the day-to-day management of the Company in accordance with the Board's guidelines and directions. The CEO 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 CEO is a member of the Board of Directors. The CEO also keeps the Chairman of the Board informed, by continuous dialogue, of the development of the Group.

The CEO and others in the Group Management hold formal meetings about 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 2014, Bong's Group Management consisted of six people until September 30, 2014 and thereafter of five persons, including one woman. The Group consists of the Parent Company Bong AB and a number of subsidiaries, as reported in Note 19. Reporting by subsidiaries takes place on a monthly basis.

The boards of the subsidiaries mainly consist of members of Bong's corporate management and the Parent Company's Board of Directors.

## REMUNERATION FOR GROUP MANAGEMENT

The 2014 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 CEO. 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 for 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 CEO, 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-conformance. 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 CEO 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 a 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 CEO 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 666,898,462, be carried forward. Note 37.

## 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 2014. No dividend was paid for 2013.