

# Board of Directors' report

The Board of Directors and the Chief Executive Officer ("CEO") of Bong AB (publ.), corporate ID no. 556034-1579, with registered headquarters in Kristianstad, Sweden, hereby submit their annual report for the financial year 1 January 2018 – 31 December 2018 for the Parent Company and the Group ("Bong", "the Group" or "the Company").

Bong is one of the leading envelope manufacturers in Europe, offering a wide and flexible range of solutions for distribution and packaging of information, advertisement 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 2.2 billion and about 1,400 employees in 12 countries. Bong is a public limited company and its shares are listed on Nasdaq Stockholm (Small Cap).

## MARKETS

### ENVELOPE

During the fourth quarter of 2018, FEPE statistics showed that the European envelope market volume had decreased by approximately 8 per cent compared to the same period the previous year. Bong's volumes decreased by 6 per cent during the fourth quarter. The decline in the European envelope market during the full year 2018 was according to FEPE approximately 7 per cent while the volumes of Bong decreased by 3 per cent compared to the previous year.

Raw material prices have increased continuously since 2016 as a direct result of the decreased capacity at the paper suppliers, and the price increase of pulp. Continued price increases by Bong into the market is therefore necessary, in order to compensate for the increase of raw material costs. Bong has been successful in compensating for these increases in the past.

During 2018 a significant restructuring of the envelope market has taken place. In the Nordic market InterMail has taken the decision to close its envelope production and enter into an agreement with Bong where Bong will help to continue to serve InterMail customers. GNE has left the UK market after being acquired by Encore. Pocheco in France are making 70 employees redundant as a result of the continued decrease in the market. Restructuring measures are also taken in Germany by Mayer Group as they are closing a factory in Düren. Bong estimates that the restructuring process and consolidation of the industry will continue.

### LIGHT PACKAGING

The light packaging market is a large and fragmented market which is growing. Light packaging represents approximately 20 per cent of Bong's annual sales and during 2018 Bong's sales of light packaging products, adjusted for currency effects, has increased with 4 per cent compared with the same period the previous year. Within e-commerce Bong sales of air bubble bags and padded bags are increasing. The benefit of these products are that they

can be sent directly to the recipient instead of being collected at the distribution centers. This reduces the shipping cost and at the same time increases the customer benefit. Bong is engaged in product development within e-commerce in order to develop additional product solutions that will satisfy the customer needs.

Within Retail (for example clothing- and cosmetic stores), Bong is mainly selling gift bags and paper carrier bags with exclusive and customer unique prints. Sales of paper carrier bags benefit from the EU-directive from 29 April 2015 aimed at reducing the use of plastic bags in Europe. Many customers are replacing their plastic bags with paper carrier bags and during 2018 sales increased by approximately 47 per cent. In order to further expand its offer in paper carrier bags and gift bags, Bong has invested SEK 4 million in an embossing and hot foil machine that has been installed during the third quarter of 2018.

### SALES AND EARNINGS

Consolidated sales for the period reached SEK 2,220 million (2,095). Exchange rate fluctuations had a positive impact on sales of SEK 106 million compared with 2017.

Operating profit decreased to SEK -52 million (45). The Group's gross margin is still affected negatively primarily by price increases on fine paper, where price increases towards customers have not yet been fully passed on. During the period operating profit was affected positively by a realized capital gain of SEK 4 million attributable to the sale of a warehouse in Kristianstad, Sweden, restructuring cost of SEK -5 million as well as a write-down of goodwill of SEK -76 million. During the same period 2017 operating profit was affected by a non-recurring profit of SEK 5 million attributable to renegotiated pension agreements in Norway. Exchange rate fluctuations for the period had a positive impact on operating profit of SEK 3 million.

The deal to take over Intermail's envelope customers was finalized during the period and had a positive impact on sales of approximately SEK 70 million.

Net financial items for the period amounted to SEK -56 million (-44) and includes a non-recurring item of SEK -11 million attributable to the sale of Postac LLC in Russia.

Earnings before tax amounted to SEK -108 million (1) and reported earnings after tax were SEK -148 million (-9). Profit after tax was negatively affected by revaluation of deferred tax assets of SEK -17 million.

Bong's total light packaging sales amounted to SEK 453 million (415). Currency fluctuations had a positive impact on light packaging sales of SEK 21 million compared with the corresponding period in 2017.

## CASH FLOW

The cash flow after investing activities decreased to SEK -65 million (40) compared to previous year. Cash flow from operating activities before changes in working capital amounted to SEK -10 million (37). Working capital had a negative impact on the cash flow of SEK -49 million (13). The largest negative impact is due to payments of SEK 35 million in January, which were attributable to 2017 and increased purchase prices.

Restructuring programs had negative impact on the cash flow of SEK -8 million (-20). Net investments in the period had a negative impact amounting to SEK -6 million (-10).

## FINANCIAL POSITION

Cash and cash equivalents at 31 December 2018 amounted to SEK 72 million (SEK 124 million at 31 December 2017, including the escrow account of SEK 21 million). In connection with divestment of a building in Kristianstad, part of the escrow account was terminated and SEK 20 million was transferred to another bank account. The Group had unutilized credit facilities of SEK 13 million on the same date. Total available cash and cash equivalents thus amounted to SEK 85 million (SEK 137 million at 31 December 2017, including the escrow account of SEK 21 million). Consolidated equity at the end of December 2018 was SEK 570 million (SEK 696 million at 31 December 2017).

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 24 million. The interest bearing net loan debt amounted to SEK 349 million, whereof pension debt amounts to SEK 217 million (SEK 294 million at 31 December 2017, whereof pension debt amounts to SEK 212 million).

The work to refinance Bong's bond has been finalized.

## CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net impact on cash flow of SEK -6 million (-10). The net investments include an investment in production equipment and sale of machines as well as a warehouse building in Kristianstad, Sweden.

## EMPLOYEES

The average number of employees during the period was 1,446 (1,459). The Group had 1,368 (1,437) employees at the end of December 2018. Bong has worked intensively on improving productivity and adjusting staff to meet current demand and the reduction is the result of the implemented restructuring measures.

## 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, as well as Milton Keynes and Derby in the UK, Evreux and Angoulême in France, Pirkkala in Finland and Kohila in 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.

FSC® is an organisation that promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests. The plants in Nybro (Sweden), Erlangen, Solingen, Torgau and Gersthofen (Germany), Milton Keynes and Derby (UK), Angoulême and Evreux (France), Pirkkala (Finland), Kohila (Estonia), Krakow and Poznan (Poland) are FSC® certified.

## SUSTAINABILITY REPORT

In accordance with the rules in the Swedish Annual Report Act, Bong has chosen to set up a Sustainability Report separate from the Administration Report. The Sustainability Report is found on pages 3-6.

## 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. Sales were SEK 4.5 million (2.6) and earnings before tax for the period were SEK -114 million (-546). During the period the result has been affected by a write-down of shares in subsidiaries of SEK -78 million (-526).

## BOARD'S PROPOSED 2019 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2019 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 Central Europe, Chief Financial Officer (CFO), Business Area Manager Nordic, Business Area Manager UK, Business Area Manager South Europe and North Africa and Spain and Business Manager Bong Retail Solutions.

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 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.

Decisions regarding remuneration of the CEO and other senior executives are prepared by the 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 DIRECTOR'S 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 5 million (excluding social security contributions). The calculation is based on the current composition of the Group Management.

## OWNERSHIP

Bong's principal owner, with a holding of more than ten per cent of the votes and capital, is Holdham S.A., with 25 per cent of the votes and capital. Svolder AB, the second largest owner, owns 7.7 per cent of the votes and capital in the Company. The total number of ordinary shares was 211,205,058 on 31 December 2018. 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 OF BOARD AND AMENDMENT OF ARTICLES

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 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.

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

The strong demand for packaging in both e-commerce and traditional retail creates great opportunities for Bong to create growth in its 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 within 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 smaller envelope sizes.

### INDUSTRY STRUCTURE AND PRICE COMPETITION

The European envelope market is undergoing a continuous consolidation. The three largest envelope companies represent just more than 50 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 long 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 four per cent of annual sales, and the 25 biggest customers account for 36 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 good cash generating capacity. At year-end the Group's machinery consisted of about 150 envelope machines and 100 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.

## 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 2018 earnings would have been affected by a change in a number of 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%	22 +/-
Volume	+/- 1%	1 +/-
Paper prices	+/- 1%	12 -/+
Payroll costs	+/- 1%	6 -/+
Interest level borrowing	+/- 1%-point	2 -/+

## CORPORATE GOVERNANCE REPORT

Effective and clear corporate governance helps secure the confidence of Bong's stakeholders 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 is based on applicable legislation, the regulatory framework for Nasdaq Stockholm and various internal guidelines. The most recent version of the Swedish Code of Corporate Governance ("the Code") was published in November 2016 and covers all listed companies as of 1 November 2016. Bong applies the Code, and in those cases the Company has chosen to disregard the rules of the Code, the 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 2,500 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 2018

### 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.

Sixteen shareholders, representing 38 per cent of the shares and votes in the Company participated in Bong's Annual General Meeting on 16 May 2018 in Malmö, Sweden. 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 8.

### 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 procedures 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 AGM in 2018 the Board has consisted of seven AGM-elected members without deputies and two employee members with one deputy. The Chairman of the Board since the AGM 2016 is Christian

Paulsson. The other Members of the Board are Mikael Ekdahl (vice chairman), Håkan Gunnarsson up until September 12th 2018, Stéphane Hamelin, Eric Joan, Stefan Lager and Helena Persson.

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 received a fee of SEK 350,000 (300,000). The amount is part of the total fee payable to the Board stipulated by the AGM 2018 and includes a fee for work in the Audit Committee. No other fees were paid. There is no agreement on pension, severance pay or other benefits. Information about remuneration of the Board of Directors, as resolved by the 2018 Annual General Meeting, can be found in note 4.

### BOARD MEMBERS ELECTED BY THE AGM

Christian Paulsson (b. 1975)

Chairman of the Board since May 2016 and Board member since 2014. Member of the Audit Committee and Chairman of the Remuneration Committee.

Education and previous experience: Bachelor of Business Administration, European University Bruxelles. CEO and deputy CEO of the business systems company IBS AB and CEO of the broker firm Lage Jonason AB. Corporate Finance experience from Mangold Fondkommission, Alfred Berg/ABN Amro Fondkommission and Booz & Co.

Other directorships/positions: Board member of Huntway AB and Paulsson Advisory AB.

Terminated board appointments/partnerships over the past five years: Chairman of Liv ihop AB (publ) and Cross Sportswear International AB, Member of the Board of Hubbr AB, IBS AB, Caperio Holding AB and Apper Systems AB.

Holding in Bong: 9,126,695 shares through Paulsson Advisory AB.

Mikael Ekdahl (b. 1951)

Board member since 2001. Chairman of the Audit Committee and member of the Remuneration Committee.

Education and previous experience: LL.B and MSc Business and Economics, Lund University. Member of the Swedish Bar Association, former partner of, now in cooperation with Mannheimer Swartling Advokatbyrå AB.

Other directorships/positions: Chairman of MSAB, Chairman of Absolent Group AB and Mikael Ekdahl AB.

Terminated board appointments/partnerships over the past five years: Chairman of Marko Group AB.

Holding in Bong: 60,000 shares.

Stéphane Hamelin (b. 1961)

Board member since 2010. Member of the Remuneration Committee.

Education and previous experience: CEO of Bong AB. Active at Borloo law firm 1984-1989.

Other appointments/positions: Chairman of the Board of Holdham S.A.

Terminated board appointments/partnerships over the past five years: -.

Holding in Bong: 52,850,282 shares through Holdham S.A.

Eric Joan (b. 1964)

Board member since 2010.

Education and previous experience: Graduate from École Polytechnique Universitaire de Lille and Harvard Business School.

Other appointments/positions: CEO of Hamelin Group.

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

Stefan Lager (b.1962)

Board member since 2017.

Education and previous experience: Education in management and datalogy.

Sr. VP Europe and Americas at Beijer Electronics Products AB, Managing Director PostNord Fulfilment AB, Head of Division Fulfilment Strålfors, Senior Vice president Strålfors.

Other directorships/positions: CEO of Beijer Electronics

Terminated board appointments/partnerships over the past five years: Board member of Centre for information logistics, board member of PostNord Fulfilment AS, board member of PostNord Fulfilment Sp.z.o.o and board member of Great Rate Sweden AB.

Shares in Bong: –.

Helena Persson (b. 1970)

Board member since 2015.

Education and previous experience: B. Sc. in Human Resources Development and Labour Relations, Lund University. Holds a position in Human Resources at E.ON Sweden AB and has previous experience as HR-consultant, HR Director at Pergo Europe AB, HR Manager at Clinical Data Care and as representative of Swedish Pharmaceutical Association and Akademikerförbundet SSR.

Other directorships/positions: –.

Terminated board appointments/partnerships over the past five years:

Deputy board member in Indus Consulting AB, Board member in Declam AB.  
Shares in Bong: 50,000.

## EMPLOYEE REPRESENTATIVES

Kentth Jivetorp (b. 1958)

Employee representative on the Board of Bong AB since 2018.

Representative of Grafiska Personalklubben.

Education and previous experience: Factory worker at Bong Retail Solutions AB.

Other directorships/positions: –.

Terminated board appointments/partnerships over the past five years: –.  
Shares in Bong: –.

Christer Muth (b. 1954)

Employee representative on the Board of Bong AB since 2008.

Representative of PTK.

Education and previous experience: Sales and customer service, Bong Sverige AB.

Other positions/directorships: –.

Terminated board appointments/partnerships over the past five years: –.  
Shares in Bong: –.

## 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 2018, the Board of Directors held sixteen 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.

The following important issues were dealt with on board meetings during 2018:

- 14 February Year-end report and report from the Auditors
- 16 May Interim report Q1 and statutory board meeting subsequent to the AGM 2018
- 12 July Half-year report Q2
- 12 September visit at subsidiary
- 14 November interim report Q3
- 12 December Budget 2019

## COMPOSITION OF THE BOARD OF DIRECTORS AND NUMBER OF FORMAL MEETINGS IN 2018

Bong complies with the Code with regard to requirements for independent Board members.

	Independent of company <sup>1</sup>	Independent of major shareholders <sup>1</sup>	Attendance at board meetings
Christian Paulsson	Yes	No	16
Mikael Ekdahl	Yes	Yes	14
Håkan Gunnarsson <sup>2</sup>	No	Yes	13
Stéphane Hamelin	No	No	16
Eric Joan	Yes	No	13
Stefan Lager	Yes	Yes	15
Helena Persson	Yes	Yes	16

<sup>1</sup>The assessment of independence has been made in accordance with the Code.

<sup>2</sup> Håkan Gunnarsson resigned from the Board in September 2018.

## 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 an AGM or 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 2018 AGM consisted of three members: Stéphane Hamelin (Holdham S.A.), Ulf Hedlundh (Svolder AB) and Christian Paulsson (Paulsson Advisory AB). Stéphane Hamelin was appointed Chairman of the Nomination Committee.

Since Bong's principal shareholders (Holdham S.A, Svolder AB and Paulsson Advisory AB), represented about 37 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 and received a Board evaluation from the Board. The evaluation was performed using a questionnaire which showed that the Board functions well. The Nomination Committee has had two 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. Issues 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 2018, at which all members participated.

## AUDIT COMMITTEE

The Board of Directors has appointed an Audit Committee consisting of Mikael Ekdahl, chairman, and Christian Paulsson.

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 and specifically be responsible to review and monitor the impartiality and independence, and pay particular attention to whether the auditor is delivering other services to the holding company other than auditing. In addition, the Audit Committee shall approve all non-audit services, issue guidelines on allowable tax and valuation services, ensuring that the fees for non-audit services do not exceed the 70 per cent rule and monitor the auditor's assessment of its impartiality and independence. The 70 per cent rule means that fees for advisory services may not exceed 70 per cent of the last three years' average audit fee.

The Audit Committee met three times in 2018, two of which were fully attended.

## EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2018 AGM elected accounting firm PricewaterhouseCoopers AB, with authorised auditor Lars Nilsson, 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 of Directors has all the material needed to make informed decisions. 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 every quarter, as well as a number of informal meetings, to go through the results of the previous month and discuss strategy. In 2018, Bong's Group Management consisted of six persons, including one woman up until September after which it was five persons. 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.

## REMUNERATION FOR GROUP MANAGEMENT

The 2018 AGM decided that the Group Management's salaries should consist of a fixed basic salary plus variable performance-based remuneration which 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 set at market terms.

## 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 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 of Directors and CEO, instructions for financial reporting, information policy and authorisation instructions.

## CONTROL ACTIVITIES

The control activities include both general and 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.

## RISK ASSESSMENT

Bong continuously evaluates the risks surrounding reporting. 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, controls are routinely made 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. 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 organized and followed up in accordance with the guidelines issued 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 reviewed by the Board of Directors. The CEO is also responsible for ensuring that independent objective reviews are performed for the purpose of systematically evaluating and proposing improvements in the processes for governance, internal control and risk management of the Group. 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 308,173,926.56 be carried forward. See note 35.

## 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 2018. No dividend was paid for 2017.