

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 2013 – 31 December 2013 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 2.5 billion and about 2,000 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 rapidly declined in 2013. Electronic substitution and the weak economy in Europe had a negative impact on demand. According to trade association FEPE, volumes dropped by about 11 per cent in 2013 compared to 2012. In Russia, the envelope market weakened especially during the second half year because of a slowdown in the economy and greater savings requirements for public authorities and companies.

At the same time, consolidation and capacity adjustment in the industry continued. Papyrus sold its envelope manufacturing operation in Germany to Mayer during the second quarter. The factory has now closed and production has moved to other manufacturing units in the Mayer Group. Papyrus' share of the German market before the sale to Mayer is estimated at 7-8 per cent. In addition, in late 2013 Hamburg-based Hanse Kuvert, with a market share in Germany of about 5 per cent, announced that it had declared bankruptcy and production would cease. Moreover, a few small and medium-sized manufacturers in Spain, England and Italy have discontinued operations during the year. In early 2014 Spanish Printeos (formerly Tompla) announced that it had sold its British business, with sales of more than GBP 10 million, to Encore, the largest independent envelope company in the UK. In addition to these structural changes, all key players in Europe are working on adjusting costs and capacity.

The specialty packaging market, where Bong is active with its Propac range, is much bigger than the envelope market. The market is also much more fragmented. 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. In the short run, however, the weak economy also impacts demand for Propac.

SALES AND EARNINGS

Consolidated sales for the period reached SEK 2,563 million (2,946). The main reason for the drop in sales is the 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 an impact on sales of SEK -42 million during the period compared with 2012.

Bong's total Propac sales amounted to SEK 417 million (486). Sales are lower compared with 2012 mainly because Bong chose to phase out certain unprofitable dealerships, as well as the decline in the sales of gift bags due to lower activity in the retail sector. Sales of Christmas gift bags were clearly lower than 2012 and other kinds of orders were postponed to the first quarter of 2014. Exchange rate fluctuations also had an impact on Propac sales of SEK -7 million compared with the corresponding period in 2012.

Operating result was SEK -109 million (15), including costs of SEK -69 million (-57) for a restructuring programme launched partly in spring 2013 and partly during the fourth quarter 2013. The structural measures adopted from the spring of 2013 proceeded according to plan and achieved full impact in the fourth quarter of 2013. The extensive new restructuring programme launched during the fourth quarter of 2013 is expected to have an impact mainly during the second half of 2014.

After valuation of goodwill it was decided during the year to write off SEK 15 million, partly as a result of restructuring of the British corporate structure and partly as a result of annual impairment testing of consolidated goodwill in the balance sheet.

During the corresponding period in 2012 a building in France was sold with capital gains of SEK 17 million.

Net financial items during the quarter totalled SEK -67 million (-71), earnings before tax were SEK -176 million (-56) and reported earnings after tax were SEK -141 million (-55). Tax expense for the period was affected by approximately SEK -15 million because Holdham's ownership interest in Bong AB after the issue rose to 33.7 per cent, which according to German tax law reduced Bong's loss carryforwards in Germany accordingly.

NEW ACTION PLAN FOR RAPID AND SIGNIFICANT IMPROVEMENT IN PERFORMANCE

In 2013, Bong's main focus has been on strengthening its financial position. The Company has successfully achieved this objective through the rights issue, a new long-term banking agreement and a new five-year convertible loan. With this stronger financial position the Company is now better equipped to implement the changes necessary to improve profitability and create growth in selected areas, such as special packaging.

Financial items are also expected to improve by SEK 15 million a year as a result of the lower debt.

In 2014 and 2015 the top priority will be to reverse the Company's performance back to profitability. From 2015 onwards, the focus will gradually shift to accelerating growth within the Group's two strategic growth areas of specialty packaging (Propac), and Russia and Eastern Europe.

To return to profitability as soon as possible Bong has formulated a new action plan to achieve a rapid and significant improvement in performance in 2014 and 2015.

The plan has three main components:

- Reduce expenses/production capacity and improve margins, especially in the envelope division
- Strengthen cash flow by increasing inventory turnover and disposing of assets that become redundant, such as real estate and machinery
- Conduct a strategic review of the different parts of Bong's specialty packaging (Propac) in order to make informed decisions on adjustments to the product offering and determine which parts Bong will primarily invest in for the future

Overall, the savings measures will result in lower fixed costs of SEK 150-200 million on an annual basis. Non-recurring restructuring costs to achieve these savings are expected to reach SEK 150-200 million. Most of the costs are expected to be incurred in 2014, but measures launched in December 2013 were carried as an expense in December.

The goal is to achieve an operating profit (EBIT) before restructuring costs in 2014.

CASH FLOW

Cash flow after investing activities for the period January-December was SEK -91 million (-37). Payments for the ongoing restructuring programme had a negative impact on cash flow for the year of SEK -66 million (-55). Investments and acquisitions affected cash flow with a net of SEK -28 million (-36).

FINANCIAL POSITION

Cash and cash equivalents at 31 December 2013 amounted to SEK 82 million (SEK 112 million at 31 December 2012). The Group had unutilised credit facilities of SEK 60 million on the same date. Total available cash and cash equivalents amounted to SEK 142 million.

The successfully completed rights issue in the third quarter of 2013 decisively strengthened the Group's financial position. Equity increased, net interest-bearing debt decreased and the equity ratio significantly improved as a result.

Consolidated equity at 31 December 2013 was SEK 522 million (SEK 372 million at 31 December 2012). Translation of the net asset value of foreign subsidiaries to Swedish krona and changes in the fair value of derivative instruments increased consolidated equity by SEK 7 million.

Interest-bearing net loan debt declined by SEK 203 million to SEK 802 million (SEK 1 005 million at 31 December 2012) during the period. Translation of

net loans in foreign currency to Swedish krona increased the Group's net loan debt by SEK 3 million.

RIGHTS ISSUE

The Extraordinary General Meeting on 17 July 2013 resolved to increase the Company's capital by issuing new shares at a value of about SEK 126 million as well as the issuance of a five-year convertible loan of SEK 75 million, which together would provide the Company with about SEK 200 million in new capital. The meeting also resolved on set-off issues in which Bong's single largest shareholder, Holdham, would settle shareholder loans of about SEK 100 million against new shares in Bong, and the company's two largest lending banks would settle loans of SEK 50 million against new shares.

The above issues were completed during the third quarter and had a positive impact on equity of SEK 290 million as follows:

- Rights issue SEK +126 million
- Set-off issues (Holdham and banks) SEK +150 million
- Convertible loans SEK +14 million

Issue expenses amounted to a total of SEK 16 million, which has had a negative effect on equity during the third quarter. As a result of the issues, the total number of shares increased to 156,659,604 (183,932,331 after full conversion of the convertible loan).

Consolidated share capital increased by SEK 60 million from SEK 175 million to 235 million. Nominal value per share changed from SEK 10 to SEK 1.50.

BANK FINANCING

Bong reached an agreement in connection with the rights issue on bank financing with its two largest banks. The financing consists of a three-year facility of SEK 350 million, and two five-year facilities totalling SEK 140 and SEK 100 million, respectively.

CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net impact on cash flow of SEK -28 million (-36), of which SEK -6 million relates to payment for acquisitions reported in previous years and SEK -22 million relates to other net investments. The net investments include an investment in production equipment and a new business system for the Group. Also included were the sale of machinery and other production equipment, which had a positive impact on cash flow of SEK 19 million.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February 2014 Melker Schörling AB sold its 12.2 per cent stake in Bong AB to Paulsson Advisory AB. Paulsson Advisory AB is thus the second largest shareholder in Bong AB.

EMPLOYEES

The average number of employees during the period was 2,051 (2,271). The number of employees at 31 December 2013 was 1,961 (2,218). Bong continually works on improving productivity and adjusting 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 certified to ISO 14001. The plants in Solingen 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, Kaavi 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 certain Group management functions. During the year the Parent Company's employees, except the CEO, and assets, were transferred to the wholly owned subsidiary Bong International AB. Sales were SEK 21 million (38) and earnings before tax were SEK -28 million (3).

Investments for the period amounted to SEK 6 million (7). 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 60 million (209).

BOARD'S PROPOSED 2014 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2014 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 and CEO, Chief Financial Officer (CFO), Business Area Manager Nordic Region, 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. 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 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 24 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 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 stakes of more than ten per cent of the votes and capital, are Holdham S.A., with 34 per cent of the votes and capital, and Paulsson Advisory AB with about 12 per cent of the votes and capital. Nordea AB and FR & R Invest AB each own about 7 per cent of the votes and capital in the company. The total number of ordinary shares was 156,659,604 on 31 December 2013. All shares carry the same rights.

There are no restrictions on the transferability of the shares due to legal regulations or rules in the Articles of Association. Bong is not aware of any agreements between direct shareholders in Bong that entail restrictions in the right to transfer shares.

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

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

The company's Board of Directors shall consist of 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 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.

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 (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. 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 2009 as a result of the protracted 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 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 4 per cent of annual sales, and the 25 biggest customers account for 33 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 200 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 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 2013 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%	26 +/-
Volume	+/- 1%	13 +/-
Paper prices	+/- 1%	13 +/-
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 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 NASDAQ OMX 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 President and 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 2013

OWNER INFLUENCE

Governance of Bong is exercised via the General Meeting of Shareholders, the Board of Directors and the President and 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 President and CEO from liability. The AGM also elects Bong's auditors.

About 28 shareholders, representing 78 per cent of the total number of shares and votes in the company, participated in Bong's Annual General Meeting on 22 May 2013 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 Shareholders, page 11.

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 2013 AGM, 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 Stéphane Hamelin. The statutory meeting of the Board of Directors was on 22 May 2013. The other members of the Board are Mikael Ekdahl (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 Board of Directors chairman Mikael Ekdahl received a fee of SEK 100,000 (300,000) for his time as Chairman of the Board of Directors and Stéphane Hamelin received SEK 200,000 for his time as Chairman of the Board of Directors since the 2013 Annual General Meeting. Mikael Ekdahl also received remuneration for serving as chairman of the audit committee SEK 100,000 (100,000). 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 2013 AGM, can be found in Note 4.

BOARD MEMBERS ELECTED BY THE AGM

Stéphane Hamelin (b. 1961).

Member since 2010 and Chairman of the Board since 22 May 2013.
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): 52 850 282 shares

Mikael Ekdahl (b. 1951)

Member since 2001 and Chairman of the Board. 2003-22 May 2013.
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 and Absolent AB. Deputy Chairman of Melker Schörling AB.
Terminated board appointments/partnerships over the past five years: EM Holding AB and AarhusKarlskrona AB
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): 100,000 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 Karlskrona AB
Shareholding in Bong: 468,377 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, Enzymatica AB and Vivoline Medical AB, as well as board member of Kappahl AB, Europris AS, 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

Eric Joan (b. 1964).

Board member since 2010.
Graduate of École 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 and CEO. There are instructions regarding information to be furnished regularly to the Board of Directors. During financial year 2013, the Board of Directors held eleven meetings in addition to the statutory meeting. The President and 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 2013 include:
13 February Year-end report and progress report from auditors
8 May Financing
22 May Q1 2013 interim report and statutory board meeting after the 2013 AGM
16 June Financing
12 July Q2 2013 interim report
15 July Financing
20 August Financing
4 September Financing
12 September Visit to subsidiary
20 November Q3 2013 interim report
14 December Budget 2014

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 2013

	Independent of company ¹	Independent of major shareholders ¹	Attendance at Board meetings
Stéphane Hamelin	Yes	No	10
Mikael Ekdahl	Yes	No	11
Ulrika Eriksson	Yes	Yes	11
Anders Davidsson	No	No	11
Christian W Jansson	Yes	Yes	11
Eric Joan	Yes	No	9

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 Annual General Meeting appoints 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 elected by the 2013 AGM consisted of four members: Mikael Ekdahl (Melker Schörling AB), Chairman, Stéphane Hamelin (Holdham S.A.), Peter Edwall (Ponderus Securities AB) and Erik Sjöström (Skandia). Since Bong's principal shareholders at the time (Melker Schörling AB and Holdham S.A.), 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 two formal meetings with regular contact in between.

Ulf Hedlundh (Svolder AB) and Christian Paulsson (Paulsson Advisory AB) were appointed to the Nomination Committee in conjunction with Melker Schörling ABs divestment of its shares in Bong AB to Paulsson Advisory AB. The Nomination Committee thus consists of Christian Paulsson (Paulsson Advisory AB), Ulf Hedlundh (Svolder AB) and Stéphane Hamelin (Holdham S.A.). Stéphane Hamelin has been appointed Chairman of the Nomination Committee.

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 three occasions in 2013 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 45 per cent of votes it is only natural that one of them is represented on the 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 2013 at which both members participated at two meetings.

EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2013 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 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 and report to the Audit Committee at each of its meetings.

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 2013, Bong's Group Management consisted of 6 people, including

one woman. 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 mainly consist of members of Bong's corporate management and the Parent Company's board of Directors.

REMUNERATION TO GROUP MANAGEMENT

The 2013 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 739,522,181, 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 2013. No dividend was paid for 2012.