

### Industry structure and price competition

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

### Paper prices

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

### Dependence on individual suppliers and/or customers

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

The Group's dependence on individual customers is limited. The biggest customer accounts for 6 per cent of annual sales, and the 25 biggest customers account for 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 of the industry.

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

### Financial risk management

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

### 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 is not currently involved in any legal disputes.

### Environment

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

### Sensitivity analysis

Important factors that affect Bong's earnings and financial position are the volume trend for envelope sales, the price trend for envelopes, paper prices, payroll costs, currency rate fluctuations and interest rate levels. The table below shows how Bong's 2011 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 |
|--------------------------|-------------|-----------------------------------------------|
| Price                    | +/- 1%      | 32 +/-                                        |
| Volume                   | +/- 1%      | 16 +/-                                        |
| Paper prices             | +/- 1%      | 16 -/+                                        |
| Payroll costs            | +/- 1%      | 9 -/+                                         |
| Interest level borrowing | +/- 1% unit | 6 -/+                                         |

### CORPORATE GOVERNANCE REPORT

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

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

### Corporate governance

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

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

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

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

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

### CORPORATE GOVERNANCE REPORT 2011

#### Owner influence

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

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

About 40 shareholders, representing 76 per cent of the total number of shares and votes in the company, participated in Bong's Annual General Meeting on 12 May 2011 in Malmö. All Board members and the company's auditors were present at the AGM.

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

### Board of Directors

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

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

According to the Articles of Association, the Board of Directors shall consist of at least four and at most nine members. Since the 2010 Extraordinary General Meeting of Shareholders, Bong's Board of Directors has consisted of six AGM-elected members without deputies and two employee members with two deputies. The Chairman of the Board is Mikael Ekdahl. The statutory meeting of the Board of Directors was on 12 May 2011. The other members of the Board are Alf Tönnesson (Deputy Chairman), Christian W. Jansson, Ulrika Eriksson, Stéphane Hamelin, Eric Joan and Anders Davidsson, President and CEO.

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

### REMUNERATION OF THE BOARD

The Chairman of the Board received a fee of SEK 400 thousand for 2011 (300). The amount comprises part of the total director's fee determined by the AGM as well as for the chairmanship of the Audit Committee. No other fee was paid. There is no agreement on pension, severance pay or other benefits.

Information about remuneration of the Board of Directors, as resolved by the 2011 AGM, can be found in Note 4.

### Board members elected by the AGM

#### Mikael Ekdahl (b. 1951)

Member since 2001 and Chairman of the Board since 2003.

L.L.M., degree in business administration, Lund University.

Other appointments/positions: Attorney and partner in Mannheimer Swartling Advokatbyrå. Chairman of the Board of Marco AB, Absolent AB and EM Holding AB, vice chairman of Melker Schörling AB, board member of AarhusKarlshamn AB and Konstruktions-Bakelit AB. Terminated board appointments/partnerships over the past five years: Attendo Group AB, Attendo Holding AB, Jobus Aktiebolag, Konverta Aktiebolag, AarhusKarlshamn Sweden AB, MS Karl Invest AB, Mexab Förvaltnings AB, Carl Henrik Svanberg AB, Thomas Berglund Holding AB, Melavi AB, Mekius Invest AB.

Shareholding in Bong (private and via related party): 40,000 shares.

#### Ulrika Eriksson (b. 1969)

Board member since 2008.

Degree in business administration.

Other appointments/positions: Director, Apoteket Konsument, Apoteket AB. Board member of Bong Packaging Solutions AB. Terminated board appointments/partnerships over the past five years: –  
Shareholding in Bong (private and via company): 20,000 shares.

#### Anders Davidsson (b. 1970)

Board member since 2004.

Degree in business administration.

Other appointments/positions: President and CEO of Bong AB. Chairman of the Board of Bong Packaging Solutions AB, board member of Bong Sverige AB, Bong Suomi Oy, Bong UK Ltd and Bong Belgium S.A.  
Terminated board appointments/partnerships over the past five years: AarhusKarlshamn AB.  
Shareholding in Bong: 182,600 shares.

#### Christian W. Jansson (b. 1949)

Board member since 2007.

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

Other appointments/positions: Chairman of the Board of KappAhl AB, Apoteket AB, Svensk Handel AB and Vivoline Medical AB, as well as board member of BRIS, Svenskt Näringsliv, 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.

#### Alf Tönnesson (b. 1940)

Board member since 1989.

Engineering and business education.

Other appointments/positions: Chairman of the Board of International Masters Publishers AB (IMP AB), Aktiebolaget Cydonia, NE Nationalencyklopedin AB, Fyrklöver AB, Postpac AB, and Fleur de Santé AB, board member of Purity Vodka AB and Bra Böcker AB. Terminated board appointments/partnerships over the past five years: Stabenfeldt AB.  
Shareholding in Bong (via company): 3,825,339 shares.

#### Stéphane Hamelin (b. 1961)

Board member since 2010.

Other appointments/positions: Chairman of the Hamelin board since 1989.

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

Previous positions: Active at Borloo law firm from 1984–1989.

Shareholding in Bong (private and via company): 4,352,769.

#### Eric Joan (b. 1964).

Board member since 2010.

Educated at 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: 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: 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: 0.

### Rules of procedure for Board

The Board of Directors has adopted written rules of procedure and issued written instructions concerning the division of responsibilities between the Board and the President. There are instructions regarding information to be furnished regularly to the Board of Directors. During financial year 2011, the Board of Directors held five 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 2011 include:

|             |                                                                                          |
|-------------|------------------------------------------------------------------------------------------|
| 6 February  | Year-end report and progress report from auditors                                        |
| 12 May      | Q1 2011 interim report and statutory board meeting after the 2011 annual general meeting |
| 23 August   | Q2 2011 interim report and visit to subsidiary                                           |
| 9 November  | Q3 2011 interim report                                                                   |
| 12 December | Budget 2012                                                                              |

### 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 2011

|                     | Independent of company* | Independent of major shareholders* | Attendance at Board meetings |
|---------------------|-------------------------|------------------------------------|------------------------------|
| Mikael Ekdahl       | Yes                     | No                                 | 5                            |
| Ulrika Eriksson     | Yes                     | Yes                                | 4                            |
| Anders Davidsson    | No                      | No                                 | 5                            |
| Christian W Jansson | Yes                     | Yes                                | 5                            |
| Alf Tönnesson       | Yes                     | No                                 | 5                            |
| Stéphane Hamelin    | Yes                     | No                                 | 5                            |
| Eric Joan           | Yes                     | No                                 | 3                            |

\* 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.

### Authorisation provided by the Annual Meeting of Shareholders

The General Meeting of Shareholders has authorised the Board of Directors to decide that the company will acquire treasury shares as follows:

1. The authorisation may be used on one or more occasions, though before the date of the 2012 Annual General Meeting.
2. The number of shares needed for delivery of LVR shares to participants in LVR [1], though not more than 400,000 shares, may be acquired to secure delivery thereof. In the event that the acquired shares should remain after LVR share payment is complete, they shall remain in Bong's ownership and be used for future incentive programmes or as otherwise decided by the General Meeting.

3. Purchase in accordance with point 2 will take place on NASDAQ OMX Stockholm to a price which is within the registered spread at any time, i.e. an interval between the highest buying rate and the lowest selling rate.

### [1] Long-term variable remuneration

### Nomination Committee

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

The Nomination Committee for the 2012 AGM consists of four members: Alf Tönnesson, chairman (Aktiebolaget Cydonia), Mikael Ekdahl (Melker Schörling AB), Peter Edwall (Ponderos Securities AB) and Erik Sjöström (Skandia). Since Bong's principal shareholders represent about 70 per cent of votes, it is only natural that two of them, Melker Schörling AB and Alf Tönnesson, via firms are represented on the Nomination Committee. Furthermore, said shareholders consider it to be natural that a representative from one of the largest shareholders in terms of votes should serve as Chairman of the Committee. The Nomination Committee has dealt with the issues that follow from the Code. The Nomination Committee has had one formal meeting and regular contacts.

### Remuneration Committee

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

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 portion, which is re-examined annually, is dependent on the achievement of goals for the company and the President.

The Remuneration Committee met on two occasions in 2011 at which both members participated.

### Audit Committee

The Board of Directors has appointed an audit committee consisting of Mikael Ekdahl, chairman, and Christian W. Jansson. Since Bong's principal shareholders represent about 70 per cent of votes it is only natural that one of them is represented in on committee along with an additional independent board member. Since other members

of the Board cover other activities within the Group, this has been deemed sufficient. The Audit Committee shall oversee that the company's accounts are prepared with full integrity for the protection of the interests of shareholders and other parties.

The Audit Committee met three times in 2011 at which both members participated.

### External auditors

Bong's auditors are elected by the AGM for a term of one year. The 2011 AGM elected accounting firm PricewaterhouseCoopers AB, with authorized auditor Eric Salander as principal auditor, for a one-year mandate period.

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

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

### President and Group Management

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

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

In 2011, Bong's Group Management consisted of six people, none of whom are women. The Group consists of the Parent Company Bong AB and a number of subsidiaries, as reported in Note 14.

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

### Remuneration to Group Management

The 2011 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 most important parts 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 internal control and reporting, information policy, authorisation instructions and reporting 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.

### **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 539,372,559, be carried forward.

### **BOARD'S OPINION CONCERNING PROPOSED DISTRIBUTION OF EARNINGS**

Bong's current priority is to reduce debt given the economic uncertainty in Europe and Bong's weak performance. Therefore, the Board proposes that no dividend be paid for 2011. A dividend of SEK 1 per share was paid for 2010.