From
the **forest**
to **you**
since **1737**

17 Annual Report

BONG

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2017 in brief

- Net sales amounted to SEK 2,095 million (2,135).
- Operating profit was SEK 45 million (9), impacted by restructuring costs of SEK -5 million (-18).
- Earnings after tax was SEK -9 million (297). Earnings in 2016 was affected by a financial income of SEK 430 million from the refinancing of the Group at the beginning of the year.
- Earnings per share was SEK -0.06 (1.42).
- Net debt at year-end was SEK 294 million (315).
- The equity ratio at the end of the year was 43 per cent (43).

Bong in one minute

Bong is one of the leading providers of specialty packaging and envelope products in Europe and offers solutions for distribution and packaging of information, advertising materials and light-weight goods.

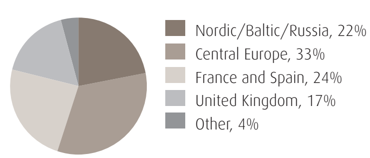
Important growth areas in the Group are packaging within retail and e-commerce and the envelope market within Eastern Europe. The Group has annual sales of approximately SEK 2.1 billion and about 1,400 employees in 14 countries.

Bong has strong market positions in most of the important markets in Europe and the Group sees interesting possibilities for continued development. Bong is a public limited company and its share is listed on Nasdaq Stockholm (Small Cap).

KEY FIGURES	2017	Q4	Q3	Q2	Q1	2016	2015	2014	2013
Net sales, MSEK	2,095	578	491	481	545	2,135	2,345	2,533	2,564
Operating profit/loss, MSEK	45	17	2	7	19	9	–5	–123	–109
Profit/loss after tax, MSEK	–9	8	–13	–8	4	297	–64	–150	–141
Cash flow after investíng activities, MSEK	43	27	9	–12	22	30	–75	94	–91
Operating margin, %[1]	2	2	2	2	3	0,4	–0,2	–4,8	–4,3
Average number of employees[1]	1,459	1,459	1,466	1,467	1,474	1,556	1,763	1,873	2,051

[1] Year to date

NET SALES



Letter to the shareholders

Bong is stronger than it has been in a long time

Financially and operationally, we are now stronger than we have been for a long time. Our packaging business is growing and last year we regained market shares in the envelope market. We have benefited from the structural transformation on the Nordic market.

Volumes in the European market for envelopes dropped by five per cent in 2017 according to the trade association FEPE. The decline in continental Europe and UK was not as big as in Scandinavia where the digitization of mail has developed the furthest. In other European countries one places an importance on the individual's possibility to choose physical mail as a means of communication with authorities, as many people still prefer to get important information printed on paper. It is in these markets where Bong has the largest portion of its business, where physical mail is still preferred over digital options.

SALES DEVELOPMENT FOR BONG 2017

The financial year of 2017 turned out to be a good year as we regained market share. We were able to take advantage of our previous major restructuring program a few years ago and we continue to take measures in order to be more efficient. In the third quarter last year we moved all overprint production from Tønsberg in Norway to Kristianstad in Sweden. Overall, the move will give rise to total annual savings of SEK 14 million. In 2017, the move of our operations from Luxembourg to France was also completed.

STRUCTURAL CHANGES IN THE NORDICS

In January 2018, the Danish communications company InterMail announced that it would cease its envelope production in the Nordic region. Bong and Intermail have agreed that Bong will ensure deliveries to InterMail's customers, which means an annual sales increase of just over SEK 100 million, an improvement in the capacity utilization in our factories and a higher profitability. We expect a continued consolidation in the industry and are willing to participate in further consolidations provided the conditions are right.

LIGHT PACKAGING

Driven mainly by an increased demand for retail and e-commerce solutions, our light packaging sales increased by 4 per cent in 2017 compared to 2016. With sales of SEK 415 million, our packaging business now accounts for about 20 per cent of consolidated sales. In order to meet increasing demand we are investing in machines for hot foiling and embossing in Nybro, Sweden, and in increased capacity in our facility in Poznan, Poland where we manufacture bubble mailers for the growing e-commerce segment.

POSITIVE RESULTS BEFORE TAX IN 2017

We reached our milestone of having profit before tax for the full year due mainly to relatively stable envelope revenues and an increase of sales of light packaging in combination with lower costs and more efficient processes in production, sales and administration. We haven't seen operating profit and operating margins this high for years. By maintaining this level while reducing our financing costs we will have a favourable earnings trend in the next few years.

REFINANCING OF BOND

Our long-term borrowing consists of a bond with a nominal value of SEK 200 million issued in connection with our refinancing just over two years ago. The bond matures in December 2018, and our goal is to refinance it at a lower cost, as Bong stands stronger than when the bond initially was issued. Our financial position is good with an equity ratio at the end of the year of 43 per cent.

BONG AND SUSTAINABILITY

In 2017 Bong joined Global Compact as we share and support the values that are expressed in the UN-led initiative and we are proud to be part of a worldwide network of companies which integrate the principles into their strategy, business and culture. Please refer to the sustainability pages in this annual report where we will tell you more about our sustainability work and its results. From a sustainability point of view, we believe we can be of most use by reducing our consumption of energy and water per produced unit. It is gratifying that we succeeded in both respects in 2017.

THANK YOU

Bong has taken another step towards a return to growth and profitability. I would like to extend a heartfelt thank you to our employees for their efforts in 2017 and to the shareholders for their continued confidence in Bong.

Kristianstad, April 2018

Håkan Gunnarsson
Chief Executive Officer

Restructuring and **investments**

THE ENVELOPE INDUSTRY

According to FEPE (Federation of Envelope Producers in Europe), volumes on the European envelope market dropped by about six per cent per year 2010-2017. Since capacity has not been reduced accordingly, the industry is still characterized by overcapacity.

Bong implemented a major structural program 2011-2015 which meant that the number of facilities was reduced from 37 to 23 and that production rose from 8.9 million envelopes per employee and year to 11.0. The Group has continued to adapt capacity to demand. By the end of 2017, the number of plants was 18, of which eleven within envelope production and overprinting, five dedicated overprinting facilities and two light packaging plants.

Bong's restructuring 2017

At the beginning of 2017, Bong's production in Luxembourg was moved to the facility in Evreux, France, where it was coordinated with existing activities. Furthermore, in autumn of 2017 Bong moved all its overprint production from Tønsberg in Norway to Kristianstad in Sweden which resulted in annual savings of about SEK 14 million.

Service to InterMail's customers

In the beginning of 2018, the Danish-owned and listed envelope company Intermail decided to cease its envelope operations in the Nordic region. The company's envelope production is taken over by Bong who will be responsible for deliveries to InterMail's customers. Bong has also offered employment to most of InterMail's sales staff in Sweden, Denmark and Finland. Envelope production will take place in Bong's facilities. The agreement, which includes royalties paid from Bong to InterMail in the coming three years, went into effect in March 2018.

Structural changes in Europe

One of Bong's main competitors on the European market, Mayer Kuvert, has sold its production facility for reprint in Austria to the IMARCO Group. Furthermore, BlessOF in Germany, which is part of Mayer Kuvert, was closed which means a reduction of overcapacity on the German market.

In the UK a consolidation is taking place resulting in GNE, one of Bong's biggest competitors, ceasing to operate on the market in 2018.

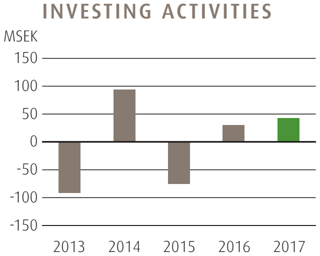
LIGHT PACKAGING - RETAIL AND E-TRADE

In the light packaging plant in Nybro, Sweden, Bong has started to invest in capacity for hot foiling and embossing retail gift bags and carrier bags. Furthermore, Bong has continued to invest in larger production capacity of the bubble mailer in its plant in Poznan, Poland. Bubble mailers are in increasing demand by companies in the growing e-commerce industry.

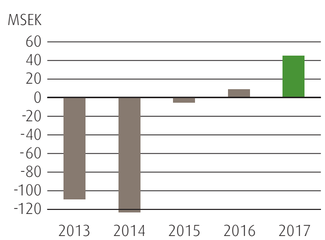
SUMMARY

In terms of efficiency and production, Bong is well positioned to take advantage of the continued structural changes in the envelope industry and of the growth potential in light packaging.

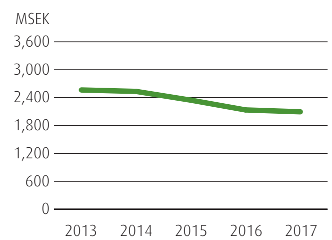
CASH-FLOW AFTER INVESTING ACTIVITIES



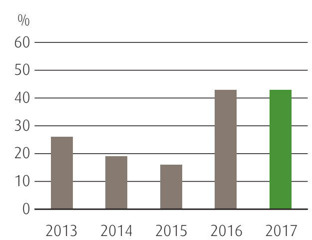
OPERATING PROFIT/LOSS



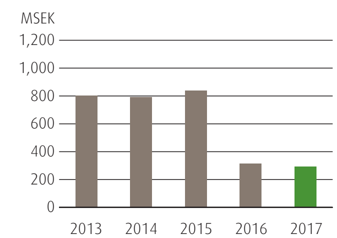
NET SALES



EQUITY TO ASSETS RATIO



NET DEBT



The markets for envelopes and light packaging

The European envelope market is mature and the consolidation of the industry continued in 2017. Bong continues to expand on the market for light packaging which offers promising opportunities for growth.

THE EUROPEAN ENVELOPE MARKET

With envelope sales of approximately SEK 1,700 million, Bong is one of the two leading manufacturers of envelopes in Europe. The European envelope market is estimated to 60 billion units with a value of approximately SEK 12-13 billion at the production level.

Bong is the clear market leader in the Nordics and Russia. In France, the UK and Central Europe, Bong is second only to the German company Mayer. Spanish Printeos, former Tompla, is the third largest manufacturer in Europe with over 10 per cent of the market and a strong market position in Southern Europe.

The consumption of envelopes in Scandinavia, Western and Northern Europe amounts to 200-250 envelopes per person and year. The largest individual markets are those of Germany, UK and France.

In Western Europe business mail accounts for the majority of the use of envelopes. Business mail can be divided into transaction mail and addressed direct mail (ADM).

Transaction mail

Bong's customers within transaction mail consist of companies in the telecom, banking, insurance, finance, energy and water industries with millions of customers. Every day, contracts, wages and pension statements, invoices and confirmations of transactions are being sent by post. Bong delivers the envelopes being used directly to end-users as well as to wholesalers and office supply stores.

Envelopes for addressed direct mail

Addressed direct mail, ADM, accounts for a substantial part of the European envelope market. The number of shipments is estimated to about 18 billion units, which equals to approximately 30 per cent of the volume of the European envelope market.

ADM is an advertising channel that offers higher target group accuracy than advertising in media such as television, radio and magazines. Despite its benefits, ADM has seen declining market shares since the turn of the new millennium as the options in electronic media have increased. The ADM market is projected to decline in terms of volume, but with a slight increase in value in the years leading up to 2021.[1]

Increased consumption in the East

The consumption of envelopes on the Eastern European markets ranges between 20 and 70 per person and year depending on country, with an annual growth rate of 5-10 per cent. The Eastern European economies are growing from low levels, but faster than in the West. In these countries, where cash payments were previously the dominating means of payment, consumer credit payments and transaction mail is becoming more common. Electronic media are not as widespread as they are in Western Europe, and e-mail does not replace physical mail to the same extent.

CONTINUED CONSOLIDATION OF THE MARKET

The weak growth in demand during 2017 served as a driving force for the ongoing consolidation of the West European envelope market. As mentioned previously one of Bong's main competitors on the European market, Mayer Kuvert, has sold its production facility used for overprinting in Austria to the IMARCO-Group. Furthermore, BlessOF, a German subsidiary of Mayer Kuvert, was closed decreasing the overcapacity on the German market. All major producers in Europe are working on adjusting costs and capacity.

THE LIGHT PACKAGING MARKET

Light packaging is a collective term for a range of packaging types used for a number of purposes. It is a fragmented market which consists of a variety of segments for which there is no singular overall estimate. Primarily active within the segments e-commerce and retail, Bong provides flexible and elegant gift- and carrier solutions to retailers as well as smart and efficient packaging for e-commerce.

E-commerce in Europe

Purchases of physical goods online correspond to a significant share of consumer purchases according to a survey conducted in 12 countries, with a combined total of 260 million consumers, in Western Europe. The survey showed that the e-commerce of physical goods in Western Europe and Scandinavia amounted to a total value of EUR 181 billion in 2017, which is on par with the previous year.[2]

[1] FEPE (Federation of Envelope Producers in Europe). European Direct Mail Report 2016.

[2] E-handeln i Europa 2017. PostNord. The report is based on the interviews of 11,000 consumers that was conducted with a representative selection of individuals in the ages 15-79 in Belgium, Denmark, Finland, France, Italy, the Netherlands, Norway, Poland, Spain, Great Britain, Sweden and Germany.

Solutions for all encounters

Bong offers envelopes and light packaging for all purposes. The company increases its share of the market for retail gift bags and carrier bags.

ENVELOPES FOR EVERYONE

Bong manufactures and sells envelopes in all shapes and sizes. From standardised envelopes to customised solutions with unique characteristics; with or without customised prints; with different kind of seals; made from various materials and with many options in colouring and form. There is an almost infinite number of designs to choose from. Most envelopes are used to send transaction mail or addressed direct mail (ADM).

Transaction mail

To physically send printed information remains a reliable, credible and environmentally friendly way to reach one's target group. Although the use of envelopes is generally declining, envelopes will always be a suitable option for documents such as invoices, statements, official mail, notifications, payslips and contracts. Studies show that consumers prefer physical letters regarding such documents.[1]

Bong provides a wide range of envelopes for this type of use, from standard to specially designed envelopes.

Addressed direct mail

The preference for physical information makes ADM an attractive element in the marketing mix.

One reason being that it is easier to adapt ADM to one's target group than it is to adapt advertisement on television, radio, online or in magazines. With ever improving analytical tools, direct mail becomes even more accurate and effective.

To help facilitate ADM, Bong offers all types of envelopes and overprinting (printing made on already produced envelopes). There are many ways of making the envelope come to life and give it a personal touch by customising the design, size, paper quality, location of the window, sealing and other features.

LIGHT PACKAGING

Bong's packaging offer covers needs from the more general usage to the occasional sending or receiving of lightweight goods, as well as the specialised packaging needs of certain industries.

The standard range includes, amongst other things; padded and expandable bags in various materials and designs; corrugated board and cardboard packaging, folders, pockets and tubes.

Bong offers dedicated packaging solutions for use in retail and e-commerce.

Gift packaging and carrier bags for the retail trade

Bong's attractive gift and retail packaging saves both time and storage space for the stores that use them, as the expandable packaging fits perfectly beneath the checkout counter. The sales clerk can either hand the packaging directly to the customer, or in a matter of seconds unfold the gift packaging and place the gift in it before handing it over to the customer.

Bong offers a complete range of gift and carrier solutions to stores and retail chains – all tailored to communicate the customers' brands and values. With Bong's help, the customers can master "the art of giving".

Packaging for e-commerce

E-commerce is growing all across Europe. An ever-increasing number of consumers prefer to get their purchases delivered straight to their door, leading to more products being packed and sent by postal or courier services. The transportation places high demands on the packaging as it must be able to resist or absorb shocks while remaining easy to stack and convenient to pack. Bong's packaging solutions – like for example bubble bags and padded bags – help the e-commerce companies keep their costs down as they preserve the original condition of the goods and thus avoid costly returns.

ColdSeal

ColdSeal® is a corrugated cold sealing material for automated packing of large volumes that allow Bong's customers to focus on increased production output and reliable quality.

Security packaging

When sending something valuable, people often choose to send it by postal or courier services, securely wrapped and packaged. For lawyers, accountants, hospitals, government agencies, banks and financial companies, many letters and parcels are private and confidential. With Bong's range of security packaging these customers feel safe and secure. Bong offers security-coded packaging as well as tamper-evident packaging, for increased traceability and indications of unauthorized attempts of opening a shipment.

Durable Tyvek®

Bong has a contract with the American chemical company DuPont™ which grants Bong the exclusive rights to manufacture and market envelopes and packaging made from Tyvek® in Europe. Tyvek® is durable and water-resistant, and its smooth, bright white surface makes it stand out among other materials. Tyvek® is the right choice for envelopes that are used for the transportation of fragile, valuable and sophisticated goods and documents.

[1] Please refer to www.twosidesinfo for more information regarding this subject.

ScanSafe® travel documents sleeves awarded with the 2018 Promotional Gift Award

ScanSafe® by Bong combines luxurious looks with a high level of protection against data theft. Debit and credit cards as well as passports can be sent safely in the sleeve which has three thin layers to block radio waves that can be used to read sensitive data. ScanSafe® protects the integrity of the content.

The recently launched ScanSafe® travel document sleeves – which offer enough space for passport, credit card, park ticket, boarding pass, mobile phone and car keys – have now been awarded with the 2018 Promotional Gift Award in the category "communicative product". The jury was convinced by the unique combination of high protection, tactility and full printability. ScanSafe® can be printed with any desired design and will carry a brand message in the most beautiful way.

On the outside, ScanSafe® products consist of DuPont™ Tyvek®, which is known for its combination of silky surface and unsurpassed strength. Tyvek® is tear-, burst-, water-resistant and dust-repellent.

The ScanSafe® range is targeted at merchandisers, agencies and companies that attach great importance to the safety of their customers. The elegant ScanSafe® products help to combine brand image with value, durability and care.

Facts about Promotional **Gift Award**

PROMOTIONAL GIFT AWARD 2018

The Promotional Gift Award is bestowed on ground-breaking products in the promotional gift sector that are outstanding in terms of originality, functionality and innovation and fulfil the requirement profile of a high-impact promotional item to an exceptional degree. Participants in the competition come from all over Europe.

The products submitted are judged according to five criteria: originality and innovation of product idea, design quality as regards the degree of innovation and the overall form, production quality with respect to materials used and suitability for customizing, sustainability of the product as well as advertising impact and communication potential in terms of customer loyalty or brand bonding.

The prize is awarded annually by WA Media in Cologne.

Bong's **sustainability work**[1]

OVERVIEW OF RISKS, POLICIES, MEASURES AND ACTIVITIES TAKEN ACROSS THE LIFE CYCLE OF PRODUCTS

	Supply of raw materials and other input	Production	Marketing/Sales	Distribution	Recyling and other measures
Risks	• Negative environmental impact • Unsatisfactory working conditions • Violations of human rights • Corruption and fraud	• Increased emissions • High consumption and contamination • Work accidents and experienced occupational insecurity	• Corruption and fraud • Dissatisfied customers	• Emissions from vehicles • Unsatisfactory working conditions at transport firms.	• Difficulties in recycling
	Risks regarding social conditions and employees are those related to the workplace and to the relationship between the company and employees as well as between employees among themselves. Such risks include occupational health risks, risk of unequal treatment and risk of discrimination with regard to, for example, gender, ethnicity, age, religion and political opinion. Risks of corruption and fraud may concern both internal transactions and relationships between Bong and business partners.				
Policies	A comprehensive Code of Conduct which includes rules and recommendations concerning the environment, compliance, ethics and anti-corruption, quality, working conditions, equal treatment and prevention of conflicts of interest. The Code of Conduct is complemented by a Supplier Code of Conduct and an Equality and Diversity Policy.				
Management of risks that encompass the entire product life-cycle	Code of Conduct accessible to all employees. Grievance mechanism ("a whistle") implemented centrally with access via home page. Appointment of managers in respective business units with joint responsibility of exchanging experiences and "best practice" across the Group.				
Management of risks in each specific phase of the product life-cycle	Supplier Code of Conduct accepted and signed by major suppliers centrally and at business unit level.	Continued adoption of environmentally sound production methods such as improved efficiency of machines, leading to reduced energy consumption, increased use of water based methods replacing glue and colors containing volatile organic compounds. Further certification of facilities.	Product labelling in accordance with national and EU standards. Enlargement of product offering with climate compensation. Customer satisfaction surveys.	Increased use of well reputed transport firms that aim for lower emissions.	Increased offer of fully recyclable products. Promotion of paper carrier bags to replace plastic bags.

[1] Please refer to note 37 on page 41 for information about the statutory sustainability report.

Bong and **Global Compact**

In 2017 Bong signed UN’s Global Compact which is a commitment to support ten principles related to environment, labour conditions, human rights and anti-corruption by integrating these principles into the corporate strategy, culture and operations. In accordance with the commitment, an annual report complying with the Global Compact is published.

The ten principles of the UN Global Compact

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour conditions

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

The principles are derived from the Universal Declaration of Human Rights, ILO’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

CEO confirmation of support to Global Compact

Bong joined Global Compact in April 2017. We are proud to confirm our continued support of Global Compact's ten principles and our commitment to align our business strategy, culture and daily operations with them.

In this our first annual Communication on Progress we describe our actions to reduce the environmental impact of our own business and that of our suppliers, as well as how we conduct an ethically sound business and create a safe work environment where diversity and equal treatment is a natural part.

In 2017 we adopted new policies, among other things, to increase the awareness of our employees and those whom we do business with about the responsibility we have to integrate Global Compact's principles in our business strategy, culture and daily operations.

Håkan Gunnarsson, CEO

WE SUPPORT
UN GLOBAL COMPACT

Clean environment and sound business practices

In its sustainability work Bong prioritizes the reduction of energy and water consumption per produced unit, and a reduction of waste. In 2017 Bong adopted new sustainability policies.

BONG'S FRAMEWORK FOR SUSTAINABILITY

Bong's Board of Directors issued new and revised policies in 2017 to define Bong's approach towards sustainability and to better manage its sustainability work.

Code of Conduct

In December 2017, Bong's Board of Directors adopted a new, expanded and comprehensive Code of Conduct ("The Code") to be applied by The Board, all employees, suppliers and other external parties.

The purpose of The Code is to further improve Bong's sustainability work with the aim of contributing to a better world – socially and environmentally.

The Code stipulates rules and has recommendations in the following areas:

- environment
- business ethics and anti-corruption
- compliance
- quality
- working conditions, equal treatment and human rights
- potential conflicts of interest

The Code also describes the approach for those who anonymously would like to notify the company's management about suspected violations of the Code (a so-called whistleblower function).

The Code is a living document which will be revised when needed. It can be found on www.bong.com.

Supplier Code of Conduct

In addition to The Code, suppliers also have to observe the more detailed rules in Bong's Supplier Code of Conduct adopted by the Board of Directors in May 2017. The Supplier Code of Conduct complements The Code in areas such as the business ethics, environment, human rights and social conditions.

Equal Opportunities and Diversity Policy

The Code also refers to Bong's Equal Opportunities and Diversity Policy for more detailed rules. The Equality and Diversity Policy was adopted by the Board in May 2017 and guides the company and the actions of employees in matters of equal treatment, diversity at the workplace, work-life balance, etc.

SUSTAINABILITY CONTEXT

Bong's sustainability work should be seen in the light of its activities and geographic locations. Bong is an international industrial group present in 14 countries, with annual sales of approximately 2,100 SEK million and around 1,400 employees. The Group has customers throughout Europe and wholly owned production facilities in Scandinavia as well as in Central and Western Europe.

RISK ASSESSMENT AND RISK MANAGEMENT

Bong is to a varying degree exposed to sustainability risks. These can be divided into risks concerning the environment, human rights, social conditions and employees, and corruption. Risks are present within Bong's own operations and, for example, in the company's supply chain.

Risk is the outcome of an unwanted event. It is a function of both the probability and the value that gets lost as a result of the event. As a measure it considers both the probability and the values that may be lost. According to the company, material risks are those that have serious consequences to, for example, employee health and safety, the environment, the company's reputation, financial result and position.

Violations of the company's rules, industry standards, rules and regulations, union agreements, or other standards, by the company or the suppliers, can't be ruled out. Considering the internal control within the organization, the influence on suppliers by, amongst other things, policies, the influence of industry standards, and the indirect control through legislation and union agreements in the countries in which the company operates, the company believes that the company's risks in total are relatively minor. The company considers environmental impact its most important risk.

In conclusion, Bong conducts a broad sustainability work that aims for a low environmental impact, secure workplaces where the employees are treated equally regardless of sex, age, ethnicity etc., as well as a high level of ethics. The most significant risks in each area and the management of them are described below.

SOCIAL CONDITIONS AND EMPLOYEES

Regarding the work environment, the health and safety of the employees involved in production are prioritized. For example, operating the envelope machines (of which the company has approximately 150) requires qualified training and adherence to strict safety regulations. National regulations regarding work environment in the respective countries are complemented by local safety and quality rules for the business units that may may differ due to local conditions but still have employee safety and high-quality products as a common and superior goal. In 2017 no serious injuries occurred at the Group's units.

HUMAN RIGHTS

Bong considers the risk of significant violations of human rights to be small, both within the own organization and within the organizations of the company's most significant suppliers. Child labour is prohibited by law in all countries in which Bong operates. Bong will under no circumstances employ persons below the age of 15.

Collective bargaining agreements are the most common form of employee contracts in the Group. In its own opinion, the Group has good relationships with the unions in the respective countries. Bong holds the right to form and join unions as self-evident.

Bong's Employee Policy and Code of Conduct is partly based according to the United Nation's Declaration of Human Rights. The equal value of all is the foundation of the company's relations with its employees and between employees. The company does not discriminate according to sex, age, ethnicity, religion, political opinion, etc. Employees are expected to treat each other as they themselves would prefer to be treated. The company has not been made aware of any serious incidents or suspicion of serious incidents in 2017.

ENVELOPE AND PACKAGING FACILITIES IN EUROPE, FULLY OWNED BY BONG

	Angoulème, France	Evreux, France	Derby, UK	Milton Keynes, UK	Solingen, Germany	Torgau, Germany	Erlangen, Germany	Nybro, Sverige (Bong Retail Solutions)	Kristianstad, Sweden	Poznan, Poland	Krakow, Poland	Kohiila, Estonia
PEFC	●	●	●	●	●	●						●
FSC	●	●	●	●	●	●	●	●		●	●	●
ISO 14001	●	●	●	●	●				●			●
ISO 9001	●	●	●	●	●				●			●

The majority of purchases of input goods are made from well-renowned businesses that operate out of the Nordic countries. Bong holds these suppliers accountable to the same levels of standards as the company places on itself regarding crucial sustainability issues.

ETHICS AND ANTI-CORRUPTION

Bribery is unacceptable. Bong will neither provide nor accept payments, economic benefits or gifts in violation of applicable laws or generally accepted business practices. There were no incidents or suspicions of incidents in this respect in 2017.

Measures to prevent corruption are taken on many levels. One important purpose of Bong's internal control and risk management is to minimize the risk of fraud and corruption. The issue of a new, comprehensive Code of Conduct (that amongst other things repeats and emphasises the prohibition of bribery) which applies to all employees is one of many measures to encourage an ethically sound business. Since the implementation of the Supplier Code of Conduct in May 2017, Bong has actively worked towards having it signed by the company's main suppliers. In terms of purchased volume, 75 per cent of Bong's fine paper suppliers had signed the Suppliers' Code of Conduct at year-end 2017.

ENVIRONMENT

Converting fine paper to envelopes and other paper products (retail gift bags and carrier bags for the retail trade for example) is the basis for Bong's business. The value chain ranges from forestry (the source of the paper) to recycling of the used product. Envelopes and packaging have environmental impact throughout their respective life cycles - from the management of forests to recycling, incineration or landfills of used products. Bong believes that ensuring that purchases of fine paper are made from well-reputed suppliers, taking measures to reduce energy and water consumption per manufactured unit, the use of hazardous chemicals and waste in the wholly-owned facilities is the best way to reduce its environmental impact.

Supply of input goods

An industrial company like Bong needs input of different types like fine paper, electricity, water, chemicals and office supplies. Bong has contracts with a large number of suppliers. The most significant in terms of sustainability are the suppliers of raw materials that account for 2/3 of the Group's total purchases, of which fine paper accounts for the majority (75 percent). All suppliers of paper meet and can demonstrate full traceability and origin of the raw material. Bong also imposes strict criteria in terms of environmental impact on suppliers of adhesives, dyes and window film.

Production

The Group operates ten production plants in Europe within envelope production and overprint and two for light packaging (please refer to the table above). The plant in Nybro, Sweden, produces paper carrier bags and gift packaging (Bong Retail Solutions) and the plant in Poznan, Poland, manufactures bubble mailers. Together the twelve plants account for most of the Group's consumption of electricity and water.

Energy consumption

The heaviest environmental impact in the manufacturing process is caused by energy consumption and the related emissions of carbon dioxide. In late 2016, Bong initiated a survey of the use of electricity in its envelope and packaging plants to measure and reduce consumption. Measurements made in the plants show that the power consumption per manufactured unit decreased by 3 per cent in 2017 compared to 2016.

Water consumption

Amongst other things, Bong uses water in its facilities for cleaning machinery and equipment. Bong strives for a low level of consumption and to minimize pollution. Data collected at the twelve wholly-owned plants show that the water consumption per manufactured unit decreased by eleven per cent in 2017 compared to 2016.

Waste management and recycling of chemicals

The paper waste is sorted by quality and is sold to be recycled into various paper products. Of the production plants total waste, over 90 per cent is recycled. The residual is incinerated or used as landfill. Transportation of waste is handled in accordance with regulations. Hazardous waste is not stored. Measurements at the plants show that the amount of waste fell by 4 per cent in 2017 compared to 2016.

The chemicals used in the production process are handled and destroyed in an approved manner and left-over dye is collected and recycled.

Transports

Manufacturing facilities are situated close to customers. Bong selects well-renowned carriers that strive to reduce carbon dioxide emissions.

Product usage and recycling

Not all paper mills who handle waste for recycling have the necessary processes to treat window glue and adhesive residues. Bong recommends that envelopes be sorted as combustible waste. Bong's paperboard packaging can be recycled as paper packaging.

CERTIFICATIONS AND PRODUCT LABELS

A certification of a plant according to ISO 14001 means that its environmental work is conducted according to a management system that require the work to be efficient, documented, monitored as well as reported and evaluated. ISO 9001 is a well-established standard for management systems. With the application of the labels PEFC® and FSC® the manufacturer ensures that the products so labelled are made of raw materials from forests that are managed in accordance with the requirements set by PEFC® (Program for the Endorsement of Forest Certification) and FSC® (Forest Stewardship Council). The certification of Bong's facilities means that the origin of the raw material can be traced and guaranteed.

Product labels

The envelopes are sold on local markets that use different certifications and labels. For envelopes in the Nordic countries the Swan is a guarantee that the product is made of approved paper grades, that glue and printing colours are water-based and that the window is detachable. The corresponding label in Germany is Der Blaue Engel and in France NF Environnement. In recent years, Bong has focused on the EU Ecolabel, which is a general European system of labelling that ensures that the product can be recycled and that the emissions of chemicals to air and water have been minimized.

Case **Bong UK**

In line with the Group's overall sustainability goals, Bong UK has set environmental protection as its prime sustainability objective. The unit strives to reduce consumption of energy and water within its manufacturing processes and achieve certification of facilities and products, as well as increasing recycling and lowering waste volumes.

With approximately 200 employees and two major production facilities in Milton Keynes and Derby, Bong UK is a significant share of the Bong Group. In 2017 Bong UK produced 2.4 billion envelopes, which accounted for almost 20 per cent of the Group's total production.

POLICYS

Bong UK has issued the following steering documents to manage its sustainability work:

- Quality policy
- CSR policy
- Environmental Policy
- Waste Reduction Policy
- PEFC and FSC Chain of Custody Certification Policy
- Health and Safety Policy

QUALITY POLICY

The Quality Policy summarizes Bong UK's view of how its own operations should be conducted to ensure product quality and that good customer relations are maintained.

The Quality Policy is further complemented by more detailed policies regarding the environment, certification, waste and waste management, the workplace and health and safety.

ENVIRONMENTAL POLICY

Bong UK sets annual targets for certain aspects of its sustainability work, including certification of facilities and products as well as reducing electricity and water consumption.

Certification of facilities and products

Facility/product	ISO 14001	ISO 9001[1]	FSC	PEFC	Eco label
Facilities					
Milton Keynes	●	●	●	●	
Surrey Envelopes Ltd, Derby	● [2]	●	●	●	
Surrey Envelopes Ltd. Wimbledon (only overprint)		●	●	●	
Brands					
Basildon Bond	na	na	●		● (work in progress)
Plus Fabric	na	na		●	
New Guardian	na	na	●		● (work in progress)

na=not applicable

Bong UK is accredited with the ISO 9001 and ISO 14001 certifications. The facilities at Milton Keynes continues its commitment to the environmental standard and has recently been through the transition to achieve the updated ISO certification 14001: 2015 standard. The Derby site is due to go through its transition shortly.

The FSC and PEFC chain of custody certifications guarantee that the raw materials have been sourced from a forest and supply chain that is managed responsibly.

Power consumption

Bong UK strives to reduce energy consumption. In 2017 energy consumption reduced by 2.5 per cent as a result of a number of measures that were introduced across the facilities, e.g. to further reduce power consumption, low power lighting (LED's) and sensors were installed.

Waste

Bong UK places great importance on reducing the amount of waste, and has devised waste minimization strategies for this purpose.

The work is based on analyzing waste streams in accordance with the EU Waste Directive. Analysis includes all relevant inputs such as pallets, fine paper, window film, ink and ink cartridges, providing an overview of usage, how it can be avoided and how it can be managed efficiently. All waste is handled by licensed waste management companies within a framework set by the Waste Packaging Compliance Scheme. Recycling of packaging waste resulted in a decline of atmospheric carbon dioxide emissions in 2016 by 263 tonnes.

[1] ISO 9001 certification meets the latest requirements of ISO 9001:2015.

[2] The transition to ISO 14001:2015 is scheduled for the current year. The Waste Directive (Dir 2006/12/EC Directive 2006/12/EC of the European Parliament and of the Council of 5 April 2006 on waste) aims at preventing waste and promoting the reuse and recycling of waste. The directive applies the so-called five-step waste hierarchy, according to which the following priority regime should generally be followed in waste policy: Prevention of waste generation, preparation for reuse, recycling, other recycling and disposal.

SOCIAL SUSTAINABILITY

The Health and Safety Policy governs work environmental issues. The policy addresses security, education, identification of occupational health risks, organizational responsibility and work procedures.

Bong UK strives for social sustainability in its own business as well as in the supply chain. In matters relating to human rights and working conditions, the company's CSR Policy states the company's suppliers must have policies that ensure they meet the same requirements as Bong UK.

During their first week at work all new employees participate in a comprehensive induction programme. All personnel receive a detailed specification of their job function/role, training in occupational health and safety issues, and central policies are fully explained.

Basildon Bond

Bong UK manufactures Basildon Bond Recycled Business Envelopes, using 100 per cent recycled non-bleached fibres.Basildon Bond has a well-founded reputation as the most recognized and respected envelope brand in the UK. With its smooth white exterior and elegant green interior the eco-friendly messaging is easily conveyed. The sustainable journey extends across the outer part of the envelope to also include the window film, which is 100 per cent biodegradable and means the whole envelope can be processed via normal recycling processes.

Employees at Bong

Bong strives to create a sustainable work environment. The Employee Policy is based on United Nation's Declaration of Human Rights and ILO's Declaration on Fundamental Principles and Rights at Work, inter alia.

Employee policy

- Bong is mindful of good relations with employees in the Group, based on mutual respect.
- No form of forced labour or child labour is permitted within the Bong Group. The minimum hiring age is the age at completion of compulsory schooling, although not lower than 15 years.
- Bong offers equal opportunities for all employees without regard for sex, sexual orientation, transgender identity or expression, ethnicity, religion or other belief, disability and age.
- All employees shall be provided with a safe and healthy work environment.
- In all companies in the Group, the employees shall be entitled to form or join a trade union in compliance with local laws or principles.

Outcome

There were no serious occupational accidents in 2017. The company is not aware of any incidents or suspicions of discrimination, or any other violation of the company's policies in its own operations or that of suppliers and other business partners in 2017.

Young talents

Bong recently launched a program where talents from all business units attend leadership training in order to stimulate young aspiring managers and promote diversity in the Group. The program is designed for ambitious and innovative employees under 35 years and will last throughout 2018. The eleven participants are from Sweden, United Kingdom, Romania, Germany, Estonia, France and Belgium.

Sustainability Report Information

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

PLACEMENT OF STATUTORY SUSTAINABILITY INFORMATION IN BONG'S ANNUAL REPORT 2017[1]

<table>
<tr><th>Area</th><th>Annual Accounts Act statutory disclosure</th><th>Environment</th><th>Social and Labour Conditions</th><th>Human Rights</th><th>Anti-corruption</th></tr>
<tr><td>Policy</td><td>"The sustainability report shall describe the policy that the company applies in the specific areas, including the review procedures."</td><td>6,8</td><td>6,8,11</td><td>6,8,11</td><td>6,8</td></tr>
<tr><td>The outcome of the policy</td><td>"The sustainability report shall describe the outcome of the application of the policy."</td><td>9</td><td>8</td><td>8</td><td>8</td></tr>
<tr><td>Significant risks</td><td>"The sustainability report shall describe the material risks that arise from the company's operations in the specific areas, including, when relevant, the company's business relations, products or services that are likely to have negative impacts."</td><td>6</td><td>The Company is exposed to this risk but does not believe it to be significant. It is described on page 8.</td><td>The Company is exposed to this risk but does not believe it to be significant. It is described on page 8.</td><td>The Company is exposed to this risk but does not believe it to be significant. It is described on page 9.</td></tr>
<tr><td>Risk management</td><td>"The sustainability report shall describe how the company manages these risks."</td><td>6,9</td><td>6,8</td><td>6,8</td><td>9</td></tr>
<tr><td>Performance indicators</td><td>"The sustainability report shall describe key performance indicators that are relevant to the company's operations."</td><td>9</td><td>8</td><td>8</td><td>9</td></tr>
<tr><td>Business model</td><td>"The sustainability report shall describe the Company's business model."</td><td colspan="4">8</td></tr>
</table>

[1] The numbers refer to the respective pages in the Annual Report.

AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of shareholders in Bong AB (publ), corporate identity number 556034-1579.

Engagement and responsibility

The Board of Directors is responsible for the preparation of the sustainability report included on pages 6-12 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A sustainability report has been prepared.

Malmö 24 April 2018
PricewaterhouseCoopers AB

Lars Nilsson
Authorised Public Accountant
Audiitor in Charge

Christer Olausson
Authorised Public Accountant

Five-year summary

Key figures	2017	2016	2015	2014	2013
Net sales, MSEK	2,095	2,135	2,345	2,533	2,564
Operating profit/loss, MSEK	45	9	–5	–123	–109
Extraordinary items, financial net, MSEK	–	430	–	–	–
Profit/loss after tax, MSEK	–9	297	–64	–150	–141
Cash flow after investing activities, MSEK	43	30	–75	94	–91
Operating margin, %	2.2	0.4	–0.2	–4.8	–4.3
Capital turnover rate, times	1.3	1.3	1.2	1.3	1.2
Return on equity, %	neg	neg	neg	neg	neg
Average capital employed, MSEK	1,095	1,159	1,343	1,375	1,586
Return on capital employed, %	0.2	1.8	neg	neg	neg
Equity ratio, %	43	43	16	19	26
Net loan debt, MSEK	294	315	837	790	802
Net loan debt/equity, times	0.42	0.45	2.64	2,09	1.54
Net debt/EBITDA,times	3.2	5.2	11.9	neg	neg
Average number of employees	1,459	1,556	1,763	1,873	2,051
Number of shares					
Number of shares outstanding at end of period	211,205,058	211,205,058	156,659,604	156,659,604	156,659,604
Diluted number of shares outstanding at end of period	251,205,058	251,205,058	183,932,331	183,932,331	183,932,331
Average number of shares	211,205,058	207,417,179	156,659,604	156,659,604	63,873,865
Average number of shares, diluted	251,205,058	246,533,341	183,932,331	183,932,331	73,796,014
Earnings per share					
Before dilution, SEK	–0.06	1.42	–0.41	–0.96	–2.20
After dilution, SEK	–0.06	1.42	–0.41	–0.96	–2.20
Adjusted earnings per share					
Before dilution, SEK	–0.06	–0.64	–	–	–
After dilution, SEK	–0.06	–0.64	–	–	–
Equity per share					
Before dilution, SEK	3.30	3.30	2.02	2.41	3.33
After dilution, SEK	3.30	3.30	1.95	2.27	3.06
Cash flow from operating activities per share					
Before dilution, SEK	0.25	0.26	–0.95	0.62	–0.40
After dilution, SEK	0.25	0.26	–0.81	0.53	–0.34
Other data per share					
Dividend, SEK	0.00[1]	0.00	0.00	0.00	0.00
Quoted market price on balance day, SEK	0.95	0.9	1.3	1.1	1.5
P/E-ratio, times	neg	0.61	neg	neg	neg
Adjusted P/E-ratio, times	neg	neg	–	–	–
Price/Equity before dilution, %	29	27	62	46	45
Price/Equity after dilution, %	29	27	65	49	49

[1] The Board's proposal.
For definitions, see page 47.

The share

The Bong share is listed on the Nasdaq Stockholm (Small Cap). At the end of 2017, the number of shares in Bong AB was 211, 205, 508. Upon full exercise of outstanding warrants there will be an additional 40 million shares.

SHARE PERFORMANCE AND TRADING

The Bong share increased by 10.5 per cent in 2017. The highest price paid, SEK 1.24, was recorded on 27 June 2017. The lowest price paid, SEK 0.80, was recorded on 17 January 2017.

OMX Stockholm PI, an index showing the price development of all listed shares on the Stockholm Stock Exchange, increased by 6.4 per cent in 2017. OMX Stockholm Small Cap PI, an index that measures the price performance of shares in companies whose size is comparable with Bong, rose by 6.8 per cent. In 2017, the total value of Bong shares traded amounted to 29.0 per cent of the market value of all outstanding shares on closing day 2017

SHAREHOLDERS

The number of shareholders on 31 December 2017 was 2,364. Holdham S.A is Bong's largest shareholder with 25.0 per cent of votes and capital. Svolder AB is the second largest shareholder with 7.9 per cent of the votes and capital.

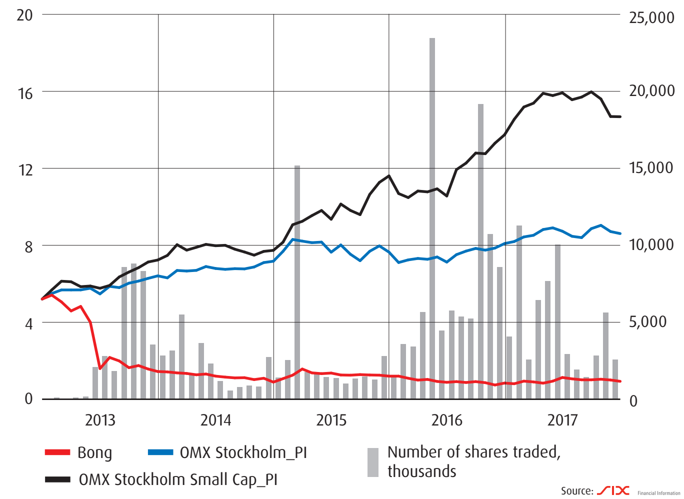
Analysts who follow the Bong share

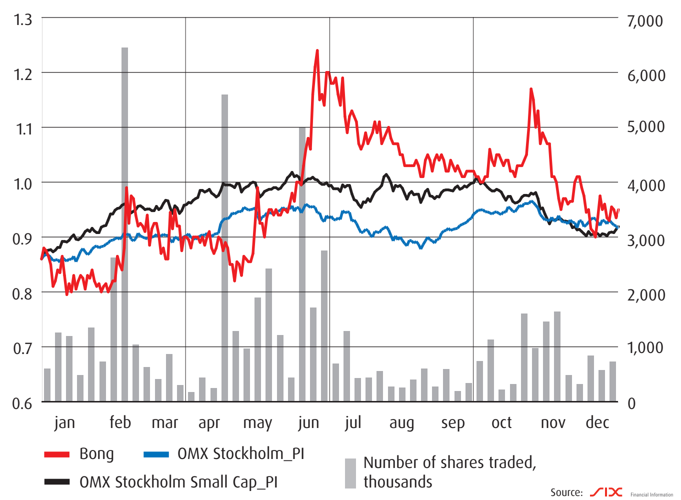
Redeye
Henrik Alveskog
+468-545 013 45
henrik.alveskog@redeye.se

Shareholder	Number of shares	Share of votes and capital, %
Holdham S.A.	52,850,282	25.0
Svolder AB	16,600,000	7.9
Theodor Jeanson	9,700,000	4.6
Paulsson Advisory AB	9,126,695	4.3
John Holtz Elvesjö	7,008,669	3.3

Year	Corporate action	Change in number of shares	Total number of shares	Quota value, SEK
2013	Reduction of share capital	–	17,480,995	1.50
2013	Preferential isssue	69,923,980	87,404,975	1.50
2013	Set-off issues	69,254,629	156,659,604	1.50
2016	Reduction of share capital	–	156,659,604	1.12
2016	Conversion of convertible debenture	27,272,727	183,932,331	1.12
2016	Set-off issue	27,272,727	211,205,058	1.12

BONG'S SHARE PERFORMANCE 2013–2017 AND 2017





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 2017 – 31 December 2017 for the Parent Company and the Group ("Bong", "the Group" or "the Company").

Bong is one of the leading providers of specialty packaging and envelope products in Europe and offers solutions for distribution and packaging of information, advertising materials and lightweight goods. Important growth areas in the Group are packaging within retail and e-commerce and the envelope market within Eastern Europe. The Group has annual sales of approximately SEK 2.1 billion and about 1,400 employees in 14 countries. Bong is a public limited company and the share is listed on Nasdaq Stockholm (Small Cap).

MARKETS

During the fourth quarter of 2017, FEPE statistics show that the European envelope market volume decreased by approximately six per cent compared to the same period previous year. The decline in the envelope market 2017 is approximately five per cent compared to previous year, according to FEPE.

Raw material prices have increased continuously during the year as a result of the decreased capacity and increasing pulp prices. In addition there was a further temporary capacity reduction due to a serious breakdown of one of the envelope paper machines at one of Bong's main paper suppliers. It is therefore necessary for Bong to increase the sales prices to the market in order to compensate for the increasing price of pulp.

During the year some restructuring of the envelope market has taken place. Among other things, Mayer Kuvert have closed one of its factories in Germany; BlessOF. In the Nordic market InterMail has taken the decision to close its envelope production. Please refer to Events after the end of the reporting period. Bong's assessment is that the restructuring process and consolidation of the industry will continue, but at a slower pace than the market decline. A large overcapacity will remain.

While the envelope market continues to decline the large and fragmented light packaging market is still growing. Light packaging represents approximately 20 per cent of Bong's annual sales. In 2017 Bong's sales of light packaging increased with approximately four per cent compared to previous year. The machines for production of paper carrier bags that Bong invested in during 2016 have seen a continuously increasing capacity utilization.

Paper carrier bags is a product that Bong sees large opportunities for due to the EU-directive from 29 April 2015 aimed at reducing the use of plastic bags in Europe. The directive includes objectives that each member country may achieve as it deems appropriate. A ban has already been implemented in a number of European countries. Paper carrier bags in combination with gift packaging also means that Bong can offer a complete concept to its customers which is available in all possible designs.

SALES AND EARNINGS

Consolidated sales for the period was SEK 2,095 million (2,135). Exchange rate fluctuations had a positive impact on sales of SEK 15 million compared to 2016. The main reason for the drop in sales is the continued downturn in the envelope market, which resulted in both lower volumes and pricing pressures.

Despite lower sales, operating profit amounted to SEK 45 million (9), due to the new lower cost structure after the restructuring programs. Operating profit improved due to a non-recurring revenue of SEK 5 million as a result of renegotiated pension agreements in Norway. The operating result was negatively impacted by restructuring costs in q4 of SEK 5 million attributable to a move from premises ahead of what had earlier been agreed with the landlord. The move of all production from Tønsberg in Norway to Kristianstad in Sweden was completed in the third quarter of 2017. The annual net cost savings of these measures is estimated to be SEK 14 million.

Net financial items for the period, excluding non-recurring items, amounted to SEK -44 million (-46). Non-recurring items, related to the refinancing transaction in 2016, amounted to SEK 430 million. Please refer to note 10. Bong posted a profit before tax of SEK 1 million (393) and the result after tax was SEK -9 million (297).

Bong's total light packaging sales amounted to SEK 415 million (399). Currency fluctuations had a negative impact on light packaging sales of SEK 3 million compared with the corresponding period in 2016.

CASH FLOW

Cash flow after investing activities for the period was SEK 43 million (30). Payments for the ongoing restructuring program had a negative impact on cash flow for the year of SEK -20 million (-25).

FINANCIAL POSITION

Cash and cash equivalents on 31 December 2017 amounted to SEK 124 million, net of the escrow account amounting to SEK 21 million (SEK 90 million, net of the escrow account amounting to SEK 12 million). The Group had unutilized credit facilities of SEK 13 million. Total available cash and cash equivalents thus amounted to SEK 137 million (SEK 99 million). Consolidated equity at the end of December 2017 was SEK 696 million (697). Translation of the net asset value of foreign subsidiaries to SEK and changes in the fair value of pension debt and derivative instruments increased consolidated equity by SEK 5 million (10). The interest bearing net loan debt was SEK 294 million (SEK 315 million).

CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net impact on cash flow of SEK -10 million (-25). The net investments include an investment in production equipment and a business system for the Group and only minor asset sales.

EMPLOYEES

The average number of employees during the period was 1,459 (1,556). The Group had 1,437 (1,507) employees at the end of December 2017. Bong is intensively working on improving productivity and adjusting staff to meet current demand and the reduction is the result of the implemented restructuring measures.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

In January 2018 InterMail took the strategic decision to cease its envelope business in the Nordics. Bong has agreed to help InterMail in this transition. Bong will help to serve InterMail customers and to make sure to provide a good service also in the future. Bong will offer the majority of InterMail's sales representatives in Sweden, Denmark and Finland employment in Bong. The production of the envelopes will be done in Bong's existing factories. The agreement includes royalty payment from Bong to InterMail during the coming three years. The transaction closed in March 2018.

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 6-12.

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 2.6 million (0.9) and earnings before tax were SEK -546 million (310). Earnings before tax were impacted by a write-down of shares in subsidiaries of SEK 526 million. Non-recurring items related to the refinancing transaction amounted to SEK 229 million in 2016.

BOARD'S PROPOSED 2018 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2018 AGM resolve on remuneration to the CEO and other senior executives as follows: "Senior executives" here refers to executives included in the management group, which currently consists of the Company's CEO and Business Area Manager Nordic Region, Chief Financial Officer (CFO), Business Area Manager Central Europe, Business Area Manager UK, Business Area Manager France 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 7 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 owns 7.9 per cent of the votes and capital in the Company. The total number of ordinary shares was 211,205,058 on 31 December 2017. 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 has undergone a consolidation since 2011. 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 very 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 2017 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%	21 +/-
Volume	+/- 1%	10 +/-
Paper prices	+/- 1%	11 -/+
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 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 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, a reason is given in the appropriate section of the Corporate Governance Report.

Bong is a Swedish public limited liability company whose shares are traded on Nasdaq Stockholm in the Small Cap segment. Bong has around 2,400 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 2017

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.

Twenty shareholders, representing 39 per cent of the shares and votes in the Company participated in Bong's Annual General Meeting on 17 May 2017 in Kristianstad, 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 14.

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 2017 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, 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 2017 and includes a fee for work in the Audit Commitee. 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 2017 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, Paulsson Advisory AB and Chairman of Liv ihop AB (publ).
Terminated board appointments/partnerships over the past five years: Chairman of the Board of 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 (publ), Chairman of AAK (publ), Chairman of Absolent Group AB and Mikael Ekdahl AB.
Terminated board appointments/partnerships over the past five years: Chairman of Marko Group AB, member of the board of KB Components AB.
Holding in Bong: 60,000 shares.

Håkan Gunnarsson (b. 1969)
Board member and CEO since 2017.
Education and previous experience: Bachelor Degree in business administration (B Sc). CFO for Bong AB.
Other directorships/positions: –.
Terminated board appointments/partnerships over the past five years: -
Holding in Bong: 100,000 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: 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.
Holding 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: –.
Terminated board appointments/partnerships over the past five years: Deputy board member in Indus Consulting AB, Board member in Declam AB, Pergo Golv AB.
Holding in Bong: 50,000 shares.

EMPLOYEE REPRESENTATIVES

Peter Harrysson (b. 1958)
Employee representative on the Board of Bong AB since 1997.
Representative of Grafiska Personalklubben. Peter Harrysson resigned from the Board after the end of the reporting period.
Education and previous expericence: Factory worker at Bong Retail Solutions AB.
Other directorships/positions: Member of the Board of Nybro Bostadsaktiebolag.
Terminated board appointments/partnerships over the past five years: –.
Holding in Bong: –.

Christer Muth (b. 1954)
Employee representative on the Board of Bong AB since 2008.
Representative of PTK.
Education and previous expericence: Sales and customer service, Bong Sverige AB.
Other positions/directorships: –.
Terminated board appointments/partnerships over the past five years: –.
Holding 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 2017, the Board of Directors held twelve 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 folllowing important issues were dealt with on board meetings during 2017:
- 15 February Year-end report and report from the Auditors
- 17 May Interim report q1 and constituent board meeting subsequent to the AGM 2017
- 18 July Half-year report q2
- 13 September visit at subsidiary
- 15 November interim report q3
- 13 December Budget 2018

INDEPENDENT MEMBERS AND ATTENDANCE AT BOARD MEETINGS

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

COMPOSITION OF THE BOARD OF DIRECTORS AND NUMBER OF FORMAL MEETINGS IN 2017

	Independent of company[1]	Independent of major shareholders[1]	Attendance at board meetings
Christian Paulsson	Yes	No	11
Mikael Ekdahl	Yes	Yes	8
Håkan Gunnarsson[2]	No	Yes	7
Stéphane Hamelin	No	No	11
Eric Joan	Yes	No	8
Stefan Lager[2]	Yes	Yes	7
Helena Persson	Yes	Yes	12

[1] The assessment of independence has been made in accordance with the Code.
[2] Member of the Board since AGM 2017.

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 Committe elected by the 2017 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 has a good functionality. 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 2017, 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 paying 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 permissible non-audit services, issue guidelines on allowable tax and valuation services, ensuring that the fees for permitted 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 2017, two of which were fully attended.

EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2017 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 has all the factual 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 questions. In 2017, Bong's Group Management consisted of six persons, including one woman. The Group consists of the parent company Bong AB and a number of subsidiaries, as reported in note 19. Reporting by subsidiaries takes place on a monthly basis. The boards of the subsidiaries mainly consist of members of Bong's corporate management.

REMUNERATION FOR GROUP MANAGEMENT

The 2017 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 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 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 of Directors and CEO, instructions for financial reporting, information policy and authorisation instructions.

CONTROL ACTIVITIES

The control activities include both general and more detailed controls intended to prevent, detect and correct errors and non-conformance. The control activities are devised and documented at the corporate and departmental level. The internal regulatory framework with policies, guidelines and instructions comprises the most important tool for furnishing information and instructions for the purpose of securing the financial reporting. In addition, a standardised reporting package is used by all subsidiaries in order to ensure consistent application of Bong's principles and coordinated financial reporting.

RISK ASSESSMENT

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

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

INFORMATION AND COMMUNICATIONS

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

FOLLOW-UP

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

PROPOSED DISTRIBUTION OF EARNINGS

The Board of Directors proposes that the earnings available for distribution, SEK 429,169,378.87 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 2017. No dividend was paid for 2016.

Consolidated income statements

TSEK	Note	2017	2016
INCOME STATEMENT			
Revenue	2	2,095,271	2,134,548
Cost of goods sold	3–4, 6, 8	–1,714,191	–1,761,681
Gross profit		381,080	372,867
Selling expenses	3–4, 6, 8	–181,487	–191,387
Administrative expenses	3–6, 8	–146,425	–155,221
Other operating income	7, 12	13,645	42,951
Other operating expenses	7, 12	–21,622	–60,384
Operating profit/loss		45,191	8,826
Financial income	9, 12	1,509	2,940
Financial expenses	10, 12	–45,564	–48,755
Non-recurring items, financial income	10	–	429,892
Total financial income and expenses		–44,055	384,077
Result before tax		1,136	392,903
Income tax	11	–9,939	–95,779
NET RESULT FOR THE YEAR		**–8,803**	**297,124**
Attributable to:			
Parent Company's shareholders		–12,428	295,230
Non-controling interests		3,625	1,894
Earnings per share attributable to Parent Company's shareholders			
– basic, SEK	13	–0.06	1.42
– diluted, SEK	13	–0.06	1.42
– basic, SEK, excluding non-recurring items	13	–0.06	–0.64
– diluted, SEK, excluding non-recurring items	13	–0.06	–0.64

TSEK	2017	2016
STATEMENT OF COMPREHENSIVE INCOME		
Net result for the year	–8,803	297,124
Other comprehensive income		
Items not to be reclassified to the income statement		
Actuarial profit/loss on post-employment benefit obligations	0	–15,104
	0	–15,104
Items that may subsequently be reclassified to the income statement		
Cash flow hedges	189	–893
Hedging of net investments	–8,441	–11,283
Exchange rate differences	20,084	15,821
Income tax relating to components of other comprehensive income	1,471	2,306
Other comprehensive income after tax	13,303	–9,153
TOTAL COMPREHENSIVE INCOME	**4,500**	**287,971**
Attributable to:		
Parent Company's shareholders	875	287,644
Non-controlling interests	3,625	1,894

Consolidated balance sheet

TSEK	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	14	574,641	563,258
Other intangible assets	15	28,695	37,455
Total		603,336	600,713
Tangible assets			
Property, plant and equipment	16	69,486	73,340
Plant and machinery	16–17	105,751	112,910
Equipment, tools, fixtures, and fittings	16	26,412	29,263
Construction in progress	18	7,185	13,256
Total		208,834	228,769
Financial assets			
Interests in other companies		0	1,030
Deferred tax assets	20	143,938	144,152
Other non-current receivables		2,159	1,919
Total		146,097	147,101
Total non-current assets		958,267	976,583
Current assets			
Inventories etc.	21		
Raw materials and consumables		88,501	81,351
Products in progress		3,865	5,172
Finished products and merchandise		96,919	100,025
Total		189,285	186,548
Current receivables			
Trade receivables	22	276,917	285,033
Current tax assets		22,728	20,866
Other current receivables	23	6,548	7,717
Deferred expenses and accrued income	24	48,389	42,555
Total		354,582	356,171
Cash and cash equivalents	25	124,082	89,859
Total current assets		667,949	632,578
TOTAL ASSETS		**1,626,216**	**1,609,161**

TSEK	Note	31 Dec. 2017	31 Dec. 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	32	236,549	236,549
Other contributed capital		800,088	803,423
Reserves	31	–6,052	–19,822
Retained earnings including net result for the year		–345,364	–326,958
Equity attributable to equity holders of the Parent		685,221	693,192
Non-controlling interests		11,018	4,102
Total equity		696,239	697,294
Non-current liabilities			
Borrowings	26	183,572	167,925
Deferred tax liabilities	20	21,931	24,540
Pension obligations	27	212,103	219,742
Other provisions	28	17,612	14,569
Other non-current liabilities		2,057	3,328
Total non-current liabilities		437,275	430,104
Current liabilities			
Borrowings	26	0	2,942
Trade payables		240,444	204,116
Current tax liability		8,712	15,964
Other current liabilities	23	65,371	55,420
Other provisions	28	11,282	26,286
Accrued expenses and deferred income	24	166,893	177,035
Total current liabilities		492,702	481,763
TOTAL EQUITY AND LIABILITIES		**1,626,216**	**1,609,161**

Statement of changes in consolidated equity

TSEK	Note	Share capital	Share premium	Reserves	Retained earnings incl. net result for the year	Non-controlling interests	Total equity
		Attributable to Parent Company shareholders					
Opening balance on 1 January 2016		234,989	699,320	–25,818	–595,113	3,708	317,086
Comprehensive income							
Net result for the year					295,230	1,894	297,124
Other comprehensive income							
Items not to be reclassified to the income statement							
Actuarial profit on post-employment benefit obligations, after tax					–15,104		–15,104
					–15,104		–15,104
Items that may subsequently be reclassified to the income statement							
Cash flow hedges, after tax				–697			–697
Hedging of net investments, after tax				–9,128			–9,128
Exchange rate differences, after tax				15,821			15,821
Total other comprehensive income	31			5,996	–15,104	0	–9,108
Total comprehensive income				5,996	280,126	1,894	288,016
Transactions with shareholders							
Rights issue	32	1,560	97,530				99,090
Bond loan, revaluation			6,573				6,573
Dividend to non-controlling interest					0	–1 500	–1 500
Issuance cost					–11 971		–11 971
Total transactions with shareholders		1,560	104,103	0	–11,971	–1,500	92,192
CLOSING BALANCE ON 31 DECEMBER 2016	31, 32	**236,549**	**803,423**	**–19,822**	**–326,958**	**4,102**	**697,294**
Opening balance on 1 January 2017		236,549	803,423	–19,822	–326,958	4,102	697,294
Comprehensive income							
Net result for the year					–12,428	3,625	–8,803
Other comprehensive income							
Items not to be reclassified to the income statement							
Actuarial profit on post-employment benefit obligations, after tax					–355		–355
					–355		–355
Items that may subsequently be reclassified to the income statement							
Cash flow hedges, after tax				147			147
Hedging of net investments, after tax				–6,573			–6,573
Exchange rate differences, after tax				20,196		–112	20,084
Total other comprehensive income	31			13,770	–355	–112	13,303
Total comprehensive income				13,770	–12,783	3,513	4,500
Transactions with shareholders							
Bond loan, revaluation			–3,335				–3,335
Dividend to non-controlling interest					0	–2,930	–2,930
Investment attributable to non-controlling interest					–5,623	6,333	710
Total transactions with shareholders		0	–3,335	0	–5,623	3,403	–5,555
CLOSING BALANCE ON 31 DECEMBER 2017	31,32	**236,549**	**800,088**	**-6,052**	**–345,364**	**11,018**	**696,239**

Consolidated statement of cash flow

TSEK	Note	2017	2016
OPERATING ACTIVITIES			
Operating profit/loss		45,191	8,826
Depreciation, amortisation, and impairment losses		46,152	51,818
Interest received		182	259
Interest paid		–12,904	–27,735
Financial expenses		1,327	2,681
Financial income		–4,848	–3,261
Tax paid		–18,622	–5,402
Other items not affecting liquidity	33	–19,143	–3,967
Cash flow from operating activities before changes in working capital		37,335	23,219
Changes in working capital			
Inventories		553	28,505
Current receivables		2,079	16,447
Current operating liabilities		9,885	–13,990
Cash flow from operating activities		49,852	54,181
INVESTING ACTIVITIES			
Acquisition of intangible and tangible assets including advance payments to suppliers		–15,261	–27,703
Disposal of intangible and tangible assets		5,264	3,427
Cash flow from investing activities		–9,997	–24,276
Cash flow after investing activities		39,855	29,905
FINANCING ACTIVITIES			
Amortisation of loans		–	195,000
Change in credit facilities		2,967	–10,292
Change in other long-term debt		1,376	
Dividend to non-controlling interest		–2,930	–1,500
Cash flow from financing activities		–7,273	–186,208
Cash flow for the year		32,582	–156,303
Cash and cash equivalents at start of year		89,859	244,309
Exchange rate difference in cash and cash equivalents		1,641	1,853
CASH AND CASH EQUIVALENTS AT YEAR-END		**124,082**	**89,859**

Income statements for parent company

TSEK	Note	2017	2016
INCOME STATEMENT			
Net sales	2	2,555	924
Administrative expenses	4-5, 7	–14,590	–8,034
Other operating income	7	43	11
Other operating expenses	7	–34	–49
Operating profit/loss	2	–12,027	–7,148
Profit from interests in subsidiaries	40	–525,995	64,123
Other interest income and similar line items	9	24,604	39,614
Interest expenses and similar line items	10	–32,788	–15,075
Non-recurring items, finance net	10	–	228,477
Total financial income and expenses		–534,179	317,139
Result before tax		–546,206	309,991
Tax on profit/loss for the year	11	0	–15,940
NET RESULT FOR THE YEAR		**–546,206**	**294,051**

TSEK	2017	2016
STATEMENT OF COMPREHENSIVE INCOME		
Net profit for the year	–546,206	294,051
Other comprehensive income		
Cash flow hedges	–	–
Income tax relating to components of other comprehensive income	–	–
Other comprehensive income after tax	–	–
TOTAL COMPREHENSIVE INCOME	**–546,206**	**294,051**

Balance sheet for parent company

TSEK	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
Financial assets			
Interests in subsidiaries	19	500,404	1,026,884
Interests in other companies		–	1,000
Deferred tax assets	20	31,324	31,324
Receivables from subsidiaries		504,765	504,765
Total non-current assets		1,036,493	1,563,973
Current assets			
Current receivables			
Receivables from subsidiaries		0	1,381
Current tax asset		70	24
Other current receivables	23	347	–
Deferred expenses and accrued income	24	325	147
Total		742	1,552
Cash and cash equivalents		31,477	12,029
Total current assets		32,219	13,581
TOTAL ASSETS		**1,068,712**	**1,577,554**

TSEK	Note	31 Dec. 2017	31 Dec. 2016
EQUITY AND LIABILITIES			
Equity	32		
Restricted equity			
Share capital		236,549	236,549
Non-restricted equity			
Share premium reserve		386,507	389,841
Retained earnings		585,534	291,483
Net profit for the year		−19,726	294,051
Total non-restricted equity		425,835	975,376
Total equity		662,834	1,211,925
Non-current liabilities			
Borrowings		184,422	168,499
Other liabilities		0	0
Total non-current liabilities	26	184,422	168,499
Current liabilities			
Trade payables		563	173
Liabilities to subsidiary		207,705	195,212
Other current liabilities	23	11,134	545
Accrued expenses and deferred income	24	2,504	1,200
Total current liabilities		221,906	197,130
TOTAL EQUITY AND LIABILITIES		**1,068,712**	**1,577,554**

Changes in equity for parent company

		Restricted equity	Non-restricted equity		
TSEK	Note	Share capital	Share premium reserve	Retained earnings incl. net profit for the year	Total
Opening balance on 1 January 2016		234,989	297,710	291,483	824,182
Comprehensive income					
Net profit for the year				294,051	294,051
Total comprehensive income				294,051	294,051
Transactions with shareholders					
Write-down of share capital		–59,531	59,531		0
Set-off issue		30,545	36,363		66,908
Set-off issue		30,545	1,636		32,181
Bond loan, revaluation			6,573		6,573
Transaction costs			–11,971		–11,971
Total transactions with shareholders		1,560	92,132	0	93,692
CLOSING BALANCE ON 31 DECEMBER 2016	31, 32	**236,549**	**389,842**	**585,534**	**1,211,925**
Opening balance on 1 January 2017		236,549	389,842	585,534	1,211,925
Comprehensive income					
Net profit for the year				–546 206	–546,206
Total comprehensive income				–546 206	–546,206
Transactions with shareholders					
Bond loan, revaluation			–3,335		–3,335
Total transactions with shareholders			–3,335		–3,335
CLOSING BALANCE ON 31 DECEMBER 2017	31, 32	**236,549**	**386,507**	**39,328**	**662,384**

Cash flow statement for parent company

TSEK	Note	2017	2016
OPERATING ACTIVITIES			
Operating profit/loss		–12,027	–7,148
Interest received		24,604	39,609
Interest paid		–10,000	–20,000
Financial expenses paid		–191	–4,710
Tax paid		–40	–24
Other items not affecting liquidity	33	5,348	7,486
Cash flow from operating activities before change in working capital		7,694	15,214
Change in working capital			
Current receivables		–526	11,908
Current operating liabilities		12,280	174,219
Cash flow from operating activities		19,448	201,341
INVESTING ACTIVITIES			
Change in long-term receivables		–	15,057
Cash flow from investing activities		–	15,057
Cash flow after investing activities		19,448	216,398
FINANCING ACTIVITIES			
Loans raised		–	–9,531
Amortisation of loans		–	–195,000
Cash flow from financing activities		–	–204,531
Cash flow for the year		19,448	11,867
Cash and cash equivalents at start of year		12,029	157
Exchange rate difference in cash and cash equivalents		–	5
CASH AND CASH EQUIVALENTS AT YEAR-END		**31,477**	**12,029**

Accounting policies

Bong is a leading European provider of specialised packaging and envelope products, offering solutions for distribution and packaging of information, advertising materials and lightweight goods. The Group has operations in Sweden, Norway, Denmark, Finland, Estonia, the United Kingdom, Belgium, Luxemburg, Germany, France, Poland, Spain, Switzerland, Russia and Romania. Bong holds strong market positions, particularly in northern Europe, Germany, France and the United Kingdom. The annual report was approved by the Board for publication on 12 April il 2018.

The most important accounting policies applied in preparing these consolidated financial statements are stated below. These policies have been applied consistently for all the years presented, unless otherwise stated. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU, RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the cost method, except with regard to financial assets and liabilities (including derivative instruments) measured at fair value through profit and loss. Adoption of new accounting policies are specified in note 41.

Preparing reports in accordance with IFRS necessitates making a number of important accounting estimates. It is further required that the management makes certain assessments in applying the company's accounting policies. The areas containing a high degree of assessment, which are complex or where assumptions and estimates are of material significance to the consolidated financial statements are stated in notes 14 Goodwill, 20 Deferred Tax and 27 Pension Obligations.

CONSOLIDATED FINANCIAL STATEMENTS

SUBSIDIARIES

Subsidiaries are all companies (including structured companies) over which the Group has controlling interest. The Group controls a company when exposed to or has the right to variable returns from its holdings in the company and has the ability to affect earnings through their influence in the company. The consolidated accounts include companies acquired during the year from the date when control passes to the Group. Companies disposed of are included in the consolidated accounts until the date when the control no longer exists.

The acquisition accounting method is used to account for the Group's business combinations. The purchase price for acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and the shares issued by the Group. The purchase price also includes the fair value of all assets and liabilities which are a consequence of an agreement on contingent consideration. Acquisition-related expenses are recognised as an expense when they arise. Identifiable acquired assets and liabilities and liabilities assumed in a business combination are initially measured at fair value on the acquisition date. The Group determines for each acquisition whether all holdings without controlling interest in the acquired company are recognised at fair value or at the non-controlling interest's proportionate share of the acquired company's net assets. The amount by which purchase price, any non-controlling interest and fair value on the date of acquisition of previous shareholdings exceed the fair value of the Group's proportionate share of identifiable acquired net assets is recognised as goodwill. If the amount is less than the fair value of the assets of the acquired subsidiary, in the event of a "bargain purchase", the difference is recognised directly in the statement of comprehensive income.

If the business combination is carried out in several steps, the previous proportionate shares of equity in the acquired company are remeasured to their fair value at the time of acquisition. Any profit or loss arising is recognised in profit or loss.

Each contingent consideration to be transferred by the Group is recognised at fair value at the time of acquisition. Subsequent changes in the fair value of a contingent consideration which has been classified as an asset or liability are recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. A contingent consideration classified as equity is not remeasured, and subsequent settlement is recognised in equity.

Inter-company transactions, balance-sheet items and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies for subsidiaries have been changed where appropriate to guarantee consistent application of the Group's policies.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group treats transactions with non-controlling interests as transactions with the Group's shareholders. In acquisitions from non-controlling interests the difference between purchase price paid and the actual acquired proportionate share of the fair value of the subsidiary's net assets is recognised in equity. Gains and losses on disposals to non-controlling interests are also recognised in equity. When the Group no longer has a controlling or significant interest, each remaining holding is remeasured at fair value and the change in carrying amount is recognised in profit and loss. Fair value is used as the initial carrying amount and provides the basis for the continued recognition of the remaining holding as an associate, joint venture or financial asset. All amounts pertaining to the divested unit previously recognised through other comprehensive income are recognised as if the Group had directly disposed of the related assets or liabilities. This may lead to amounts previously recognised in other comprehensive income being reclassified to profit and loss.

If the participating interest in an associate decreases but a significant interest nevertheless remains, in applicable cases only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit and loss.

ASSOCIATES

Associates are all companies in which the Group has a significant, but not controlling interest, which as a rule applies to shareholdings representing between 20 per cent and 50 per cent of the votes. Holdings in associates are recognised according to the equity method and measured initially at cost. The Group's carrying amounts for holdings in associates include goodwill identified at the time of acquisition, net after any impairment losses. The Group's share of profit or loss which has arisen in the associate after the acquisition is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Cumulative changes after the acquisition are recognised as change in the carrying amount of the holding. When the Group's share in the losses of an associate amount to or exceed its holding in the associate, including any unsecured receivables, the Group does not recognise further losses, unless the Group has incurred obligations or has made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated in proportion to the Group's holding in the associate. Unrealised losses are also eliminated, unless the transaction provides evidence of the existence of a need for impairment loss for the transferred asset. Accounting policies applied to associates have been changed where appropriate to guarantee consistent application of the Group's policies. Dilution gains and losses in participating interests in associates are recognised in the income statement.

SEGMENT REPORTING

External financial information has to reflect the information and the measures applied internally in the company to control the business and make decisions on resource allocation. The company has to identify the level at which the company's most senior executive decision-maker makes regular reviews of sales and operating income. These levels are defined as segments. Bong's most senior executive decision-maker is the company's CEO. The regular internal reporting of income to the CEO which fulfils the criteria to constitute a segment, is done for the Group as a whole, and Bong therefore reports the total Group as the company's only segment.

TRANSLATION OF FOREIGN CURRENCIES

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

Items included in the financial statements for the different units in the Group are measured in the currency used in the financial environment in which the company concerned is mainly active (functional currency). The Swedish krona (SEK), which is the functional and reporting currency of the Parent Company, is used in the consolidated financial statements.

TRANSACTIONS AND BALANCE-SHEET ITEMS

Transactions in foreign currencies are translated to the functional currency at the exchange rate applicable on the transaction date. Exchange gains and losses arising in the payment of such transactions and in the translation of monetary assets and liabilities in foreign currencies at the rate prevailing on the reporting date are recognised in profit or loss. An exception is when the transactions constitute hedges that meet conditions for hedge accounting of cash flows or of the net investment, when gains/losses are recognised in other comprehensive income.

GROUP COMPANIES

The earnings and financial position of all Group companies with different functional currency than the reporting currency are translated as follows. Assets and liabilities are translated at the closing rate and all items in the income statement at the average rate. Exchange-rate differences arising are recognised in other comprehensive income. Goodwill and adjustments of fair value arising on acquisition of a foreign operation are treated as assets and liabilities in that operation and translate at the closing rate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is added to the carrying amount of the asset or recognised as a separate asset, depending on which is appropriate, only when it is likely that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other types of repairs and maintenance are recognised as expenses in the income statement during the period when they arise. Land is not subject to depreciation. Depreciation of other assets, to allocate their cost down to the calculated residual value, is based on the estimated useful life of the assets and is calculated on a straight-line basis from the time when the asset is taken into service.

THE FOLLOWING DEPRECIATION SCHEDULES HAVE BEEN APPLIED:

Buildings	25–33 years
Land improvements	20 years
Plant and machinery	10–15 years
Equipment, tools, fixtures and fittings, vehicles and computer equipment	5–10 years
Other intangible assets	3–8 years

The residual values and useful lives of the assets are tested, and adjusted if necessary, at each balance-sheet date. An impairment loss is recognised if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing sales revenue and carrying amount and are recognised in profit or loss.

INTANGIBLE ASSETS

GOODWILL

Goodwill consists of the amount by which cost exceeds the fair value of the Group's share of the identifiable net assess of the acquired subsidiary/associate on the acquisition date. Goodwill on acquisition of subsidiaries is recognised as intangible assets. Goodwill is tested annually to identify any impairment loss and is recognised at cost less cumulative amortisation. Profit or loss on disposal of a unit includes remaining carrying amount of the goodwill pertaining to the divested unit. In impairment testing, the Group is treated as a cash-generating unit.

SOFTWARE

Software of a standard character is recognised as an expense. Expenditure on software that has been developed or extensively adapted on behalf of the Group is capitalised as an intangible asset if the software is likely to have economic benefits that exceed the cost after one year. Capitalised expenditure on acquired software is depreciated on a straight-line basis, but no longer than over eight years. The amortisation is included in the income statement item 'Administrative expenses'.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets which have an indefinite useful life are not amortised and are tested annually for possible impairment. Assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable value. The recoverable value is the higher of the fair value of the asset less selling expenses and value in use.

FINANCIAL ASSETS AND LIABILITIES

The Group classifies its financial assets and liabilities in the following categories: Financial assets valued at fair value through profit and loss, loan receivables and trade receivables, as well as loans and other financial liabilities. The classification depends on the purpose for which the financial asset was acquired. The management establishes the classification of the financial on the first recognition occasion.

FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH THE INCOME STATEMENT

Financial assets valued at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of being sold within a short time. Derivatives are classified as being held for trading unless they are identified as hedges. Assets in this category are classified as current assets if they are expected to be settled within twelve months, otherwise they are classified as non-current assets.

LOAN RECEIVABLES AND TRADE RECEIVABLES

Loan receivables and trade receivables are financial assets which are not derivatives, which have determined or determinable payments and which are not listed on an active market. These assets are measured at accrued cost. Accrued cost is determined on the basis of the effective interested rate calculated at the time of acquisition. Trade receivables are recognised in the amount expected to be received, i.e. after deduction of doubtful debts.

LOANS AND OTHER FINANCIAL LIABILITIES

Loans and other financial liabilities, such as trade payables, are included in this category. The liabilities are measured at accrued cost.

DERIVATIVES AND HEDGE ACCOUNTING

The Group's derivative instruments have been acquired to financially hedge risks of interest-rate and currency exposures for the Group. An embedded derivative is disclosed if it is not closely related to the value contract. Derivative instruments are initially recognised at fair value, meaning that transaction expenses are charged against earnings for the period. After the initial recognition, derivatives are measured at fair value and changes in value are recognised in ways as described below.

Meeting the requirements of hedge accounting in accordance with IAS 39 requires that there is a definite link to the hedged item. It is also required that the hedge effectively protects the hedged item, that the hedging documents have been prepared and that effectiveness can be measured. Gains and losses pertaining to hedging are recognised in the income statement at the same time as gains and losses are recognised for the items which are hedged. In hedge accounting, changes in value are booked in the hedge reserve in equity.

CLASSIFICATION AND MEASUREMENT

Financial instruments which are not derivatives are recognised initially at cost equivalent to the fair value of the instrument plus transaction expenses for all financial instruments except pertaining to those which belong to the category of financial asset, which are recognised at fair value through profit and loss, which have been recognised at fair value excluding transaction expenses. A financial instrument is classified on first recognition on the basis of the purpose for which the instrument was acquired. The classification determines how the financial instrument is measured on initial recognition.

RECEIVABLES AND PAYABLES IN FOREIGN CURRENCY - HEDGING OF FAIR VALUE

Currency forwards are used to hedge a receivable or liability against currency risk. When a hedging instrument is used to hedge a fair value, the derivative is booked at fair value on the balance sheet and the hedged asset/liability is also booked at fair value pertaining to the risk hedged. The change in value of the derivative is recognised in profit and loss together with the change in value of the hedged item. Changes in value pertaining to operating receivables and payables are recognised in operating income, while changes in value pertaining to financial receivables and payables are recognised in net financial items.

CASH FLOW HEDGING

The currency forwards used to hedge future cash flows and forecast sale in foreign currency are recognised in the balance sheet at fair value. The changes in value are recognised other comprehensive income until the hedged flow reaches the income statement, at which time the cumulative changes in value of the hedging instrument are transferred to the income statement to meet and match the effects on profit and loss of the hedged transaction.

NET INVESTMENT HEDGING

Investments in foreign subsidiaries (net assets including goodwill) have been to some extent hedged by raising currency loans which on the balance-sheet date have been translated at the rate prevailing at the balance-sheet date. Exchange differences on financial instruments used as hedging instruments in hedging of net investment in a Group company are recognised to the extent that the hedging is effective in other comprehensive income. This is done to neutralise the exchange differences which affect equity when the Group companies are consolidated.

RECOGNITION AND DERECOGNITION

A financial asset or financial liability is recognised in the balance sheet when the company becomes a party to the instrument pursuant to the instrument's contractual terms and conditions. Trade receivables are recognised on the balance sheet when an invoice has been issued. A liability is recognised when the counterparty has performed under the agreement and the company is contractually obliged to pay, even if no invoice has been received. Trade payables are recognised when an invoice has been received. A financial asset is removed from the balance sheet when the rights in the agreement are realised or expire or the company loses control over them. This also applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or otherwise expires. This also applies to part of a financial liability.

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when there is a legal right to offset amounts and there is the intention to settle the items as a net amount or simultaneously realise the asset and settle the liability. The acquisition and sale of financial assets are recognised on the trade date, which is the date on which the company pledges to acquire or sell the asset.

INVENTORIES

Inventories are measured with application of the "first in first out" principle, at the lower of cost and net selling price on the balance-sheet date. The cost of finished goods and work in progress consists of raw materials, direct salaries, other direct expenses and attributable indirect manufacturing expenses (based on normal manufacturing capacity). Salary expenses are not included. Net selling price is the estimated selling price in operating activities less applicable variable selling expenses.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables are non-derivative financial assets with determined or determinable payments which are not listed on an active market. A distinguishing feature is that they arise when the Group provides goods directly to a customer without intending to trade with the receivable arising. They are included in current assets with the exception of items with a due date more than 12 months after the balance-sheet date, which are classified as non-current assets. Trade receivables are recognised initially at fair value and then at accrued cost with application of the effective interest rate method, less any reservation for depreciation. Reservation for depreciation of trade receivables is made when there is objective evidence that the Group will not be able to receive all sums due according to the original terms of the receivables. The size of the reservation consists of the difference between the carrying amount of the asset and the current value of estimated future cash flows, discounted with effective interest rate. The reserved amount is recognised in the income statement.

CASH AND CASH EQUIVALENTS

Classified as cash and cash equivalents, in addition cash and bank balances, are other current financial investments with a due date within three months from time of acquisition.

SHARE CAPITAL

Ordinary shares are classified as equity. Transaction expenses which can be directly attributed to issue of new shares or bonds are recognised, net after tax, in equity as a deduction from the issue proceeds.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services which have been acquired on operating activities from suppliers. Trade payables are classified as current liabilities if they fall due within one year or earlier. if not, they are treated as non-current liabilities. Trade payables are recognised initially at fair value and then at accrued cost with application of the effective interest-rate method.

BORROWING

Liabilities to credit institutions and, in the parent company, liabilities to subsidiaries, are recognised initially at fair value, net after transaction expenses. Borrowing is then recognised directly at accrued cost and any difference between amount received (net after transaction expenses) and the amount of repayment is recognised in profit and loss distributed over the loan period, with application of the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for least 12 months after the balance-sheet date.

Overdraft facilities are recognised as borrowing among current liabilities in the balance sheet.

INCOME TAXES

Tax expense for the period comprises current tax and deferred tax. Current tax is calculated on the basis of the tax rules decided on the balance-sheet date or in practice decided in those countries where the Group companies operate and generate taxable revenue.

Deferred tax is calculated in its entirety according to the balance-sheet method based on all temporary differences arising between the tax value of assets and liabilities and their recognised values. The principal temporary differences arise from untaxed reserves, provisions for pensions and other pension benefits, property, plant and equipment and carry-forwards of unused tax losses. Deferred tax is calculated with application of tax rates and tax laws which have been decided upon or notified at the balance-sheet date and which are expected to apply when the accrued tax receivable is realised or the deferred tax liability is settled.

A deferred tax asset pertaining to carry-forward of unused tax losses and other future deductions for tax is recognised to the extent that it is probable that the deduction can be offset against surplus in future taxation. Deferred tax liability pertaining to temporary differences attributable to investments in subsidiaries is not recognised in the Bong consolidated financial statements the parent in all cases liable to control the time of reversal of the temporary differences and it is not judged likely that a reversal will take place within the foreseeable future.

Deferred tax assets and tax liabilities are offset when there is a legal right to offset current tax assets and tax liabilities and when the deferred tax assets and the tax liabilities relate to taxes charged by the same tax authority and pertain to either the same taxpayer or a different taxpayer, where there is an intention to settle the balances through net payments.

In the case of items recognised in the income statement, associated tax effects are also recognised in the income statement. The tax effects of items recognised in other comprehensive income or directly against equity are recognised in other comprehensive income and equity respectively.

EMPLOYEE BENEFITS

PENSIONS

There are both defined-contribution and defined-benefit pension plans in the Group. The largest defined-benefit pension plans are in Sweden, Germany, France and Norway. In defined-contribution plans, the company pays set contributions to a separate legal entity and does not have any obligation to pay further contributions. Expenses are charged against Group profits as the benefits are earned. In defined-benefit plans, payments are made to employees and former employees based on final salary and number of years of service. The Group bears the risk for payment of pledged benefits. In cases where the plans are funded, assets have been set aside in pension funds or equivalent. The net sum of the calculated present value of the obligations and the fair value of plan assets is recognised as a provision in the balance sheet. Regarding defined-benefit plans, the pension expense and the pension obligation are calculated using the "Projected Unit Credit Method", in a way which allocates the cost over the working life of the employee. The calculation is performed regularly by independent actuaries. The company's commitments are valued at the current value of expected future payments using a discount rate which is equivalent to the interest on first-class corporate bonds or treasury bonds with a maturity equivalent to the obligations in question. The most important actuarial assumptions are shown in Note 27 Pension Obligations.

Actuarial gains and losses may arise when the present value of the obligation and the fair value of plan assets are determined. Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in other comprehensive income during the period in which they arise. Expenses pertaining to service during previous periods are recognised directly in the income statement.

If the pension expense and pension provision established for Swedish plans in accordance with IAS 19 differ, an expense for special payroll tax on the difference is also recognised. The accounting policy for defined-benefit pension plans described above is only applied to the consolidated financial statement.

TERMINATION BENEFITS

Termination benefits are payable when an employee's employment has been terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for such benefits. The Group recognises severance pay when it is demonstrably obliged by a detailed formal plan to either terminate an employee without a possibility of withdrawal, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

BONUS PLANS

The Group recognises a liability and an expense for bonuses when there is a legal obligation or an informal obligation based on previous practice.

OTHER EMPLOYEE BENEFITS

Other employee benefits are recognised as expenses as they become vested.

PROVISIONS

Provisions are recognised when the Group has a legal or informal obligation as a result of previous events and it is probable that an outflow of resources will be required to settle the obligation, and where the amount can be measured reliably. In cases where the Group can expect that a provision will be repaid, for example under an insurance contract, the repayment is to be recognised as a separate asset, but only when repayment is as good as certain. Provisions are measured at the best estimate of the amount which is expected to be settled. Provisions for restructuring include expenses for cancellation of lease agreements and severance benefits. No provisions are made for future operating losses.

REVENUE RECOGNITION

Revenue recognition of goods takes place on delivery to the customer and after acceptance by the customer. The sales revenue includes the fair value of goods sold and is recognised less value-added tax and discounts and after elimination of intra-Group sales.

FINANCIAL INCOME AND EXPENSES

Financial income consists of interest income on invested funds, dividend income, gains on changes in value of financial assets measured at fair value through profit or loss, and gains on hedging instruments which are recognised in the income statement. Interest income on financial instruments is recognised according to the effective interest method (see below). Dividend income is recognised when the right to receive a dividend has been established. The gain or loss from sale of a financial instrument is recognised when the economic risks and rewards incidental to ownership have been transferred to the purchaser and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, the effect of dissolution of present-value calculation of provisions, loss on change in value of financial assets measured at fair value through profit or loss, impairment of financial assets and losses on hedging instruments which are recognised in the income statement. All borrowing costs are recognised in the income statement by applying the effective interest method, regardless of how the borrowed funds have been used. Exchange gains and losses are recognised net. The effective interest rate is the rate which discounts the estimated future receipts and payments through the expected life of a financial instrument to the net carrying amount of the financial asset or liability. The calculation includes all fees paid or received by the contracting parties which are a part of the effective interest rate, transaction costs and all other premiums or discounts.

LEASES

The Group leases certain non-current assets. A lease under which the risks and rewards incidental to ownership of a non-current asset are substantially transferred to the Group is classified as a finance lease. At the commencement of the lease period, financial leases are recognised in the balance sheet at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between amortisation of liability and financial expenses in order to achieve a fixed interest rate for the recognised liability. Equivalent payment obligations, less financial expenses, are included in the balance sheet items.

Other current liabilities and other non-current liabilities. The interest element of the financial expenses is recognised in the income statement allocated over the lease period so that each lease period is charged with an amount that corresponds to a fixed interest rate for the liability recognised during the period in question. Non-current assets held under finance leases are depreciated over the useful life of the asset or the lease period, whichever is shorter.

RESEARCH AND DEVELOPMENT

Expenditure on research work is recognised as an expense when it occurs. Expenditure on development work is normally recognised as an expense when it occurs. The development work done is of great importance to the Group, but has the character of maintenance development, which means that all criteria according to IAS 38 are not met.

CASH FLOW STATEMENT

The cash flow statement is prepared according to the indirect method. The recognised cash flow only comprises transactions that entail cash receipts or cash payments.

DIVIDEND

Dividend to the Parent Company's shareholders is recognised as a liability in the consolidated financial statements in the period when the dividend is determined by the Parent Company's shareholders.

PARENT COMPANY ACCOUNTING POLICIES

The Parent Company has prepared its annual report in accordance with the Swedish Annual Reports Act and RFR 2 Accounting for Legal Entities. The rules in RFR 2 state that the Parent Company shall, in preparing the annual report for the legal entity, apply all IFRSs and statements approved by the EU as far as possible while complying with the Swedish Annual Reports Act and the Act on Safeguarding of Pension Obligations and taking into account the relationship between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared with IFRS.

Consequently, the Parent Company applies the principles presented in the consolidated accounts, with the exceptions indicated below. These principles have been applied consistently for all years presented, unless otherwise stated.

FORMAT

The Income Statement and Balance Sheet follow the format in the Swedish Annual Reports Act. This entails differences compared with the consolidated accounts, mainly with regard to untaxed reserves and provisions.

SHARES AND INTERESTS IN SUBSIDIARIES

Shares and interests in subsidiaries are recognised at cost minus impairment losses. Dividends received are recognised as financial income.

GROUP CONTRIBUTIONS AND SHAREHOLDER CONTRIBUTIONS

Shareholder contributions paid and group contributions paid are recognised as an increase in the value of shares and interests. A judgement is thereby made of whether the value of shares and interests is impaired. Group contributions paid to subsidiaries are reported, depending on the relationship between accounting and taxation, in the income statement on the line Profit from interests in subsidiaries. Group contributions received from subsidiaries are reported according to the same principles as customary dividends from subsidiaries and are thus reported as financial income on the line Profit from interests in subsidiaries.

Notes

All values are in thousand SEK unless stated otherwise.

NOTE 1 – FINANCIAL RISK MANAGEMENT

Business operations are conducted on the basis of a finance policy adopted by the Board of Directors that provides rules and guidelines for how the different financial risks are to be managed. This policy governs both overall risk management and specific areas, such as foreign exchange risk, interest rate risk, the use of hedging instruments and investment of excess liquidity. The finance policy identifies three significant risks; market risk, credit risk and liquidity risk, to which the Group is exposed in its day-to-day operations. The Group's financial policy focuses on minimizing possible unfavorable effects on the Group's financial results due to the unpredictability of the financial markets. Financial risk management is the responsibility of a central finance function, which identifies, evaluates and manages financial risks in close collaboration with the subsidiaries. The hedging instruments used are loans, as well as currency and interest rate derivatives, according to the guidelines established in the finance policy.

MARKET RISK

Market risk refers to the currency risk that arises when future purchase and sales agreements or commercial invoices in a currency that is not the unit's functional currency affect a future operating profit (transaction exposure), and when the value of foreign investments is affected by currency rate fluctuations (translation exposure), as well as the interest rate risk that can adversely affect the Group's net interest income when market rates change.

(A) CURRENCY RISK

In 2017 Bong's sales to countries outside of Sweden accounted for 89 (89) per cent of total sales. Of the Group's total sales, approximately 61 (59) per cent were denominated in EUR, 18 (20) per cent in GBP, 11 (11) per cent in SEK, and 9 (10) per cent in other currencies. There is also local management of foreign currencies in the subsidiaries (please refer to the section on Transaction exposure below).

(i) Transaction exposure

Transaction exposure arises in the Group's operational flows (sales and purchasing) as well as in the financial flows (interest payments and amortisation) in currencies other than the functional currency of the company. This currency risk consists of the risk of fluctuations in the value of accounts receivable, accounts payable and other current receivables and liabilities, as well as the risk of changes in expected and contracted future invoiced currency flows.

Bong is manufacturing on the majority of the major markets, limiting transaction exposure. The currency risk arises mainly from internal purchases and sales in foreign currency between Bong's units, external purchases and sales in foreign currency. The Group's financial policy requires the subsidiaries to report their currency risk to the central finance function. This risk is then aggregated centrally and hedged with forward exchange contracts. Bong's risk management policy is to hedge between 50 per cent and 100 per cent of expected net cash flow in foreign currency for the next twelve months, depending on maturity dates. During the fiscal year it has not been possible through agreements with banks to follow the financial policy which is why the Board has given mandate to deviate from the financial policy.

The currency exposure in the group arises from a number of currency pairs, se table below. With a change of 10 per cent, the Group's earnings on an annual basis, given the same flows as 2017, would have changed by +11/-11 MSEK (+14/-14) excluding currency hedges. Outstanding currency hedges are reported in the table below.

	10% change	
	EUR	SEK
EUR/NOK	73.8	726
EUR/SEK	141.2	1,390
EUR/GBP	801.2	7,887
EUR/PLN	5.6	55
EUR/RON	96.8	953
Total	**1,118.6**	**11,011**

If the EUR had appreciated/depreciated by 10 per cent against the SEK on the balance sheet date, with all other variables constant, transaction exposure would result in a worsening/improvement of earnings by SEK 0.6 million (0.6) due to losses/gains in the translation of trade receivables, trade payables and accrued interest costs denominated in EUR.

If the EUR had appreciated/depreciated by 10 per cent compared with the closing day rate on 31 December 2017, with all other variables constant, earnings would have changed by SEK +3.8/-3.8 million (-1.8/+1.8), as a result of valuation of currency swaps not in hedge accounting and revaluation of subsidiaries' loans and deposits in Bong International AB.

The sensitivity calculations in EUR above, DKK is also included because this currency during the reporting period had a fixed exchange rate against EUR.

(ii) Translation exposure

Currency risks also exist in the translation of the assets, liabilities and profits of foreign subsidiaries to the Parent Company's functional currency, known as translation exposure.

Bong's policy is for the subsidiaries to primarily take out loans in their local currency to limit translation exposure. The loan portfolio is handled by the central finance function and lending and equity in foreign convertible currencies should be hedged to a certain extent.

Translation exposure in the Group mainly comprises EUR and GBP. An equivalent change would have increased/decreased consolidated equity by SEK +70.4/-70.4 million (+79.7/-79.7) as a result of gains/losses from translation of net investments in the subsidiaries. The analysis also includes items in DKK, since this currency during the reporting period had a fixed exchange rate against EUR. For GBP the effect on earnings would be an improvement/worsening of SEK -0.3/+0.3 million (+0.03/-0.03) and equity would increase/decrease by SEK +10.4/-10.4 million (+10.2/-10.2).

(B) INTEREST RATE RISK

Interest rate risk is the risk that the Group's net interest income declines due to rising market interest levels.

At year end the Group's borrowings consist of a senior secured bond in the amount of SEK 200 million that was issued on 21 December 2015 at three years maturity. The loan carries a fixed interest rate of 10 percent payable in June and December. Additional funding in the form of overdraft facilities exist to a lesser extent. extent. The Group does not have a significant interest rate risk.

CREDIT RISK

Credit risk consists of operational and financial credit risk.

The operational risk can be found in the Group's trade receivables. The goal of Bong's credit process is to achieve competitive credit sales, minimise credit losses and improve the Group's cash flow and profit.

Depending on national practice, the credit periods vary from country to country, but can in some countries be long, about 90 days, so that outstanding credits to individual companies can in some cases reach considerable amounts. If such companies should become insolvent or encounter other payment difficulties, Bong could incur severe financial loss.

This risk is limited because trade receivables are distributed among a large number of customers and geographic markets. The Group's ten largest customers and the top three account for 23 per cent (23) and 10 per cent (10) of total sales, respectively. Credit risk is also reduced because to a large extent Bong has long-term stable relationships with its large suppliers and customers.

In several countries subsidiaries have ongoing credit insurance policies to cover outstanding trade receivables, especially in the Group's German, Polish, French and British companies.

To further improve the credit process, a credit report is obtained for credit sales. This procedure varies locally, but is based on data from external credit agencies combined with intragroup information about historical payment behaviour.

In 2017 credit losses as a percentage of net sales amounted to about 0.1 per cent (0.1 per cent).

More information about outstanding claims can be found in Note 22.

Financial credit risk refers to the risk that the Group's financial counterparties cannot meet their obligations with respect to cash and cash equivalents, short-term bank deposits or financial instruments with positive market value. At year end, the financial credit exposure was SEK 124 million (90), attributable to cash and cash equivalents of SEK 103 million whereof SEK 21 million on escrow account (90 whereof SEK 12 million on escrow account) and derivative instruments with a market value of SEK 0 million (-0.3).

LIQUIDITY RISK

Liquidity risk refers to the risk that the Group cannot meet its short-term payment obligations due to insufficient or illiquid cash reserves. Bong has at any point in time trade payables that are not insignificant. They mostly fall due within 90 days. Bong minimises this risk by having sufficient cash on hand and committed credit facilities to cover its payment obligations. The finance function obtains rolling forecasts of the Group's liquidity reserve from the subsidiaries.

Surplus cash in the subsidiaries, in excess of the portion required to manage working capital requirements, is transferred to the finance function.

The issued senior secured bonds of SEK 200 million have a three-year maturity and a fixed annual interest rate of 10 per cent. Bong is obligated to comply with financial covenants in the loan agreement. These covenants

NOTE 1 CONT.

specify certain limits for net debt in relation to EBITDA and the interest coverage the Group must achieve. Other credit facilities consist of the subsidiaries' local overdraft facilities in foreign banks. At year-end, total credit facilities amounted to SEK 213 million (212), of which approved unused credit SEK 13 million (9).

The Parent Company's external borrowing largely covers the borrowing needs of the subsidiaries.

The table below presents the Group's non-derivative financial liabilities and net settled derivative financial instruments that comprise financial liabilities, broken down by the time remaining on the balance sheet date until the contractual maturity date and assuming an unchanged financing structure and amortisation rate over time for the Group's non-derivative liabilities. Derivatives that are financial liabilities are included in the analysis if their contractual maturities are essential for understanding the timing of future cash flows. The amounts shown in the table are the contractual undiscounted cash flows estimated at the closing market rate and the period's expected interest margin.

MANAGEMENT OF CAPITAL

Bong's goal regarding capital structure is to safeguard the Group's ability to continue its operations, so that it can continue to generate returns to shareholders and benefit for other stakeholders and maintain a capital structure that minimises the cost of capital. In order to maintain or adjust the capital structure, the Group can change the dividends paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

The Group assesses its capital based on the following ratios:

Key figures (outcome)	2017	2016
Equity ratio, %	43	43
Net loan debt, SEK million	294	315
Net debt/equity, times	0.42	0.45
Net debt/EBITDA, times	3.2	5.2

NOTE 1 CONT.

CALCULATION OF FAIR VALUE

Exchange gains and losses on forward exchange contracts as cash flow hedges as of 31 December, reported in other comprehensive income, are recognised in the Income Statement in the period during which the hedged transaction affects the Income Statement. All cash flow hedging was assessed to be fully effective on 1 January.

Gains and losses on the hedging instruments held for trading are recognised in the Income Statement as financial income and expenses.

The Group does not offset financial assets and liabilities.

As the remaining term of the bond is limited the book value of the bond is deemed to be equivalent to its fair value.

NOTE 2 – SEGMENT INFORMATION

	2017		2016	
Net sales	Envelope	Packaging	Envelope	Packaging
Sweden	114,326	43,076	129,838	47,092
Nordic and Baltic	181,128	40,746	192,192	45,608
Central Europe	558,311	139,129	555,230	139,169
France and Spain	404 254	97,337	425,120	70,441
United Kingdom	297,764	65,430	311,786	72,183
Russia/Eastern Europe	65,459	9,551	61 438	6,248
Other	59,522	19,359	52,922	18,078
Total	1,680,764	414,628	1,728 526	398,819

Property, plant and equipment

	2017	2016
Sweden	175,719	182,466
Nordic and Baltic	114,046	115,702
Central Europe	205,188	204,132
France and Spain	218,960	223,604
United Kingdom	81,540	83,834
Russia/Eastern Europe	16,717	19,744
Total	812,170	829,482

NOTE 3 – EXPENSES CLASSIFIED BY NATURE OF EXPENSE

	2017	2016
Depreciation, amortisation and impairment (Note 6)	46,152	51,818
Costs for remuneration to employees (Note 4)	560,881	588,029
Changes in inventories of finished goods and work in progress	13,891	20,657
Raw materials	990,868	995,811
Transport costs	112,131	109,356
Other expenses	318,180	342,618
Total cost of goods sold, selling and administrative expenses	2,042,103	2,108,289

NOTE 4 – EMPLOYEES AND WAGES, SALARIES AND OTHER REMUNERATION

Average number of employees

	2017		2016	
	Number of employees	men	Number of employees	men
Sweden[1]	151	98	147	105
Germany	374	158	381	190
France	298	209	309	199
UK	225	166	231	169
Poland	159	107	165	100
Russia	99	57	109	40
Estonia	72	34	88	35
Finland	28	15	36	22
Norway	22	19	31	19
Luxembourg	–	–	26	16
Denmark	7	3	9	8
Spain	10	3	9	7
Belgium	9	5	8	2
Romania	5	4	4	3
Netherlands			3	2
Total	1,459	878	1,556	917

[1] Of which one employed man in parent company.

Board of Directors and senior executives

	Group				Parent company			
	2017		2016		2017		2016	
	Total	men	Total	men	Total	men	Total	men
Board members	40	34	48	42	7	6	5	4
President and other senior executives	29	28	32	30	2	1	1	1

NOTE 1 CONT.

As of 31 December 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings (excluding finance lease liabilities)		200,000		
Finance lease liabilities	222	304	276	
Trade payables and other payables	454,168			

As of 31 December 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings (excluding finance lease liabilities)		200,000		
Bank credit lines	2,942			
Finance lease liabilities	1,351	418	540	
Trade payables and other payables	407,204			

NOTE 4 CONT.

Salaries, remuneration, and social security contributions

	Group						Parent company					
	2017			2016			2017			2016		
	Salaries and remun.	Social contrib.	Pension costs	Salaries and remun.	Social contrib.	Pension costs	Salaries and remun.	Social contrib.	Pension Costs	Salaries and remun.	Social contrib.	Pension Costs
Total	463,656	111,115	15,233	464,289	120,379	23,344	5,781	3,886	2,019	2,223	1,138	502

Salaries and other remuneration broken down between board members etc. and other employees

	Parent company			
	2017		2016	
	Board and CEO	Other employees	Board and CEO	Other employees
Total remuneration	4,689	1,092	2,223	0

AGM DECISION ON 2017 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Annual General Meeting 2017 resolved on guidelines for remuneration to the CEO and other senior executives as follows: "Senior executives" here refers to executives included in the management group, which currently consists of the Company's CEO and Business Area Manager Nordic Region, Chief Financial Officer (CFO), Business Area Manager Central Europe, Business Area Manager UK, Business Area Manager France and Spain and Business Area Manager Retail.

Remuneration shall consist of fixed salary, variable remuneration, other benefits and pension. Total compensation must be at market rates and competitive to ensure that the Bong Group can attract and retain competent senior management. In addition to the above variable compensation, from time to time a long-term incentive scheme may be approved.

The variable component of the salary shall have a predetermined ceiling, the basic principle being that the variable salary portion can amount to no more than 60 per cent of the fixed annual salary. The variable component is based on a vesting period of one year. The goals for senior executives are established by the Board of Directors.

Pension benefits shall primarily be defined-contribution, but also occur for legal reasons as defined-benefit, although not at the Group Management level. Variable remuneration is not pensionable. Group Management is entitled to pensions under the ITP plan or the equivalent. The retirement age is 65 years. In addition to the ITP plan, some members of Group Management are also entitled to an increased occupational pension premium of up to 30 per cent of their fixed salary.

Group Management's employment contracts include provisions governing remuneration and termination of employment. According to these agreements, employment can ordinarily terminate at the request of the employee with a period of notice of 4–12 months and at the Company's request with a period of notice of 6–18 months. In the event of termination by the Company, the period of notice and the period during which compensation is payable shall not together exceed 24 months.

Remuneration of the CEO and other senior executives is prepared by the 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.

TERMS OF EMPLOYMENT OF SENIOR EXECUTIVES

CHAIRMAN

The Chairman of the Board of Directors received a fee of SEK 350 thousand for 2017 (250). The amount represent part of the total Board fees set by the AGM as well as fee for work as member of the audit committee SEK 50 thousand (50). No other fee was paid. There is no agreement on pension, severance pay or other benefits.

OTHER BOARD MEMBERS

The total fee paid to other Board members for 2017 was SEK 800 thousand (600). Board member Mikael Ekdahl recieved SEK 250 thousand (250). This amount consists of the directors' fee SEK 150 thousand (150) and compensation for serving as Chairman of the Audit Committee of SEK 100 thousand (100). Board member Stefan Lager received SEK 100 thousand (0). Eric Joan received 150 thousand (200), Stéphane Hamelin received 150 thousand (0) and Helena Persson 150 thousand (150).

No other fee was paid. There is no agreement on pension, severance pay or other benefits. No directors' fee was paid to the Managing Director, nor to the employee representatives.

CHIEF EXECUTIVE OFFICER

For the year 2017 Håkan Gunnarsson was paid a fixed salary including remuneration for paid leave of SEK 3,388 thousand plus benefits mainly comprising car benefits valued at SEK 84 thousand. In addition to a fixed salary, a variable remuneration may be paid, based on the Group's fulfilment of certain financial goals after a decision by the Board of Directors. Variable remuneration of SEK 660 thousand was paid for 2017. During the year, variable remuneration of SEK 300 thousand was paid for 2016. The retirement age is 65. Pension premium shall be 30 per cent of the fixed salary. During 2017 the pension premium was SEK 1,040 thousand. In the event of termination by the company, the CEO is entitled to salary and benefits for 18 months. In the event of termination by the CEO, the period of notice is 6 months.

NOTE 4 CONT.

OTHER SENIOR EXECUTIVES IN THE MANAGEMENT GROUP

The five other members of the management team have during 2017 received total fixed salaries of SEK 7,469 thousand (7,743), plus benefits mainly comprising car benefits valued at SEK 426 thousand (310). In addition to a fixed salary, a variable remuneration of no more than 20-30 per cent of the fixed salary may be paid, based on the Group's fulfilment of certain financial goals. Variable remuneration of SEK 1,750 thousand (95) was paid for 2017. During the year, variable remuneration of SEK 1,514 thousand (300) was paid for 2016. Pension benefits are payable for the Swedish executives under terms equivalent to those of the general pension plan. Pension benefits are payable for the foreign executives in accordance with individual agreements that give the company a cost not exceeding 10 per cent of the annual salary. A pension premium of SEK 991 thousand (616) was paid during 2017. In case the company terminates employment the period of notice is 6–18 months. In the event of termination by the employee, the period of notice is 4–12 months.

PREPARATION AND DECISION-MAKING PROCESS

The Board of Directors has a Remuneration Committee consisting of two Board members. The Committee deals with matters relating to terms of employment and remuneration to the CEO and other senior executives in the Group.

NOTE 5 – AUDITORS' REMUNERATION

	Group		Parent company	
PwC	2017	2016	2017	2016
Auditing assignments	3,477	3,421	860	186
Audit-related activities	–	169	0	169
Tax services	59	312	33	72
Other services	604	717	326	502
Total	**4,140**	**4,619**	**1,219**	**929**
KPMG	2017	2016	2017	2016
Auditing assignments	173	190	–	–
Audit-related activities	96	75	–	–
Tax services	48	47	–	–
Other services	0	0	–	–
Total	**317**	**312**	–	–
Other	2017	2016	2017	2016
Auditing assignments	59	64	–	–
Audit-related activities	270	114	–	–
Other services	29	28	–	–
Total	**358**	**206**	–	–

NOTE 6 – DEPRECIATION AND AMORTISATION

Broken down by non-current assets	2017	2016
Other intangible assets	11,293	11,589
Land and buildings	5,035	4,442
Plant and machinery	22,767	28,282
Equipment, tools fixtures and fittings	7,057	7,505
Total	46,152	51,818

Broken down by function	2017	2016
Cost of goods sold	31,913	37,283
Selling expenses	3,696	3,973
Administrative expenses	10,543	10,562
Total	46,152	51,818

NOTE 7 – OTHER OPERATING INCOME AND EXPENSES

	Group		Parent company	
Operating income	2017	2016	2017	2016
Exchange gains on operating receivables and liabilities	10,560	39,763	37	11
Capital gain on sale of non-current assets	3,085	3,188	–	–
Total	13,645	42,951	37	11

	Group		Parent company	
Operating expenses	2017	2016	2017	2016
Restructuring costs and other provisions	−8,036	−18,242	–	0
Exchange losses on operating receivables and liabilities	−13,422	−40,326	5	49
Loss on sale of non-current assets	−164	−1,816	–	–
Total	−21,622	−60,384	5	49

NOTE 8 – OPERATING LEASES/RENTAL AGREEMENTS

The Group's most important operating leases relate to rental of premises. The Group has operating leases for machinery, cars and office equipment on a smaller scale. There are no restrictions in the lease agreements.

The nominal value of future lease payments is broken down as follows on the balance sheet date:

	2017	2016
Payment due within one year	51,919	60,473
Payment due later than one year but within five years	112,589	135,275
Payment due after five years	35,186	53,456
Total	199,694	249,204
Lease payments for operating leases were paid in the following amounts:	53,689	60,727

NOTE 9 – FINANCIAL INCOME

	Group		Parent company	
	2017	2016	2017	2016
Interest income	182	259	–	–
Exchange gains on financial items	1,327	2,681	–	–
Financial income, Group companies	–	–	24,604	39,608
Interest income, Other	–	–	–	1
Exchange rate differences on financial items	–	–	–	5
Total	1,509	2,940	24,604	39,614

NON-RECURRING ITEMS, FINANCIAL INCOME

During the period 2016 Bong completed the acquisition of its lending banks' claims amounting to SEK 602.1 million whereof SEK 429.9 million affect the financial income and SEK 85 million have been expensed as a tax expense related to deferred tax assets on loss carried forward.

NOTE 10 – FINANCIAL EXPENSES

	Group		Parent company	
	2017	2016	2017	2016
Write-down of holdings in other companies	0	−2,395	–	–
Interest portion in this year's pension costs	−2,793	−2,793	–	–
Interest expenses, other	−25,334	−24,942	−20,000	−18,111
Exchange rate differences on financial items	−1,513	−2,534	−6	−11,029
Other financial expenses	−15,924	−16,091	−12,782	14,065
Total	−45,564	−48,755	−32,788	−15,075

NOTE 11 – TAX

	Group		Parent company	
	2017	2016	2017	2016
Current tax	−9,805	−7,966	–	–
Deferred tax	−134	−87,813	0	−15,940
Total	−9,939	−95,779	0	−15,940

NOTE 11 CONT.

The tax on the Group's profit before tax differs from the theoretical amount that would result from application of the tax rates for the profits in the consolidated companies as follows.

	Group		Parent company	
	2017	2016	2017	2016
Profit before tax	1,136	392,903	−546,206	309,991
Calculated Swedish Income tax 22% (22)	−250	−86,439	120,165	−68,198
Income tax calculated according to national tax rates for each country	−125	−46,532		
Tax on:				
– adjustment of previous years' tax	−134	−107	–	–
– non-taxable revenue/ other non-deductible expenses	932	122,344	−115,839	58,469
– dividend from subsidiary			13,306	14,107
Recognition of previously unrecognised tax loss	5,740	0	–	–
Revaluation of deferred tax:				
Tax effect of loss carry-forward not previously recognised	−16,102		−17,632	–
- write down	–	−85,045	–	−20,318
Tax according to Income Statement	−9,939	−95,779	0	−15,940

NOTE 12 – EXCHANGE GAINS/LOSSES – NET

Exchange gains/losses are recognised in the income statement as follows	2017	2016
Other operating income	9,982	39,763
Other operating expenses	−11,729	−40,326
Financial income	1,327	2,681
Financial expenses	−1,513	−2,534
Total	−1,933	−416

NOTE 13 – BASIC AND DILUTED EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

In calculating basic earnings per share, profit attributable to the Parent Company's shareholders is divided by the weighted average number of ordinary shares outstanding during the period.

	2017	2016
Profit/loss attributable to the Parent Company's shareholders	−12,428	295,230
Ordinary shares outstanding (thousands)	211,205	207,417
Basic earnings per share, SEK	−0.06	1.42

NOTE 13 CONT.

BASIC EARNINGS PER SHARE, EXCLUDING NON-RECURRING ITEMS

In calculating basic earnings per share, profit attributable to the Parent Company's shareholders is divided by the weighted average number of ordinary shares outstanding during the period.

	2017	2016
Profit/loss attributable to the Parent Company's shareholders	–12,428	295,230
Non-recurring items, net financial income	–	–429,892
Profit/loss attributable to the Parent Company's shareholders	–12,428	–134,662
Ordinary shares outstanding (thousands)	211,205	207,417
Basic earnings per share, SEK	–0.06	–0.64

DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The parent company has potential ordinary shares in the form of subscription warrants. The subscription warrants are assumed to have been converted into ordinary shares. The number of subscription warrants amounts to maximum 40,000,000. Each warrant gives the right to subscribe for one share in Bong. Subscription shall take place not later than 1 February 2019. The subscription price per share is SEK 1.15. Bongs average share price during the 2017 was below SEK 1.15 which is why no dilution effect has been taken into consideration.

NOTE 14 – GOODWILL

	2017	2016
Opening costs	563,258	557,146
Exchange rate differences	11,383	6,112
Closing costs	574,641	563,258

IMPAIRMENT TESTING OF GOODWILL

For impairment testing purposes, the Group is regarded as a cash-generating unit (CGU), since the whole Group's operation is regarded as a single segment.

The recoverable amount for a CGU is determined based on a calculation of value in use. That calculation uses cash flow projections that are based on financial budgets for the business that are approved by management and cover a five-year period. Cash flow beyond the five-year period are extrapolated based on the assumption that the envelope market in Europe as a whole will have a limited growth. The cash flows are based on previous years' outcomes and management's projections of the market trend. Management has established the budgeted cash flows based on previous years' results, planned and completed efficiency-improving measures and projections of the market trend.

In calculating value in use, a discount rate of 10.3 per cent after tax (13.2 per cent before tax) has been assumed, along with a negative growth rate during the three first years of on average -2.1 per cent. The two last years have been assumed to result in a similar growth rate. A sustained growth rate of 1 per cent has been adopted. Previous year, a discount rate of 10.3 per cent (13.2 per cent before tax) and a development adjacent to this year's calculation was adopted but with a growth rate of 1 per cent at the end of the five year period.

NOTE 14 CONT.

The discount rate used is given after tax and reflects the market interest rates, risks and tax rates that apply to the different units. The average growth rate used is based on industry forecasts. Positive sales growth is expected above all in the packaging sector. The impairment test shows that a write-down of goodwill is not necessary.

SENSITIVITY ANALYSIS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are regarded as reasonable under the current circumstances. The Group subjects goodwill to impairment testing every year, in accordance with the accounting policy described among the accounting policies above. The recoverable amount has been determined by calculation of the value in use. Certain estimates must be made for these calculations. Management has determined the forecast based on previous earnings and their expectations of the future market trend as well as external information about market trends. A sustainable growth rate of 1.0 per cent has been used to extrapolate cash flows beyond the budget period. This growth rate is judged to be a conservative estimate. Furthermore, an average discount rate after tax of 10.3 per cent has been used (13.2 per cent before tax), which is the same as the previous year. A sensitivity analysis has been performed for the Group as a cash-generating unit. The results of the analysis are summarised below.

- If the assumption regarding the estimated growth rate beyond the budget period had been 0.33 percentage point lower, the recoverable amount had been the same as the book value of the cash-generating unit. Furthermore, if the assumption regarding growth had been 0.5 percentage point lower, it would mean a write-down of SEK 50 million. If the assumption hade been 1 percentage point lower, it would mean a write-down of SEK 200 million.
- If the assumption regarding fixed costs in relation to turnover had been 0.39 percentage point higher, the recoverable amount would be the same as the book value of the cash-generating unit. Furthermore, if the assumption regarding fixed costs had been 0.5 percentage point higher, it would mean a write-down of SEK 29 million. Furthermore, if the assumption regarding fixed costs had been 1 percentage point higher, it would mean a write-down of SEK 163 million.
- If the assumption regarding gross margin had been 0.64 percentage point lower, the recoverable amount would be the same as the book value of the cash-generating unit. Furthermore, if the assumption regarding gross margin had been 1 percentage point lower, it would mean a write-down of SEK 58 million.
- If the assumption regarding the estimated weighted cost of capital had been 1.1 percentage point higher, the recoverable amount would be the same as the book value of the cash-generating unit.

These calculations are hypothetical and should not be regarded as an indication that these factors are more or less likely to change. The sensitivity analysis should therefore be interpreted with caution. The estimated recoverable amount exceeds the book value by SEK 103 million.

NOTE 15 – OTHER INTANGIBLE ASSETS

	2017	2016
Opening costs	89,344	91,345
Purchase	273	0
Sale/retirement	–5,107	–4,680
Reclassifications	2,345	1,974
Exchange rate differences	1,176	705
Closing costs	88,031	89,344
Opening accumulated depreciation	–51,889	–44,220
Sale/retirement	5,116	4,680
Exchange rate differences	–1,270	–760
Depreciation for the year	–11,293	–11,589
Closing accumulated depreciation	–59,336	–51,889
Closing residual value according to plan	28,695	37,455

The item is mainly attributable to adaptation of software.

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	2017	2016
Opening costs	170,144	160,195
Purchase	257	267
Sale/retirement	–135	–817
Reclassifications	137	–76
Exchange rate differences	3,444	10,575
Closing costs	173,847	170,144
Opening accumulated depreciation	–96,804	–88,315
Sale/retirement	0	807
Exchange rate differences	–2,522	–4,854
Depreciation for the year	–5,035	–4,442
Closing accumulated depreciation	–104,361	–96,804
Closing residual value according to plan	69,486	73,340
Of which land	8,971	8,849

Plant and machinery	2017	2016
Opening costs	658,551	669,791
Purchase	6,773	11,519
Sale/retirement	–53,230	–59,024
Reclassifications	8,734	3,861
Exchange rate differences	30,012	32,404
Closing costs	650,840	658,551
Opening accumulated depreciation	–545,641	–544,561
Sale/retirement	51,241	57,199
Exchange rate differences	–27,922	–29,997
Depreciation for the year	–22,767	–28,282
Closing accumulated depreciation	–545,089	–545,641
Closing residual value according to plan	105,751	112,910

NOTE 16 CONT.

Equipment, tools, fixtures and fittings	2017	2016
Opening costs	179,127	174,192
Purchase	2,790	4,222
Sale/retirement	–18,103	–4,060
Reclassifications	885	–1,450
Exchange rate differences	4,310	6,223
Closing costs	169,009	179,127
Opening accumulated depreciation	–149,864	–141,321
Sale/retirement	17,911	3,961
Exchange rate differences	–3,587	–5,338
Reclassifications	0	339
Depreciation for the year	–7,057	–7,505
Closing accumulated depreciation	–142,597	–149,864
Closing residual value according to plan	26,412	29,263

NOTE 17 – FINANCE LEASES IN THE GROUP

Due date of future minimum lease payments	Nominal values	Present values
	2017-12-31	2017-12-31
Within one year	418	401
After one year but within five years	580	525
Total	998	926

Due date of future minimum lease payments	Nominal values	Present values
	2016-12-31	2016-12-31
Within one year	1,351	1,297
After one year but within five years	958	853
Total	2,309	2,150

The item mainly refers to cars.

NOTE 18 – CONSTRUCTION IN PROGRESS AND ADVANCE PAYMENT RELATING TO PROPERTY, PLANT AND EQUIPMENT

	2017	2016
Opening costs	13,256	4,905
Accrued expenses	6,109	11,695
Reclassifications	–12,101	–4,309
Exchange rate differences	–79	965
Closing balance	7,185	13,256

NOTE 19 – SHARES IN GROUP COMPANIES

	2017	2016
Opening balance	1,026 883	1,026 883
Write-downs	–526,480	–
Closing balance	500,403	1,026,883

The annual review resulted in a write-down of the shares in Bong International AB.

NOTE 19 CONT.

Company	Corporate identity number	Location	Number of shares	Ownership(%)
Bong International AB	556044-3573	Kristianstad, Sweden	1,501,000	100
Bong GmbH	HRB 1646	Solingen, Germany	1	100

NOTE 20 – DEFERRED TAX

Deferred tax assets and liabilities are offset when a legal right to do so exists for the tax assets and liabilities in question and when the deferred taxes are payable to the same tax authority. Please see below for the amounts that remain.

Deferred tax per temporary difference:

Deferred tax asset	2017-12-31	2016-12-31
Loss carryforward	123,282	125,163
Property, plant and equipment	6,422	6,119
Pensions	15,808	13,766
Other temporary differences	–1,574	–896
Total	143,938	144,152

Deferred tax liability	2017-12-31	2016-12-31
Intangible assets	15,065	15,452
Property, plant and equipment	7,540	8,441
Other temporary differences	–674	647
Total	21,931	24,540

Deferred tax assets are recognised for tax-loss carryforwards to the extent it is likely that they can be utilised to offset future taxable profits.

The Group's loss carryforwards mainly relate to operations in Germany and Sweden. In recent years a number of steps have been taken to reduce costs and streamline operations. The chances of being able to utilise remaining loss carryforwards are deemed good. Undisclosed tax assets amount to 48,165 TSEK (92,891), the majority of which are not time-limited.

The gross change with regard to deferred taxes is as follows:

Loss carryforward	2017-12-31	2016-12-31
At start of year	125,163	205,429
Exchange rate differences	1,009	521
Recognised in the Income Statement	–2,890	–80,787
At year-end	123,282	125,163

Property, plant and equipment	2017-12-31	2016-12-31
At start of year	–2,322	–6,849
Exchange rate differences	–271	631
Recognition in the income statement	1,475	3,896
At year-end	–1,118	–2,322

NOTE 20 CONT.

Pensions	2017-12-31	2016-12-31
At start of year	13,766	20,310
Exchange rate differences	2 099	–5,364
Recognised in the income statement	298	–1,064
Actuarial loss on post-employment benefits	–355	–116
At year-end	15,808	13,766

Intangible assets	2017-12-31	2016-12-31
At start of year	–15,452	–16,105
Exchange rate differences	643	1,538
Recognised in the income statement	–256	–885
At year-end	–15,065	–15,452

Other	2017-12-31	2016-12-31
At start of year	–1,543	–1,586
Exchange rate differences	–2,422	2,490
Recognised in the income statement	1,239	–8,973
Tax attributable to other components in other comprehensive income	1,826	6,526
At year-end	–900	–1,543

NOTE 21 – INVENTORIES

The expenditure for the inventory that was recognised is included in the item "Cost of goods sold" and amounted to SEK 990,868 thousand (995,811). Of the inventory value, SEK 19,599 thousand (0) has been measured at net realisable value. The inventory depreciated during the year by SEK -289 thousand (346).

NOTE 22 – TRADE RECEIVABLES AND OTHER RECEIVABLES

	2017-12-31	2016-12-31
Trade receivables	282,115	293,116
Minus provision for impairment of receivables	–5,198	–8,083
Net trade receivables	276,917	285,033

Stated amounts, per currency for the Group's trade receivables are as follows:	2017-12-31	2016-12-31
SEK	29,806	27,157
GBP	123,772	131,633
EUR	88,639	90,551
Other currencies	34,700	35,692
Total	276,917	285,033

NOTE 22 CONT.

Geographic distribution of receivables	2017-12-31	2016-12-31
Sweden	43,539	35,467
Other Nordic and Baltic	11,434	21,801
Central Europe	89,166	86,744
France and Spain	37,476	40,827
United Kingdom	88,949	90,684
Russia/Eastern Europe	6,353	9,510
Total	276,917	285,033

Changes in the reserve for doubtful trade receivables are as follows:	2017	2016
At 1 January	8,083	7,603
Provision for doubtful debts	877	3,946
Receivables that have been written off during the year as uncollectable (–)	–2,587	–2,675
Reversal of unutilised amounts	–1,014	–1,131
Exchange rate difference	–161	340
At 31 December	5,198	8,083

The credit quality of trade receivables that have neither fallen due for payment nor are impaired can be assessed by reference to an external credit rating (if available) or to the counterparty's payment history.

Collection pattern: counterparties	2017-12-31	2016-12-31
Group 1 new customers	1,064	1,494
Group 2 existing customers without previous defaults	271,904	277,775
Group 3 existing customers with some previous non-payments where all non-payments have been fully recovered	3,949	5,764
Total trade receivables	276,917	285,033

On 31 December 2017 trade receivables totalling SEK 27,097 thousand (30,449) were overdue but were not considered to be impaired. The overdue receivables relate to a number of customers who have not previously had any difficulties paying.

Below is an age analysis of these trade receivables:	2017-12-31	2016-12-31
Less than 3 months	23,809	23,446
3 to 6 months	1,199	2,358
More than 6 months	2,089	4,645
Total	27,097	30,449

For trade receivables and other receivables, fair value is in line with book value.

NOTE 23 – OTHER CURRENT RECEIVABLES AND LIABILITIES

Other current receivables

	Group		Parent company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Other current receivables	6,548	7,717	347	0
Total	6,548	7,717	347	0

Other current liabilities

	Group		Parent company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Other current liabilities	65,371	55,420	11,134	545
Total	65,371	55,420	11,134	545

NOTE 24 – ACCRUED EXPENSES/INCOME AND DEFERRED INCOME/EXPENSES

Deferred expenses and accrued income

	Group		Parent company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Deferred interest	488	993	–	0
Other deferred expenses	8,506	9,147	–	–
Accrued supplier bonus	7,730	8,053	–	–
Other accrued income	31,665	24,362	325	147
Total	48,389	42,555	325	147

Accrued expenses and deferred income

	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Pay-related accrued expenses	71,712	73,052	2,221	329
Accrued interest payable	10,179	373	0	0
Accrued customer bonus	49,251	71,097	–	–
Other accrued expenses	35,571	32,513	283	871
Total	166,893	177,035	2,504	1,200

NOTE 25 – CASH AND CASH EQUIVALENTS

	Group		Parent company	
	2017	2016	2017	2016
Cash and cash equivalents	102,747	77,859	10,153	29
Escrow account	21,335	12,000	21,324	12,000
Total	124,082	89,859	31,477	12,029

NOTE 26 – BORROWINGS

	Group		Parent company	
Long-term	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Bond loan and convertible loan	183,572	167,925	184,422	168,499
Total	183,572	167,925	184,422	168,499

The Bond loan has an interest rate of 10 per cent with maturity dates 0630 and 1230 until 2018-12-21. In connection with the issuance of the bonds, the bondholders were also awarded shares and subscription warrants without consideration with a total fair value of SEK 37.3 million. In accordance with the terms for the bond issue bond investors received 50,000 warrants and 28,935 shares in Bong per bond. In total 40 million warrants were issued with a term of three years, each conferring the right to subscribe for one share in Bong at a price of SEK 1.15.

This is considered a bundled transaction in which the proceeds from the bond issue will be allocated to the respective financial instrument that the bondholder received, based on their estimated market values. Thus, a total of about SEK 37.3 million of the total proceeds was allocated to shares and subscription warrants, which are recognised in equity and a corresponding amount has reduced the value of the loan. The difference, compared to the principal amount of the loan at the time of issue will be accrued as an additional financial expense and charged to the income statement and equity, respectively.

	Group		Parent company	
Short-term	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Bank credit lines	0	2,942	–	–
Total	0	2,942	0	0
Total borrowings	183,572	170,867	184,422	168,499

Maturity dates of long-term borrowings are as follows:

	Group		Parent company	
Short-term	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Between 1 and 2 years	183,572	167,925	184,422	168,499
Between 2 and 5 years	–	–	–	–
More than 5 years	–	–	–	–
Total	183,572	167,925	184,422	168,499

NOTE 26 CONT.

On maturity, the book value of the debt will amount to TSEK 200 000.

The effective interest rate on the balance sheet date was as follows:

	2017-12-31	2016-12-31
Bank credit lines	1.30%	0.78%
Other borrowings	10.00%	10.00%

Recognised amounts, per currency, are as follows:

	2017-12-31	2016-12-31
SEK	183,572	167,925
EUR	0	2,942
GBP	–	–
Other currencies	0	0
Total	183,572	170,867

The Group has the following unutilised credit facilities:

	2017-12-31	2016-12-31
Variable interest rate:		
– expires after more than one year	12,797	5,655
Fixed interest rate:		
– expires after more than one year	–	3,821

NOTE 27 – PENSION OBLIGATIONS

The Group has defined-benefit pension plans in a number of countries. The most extensive defined-benefit pension plans are in Sweden, Germany, and Norway, where they cover virtually all salaried employees and certain other personnel. The pension plans provide benefits based on the average remuneration and length of employment of the employees at or near retirement.

The Group is exposed to a number of risks through the defined-benefit pension plans and healthcare plans following termination of employment. Almost half of Bong's pension liabilities are in pension plans that were closed to new commitments long ago, so they will gradually be phased out. A reduction in the interest rate for corporate bonds will mean an increase in plan liabilities. Some of the plan's pension liabilities are linked to inflation; higher inflation leads to higher debt. Under the majority of the pension obligations, the employees covered by the plan will receive benefits for life, which means that increased life expectancy will result in higher pension liabilities.

Pension liabilities in the balance sheet	2017-12-31	2016-12-31
Present value of funded obligations	233,388	264,511
Fair value of plan assets	–21,708	–47,716
Deficit in funded plans	211,680	216,795
Present value of unfunded obligations	423	2,947
Closing balance pension liability	212,103	219,742

NOTE 27 CONT.

The change in the defined-benefit obligation over the year is as follows	Present value of obligation	Fair value of plan assets	Total
At 1 January 2016	247,831	46,536	201,295
Service costs during current year	1,680		1,680
Interest expense/(revenue)	5,531	822	4,709
Service costs during previous years	–214		–214
Revaluations:			
- Return on plan assets excl. amounts included in interest expense/(revenue)	–	360	–360
- (Profit)/loss as a result of changed demographic assumptions	32	–	32
- (Profit)/loss as a result of changed financial assumptions	17,077	–	17,077
- Experience-based (profits)/losses	–324	–	–324
Exchange rate differences	7,556	2,248	5,307
Fees:			
- Employer	–	12,408	–12,408
- Employees covered by the plan	7	7	0
Payments from the plan			
- Benefits paid	–14,665	–14,665	0
At 31 December 2016	264,511	47,716	216,795
At 1 January 2017	267,457	47,716	219,742
Service costs during current year	1,714		1,714
Interest expense/(revenue)	3,499	101	3,397
Revaluations:			
- Return on plan assets excl. amounts included in interest expense/(revenue)	–	179	–179
- (Profit)/loss as a result of changed financial assumptions	1,271	–	1,271
- Experience-based (profits)/losses	–2,061	–	–2,061
Exchange rate differences	2,699	–304	3,002
Fees:			
- Employer	–	10,439	–10,439
- Employees covered by the plan	2	2	0
Payments from the plan			
- Benefits paid	–11 ,183	–11,183	0
- Adjustments	–30,010	–25,241	–4,769
At 31 December 2017	233,388	21,708	211,680

The defined-benefit obligation and the composition of plan assets by country are listed below:

2017	Sweden	Germany	France	Norway	Other	Total
Present value of obligation	98,749	90,572	13,555	3,097	27,416	233,388
Fair value of plan assets	0	0	–938	0	–20,770	–21,708
Total	98,749	90,572	12,616	3,097	6,646	211,680

2016	Sweden	Germany	France	Norway	Other	Total
Present value of obligation	98,209	95,017	13,451	3,251	54,581	264,511
Fair value of plan assets	0	0	–1,674	–25,682	–20,359	–47,716
Total	98,209	95,017	11,777	–22,431	34,222	216,795

NOTE 27 CONT.

Significant actuarial assumptions

2017	Sweden	Germany	France	Norway	Other
Discount rate (%)	2.00	1.50	1.50	2.10	1.50
Inflation (%)	1.50	1.50	1.50	1.50	1.50
Salary increases (%)	1.10	N/A	1.50	N/A	1.50
Life expectancy at 65, men	22	19	–	–	23
Life expectancy at 65, women	24	23	–	–	–

2016	Sweden	Germany	France	Norway	Other
Discount rate (%)	1.90	2.00	2.00	2.50	1.50
Inflation (%)	1.30	1.50	1.50	1.50	1.50
Salary increases (%)	1.10	0.00	1.50	–	1.50
Life expectancy at 65, men	21	19	–	–	23
Life expectancy at 65, women	23	23	–	–	–

Compilation of managed assets:	2017	2016
Insurance policy (unlisted)	21,708	47,716
Total	**21,708**	**47,716**

Fees for plans for benefits after terminated employment are expected to be SEK 10.4 million for financial year 2018.

Weighted average term of the pension obligation is 13 years.

PENSION INSURANCE IN ALECTA

Obligations for old-age pension and family pension for salaried employees in Sweden are secured by insurance in Alecta. According to a statement by the Swedish Financial Reporting Board, UFR 10, this is a multi-employer defined-benefit plan. For financial year 2017, the Group has not had access to information to be able to account for its proportionate share of the plan's obligations, plan assets and costs, for which reason it has not been possible to account for the plan as a defined-benefit plan. The ITP pension plan that is secured via insurance in Alecta is therefore accounted for as a defined contribution plan. The premium for the defined-benefit portion of the old-age pension is individual and is dependent on the age, salary and previously earned pension of the insured. Expected pension contributions during the year for pension insurance in Alecta amount to SEK 0.6 million. The Group accounts for an insignificant portion of the plan.

The collective funding ratio is the market value of Alecta's assets as a percentage of their insurance obligations calculated according to Alecta's actuarial assumptions, which do not agree with IAS 19. Collective consolidation, in the form of collective consolidation level, is usually allowed to vary between 125 and 155 per cent. If Alecta's collective consolidation level is less than 125 per cent or greater than 155 per cent, measures shall be taken in order to create conditions for the consolidation level to return to the normal range. Alecta's surplus can be distributed to the policyholders and/or to the insured if the collective consolidation level is greater than 155 per cent. However, Alecta applies premium reductions to avoid any surplus. At year-end 2017, Alecta's surplus in the form of the collective funding ratio amounted to 154 per cent (149).

NOTE 27 CONT.

PENSION OBLIGATIONS SENSITIVITY ANALYSIS

Accounting estimates and judgments are evaluated continuously and are based on historical experience and other factors, including expectations of future events that are considered reasonable under prevailing circumstances.

The present value of the pension obligations is established on an actuarial basis, based on a number of assumptions. The assumptions used in establishing the net cost (income) for pensions include the long-term rate of return on the planned assets in question and the discount rate. Every change in these assumptions, as in other actuarial assumptions, will affect the carrying amount of the pension obligations. The assumption of expected return on planned assets is in line with the discount rate in accordance with revised IAS rules. The Group determines a suitable discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future payments expected to be required to settle the pension obligations. In determining a suitable discount rate, the Group takes into account the interest rates on first-class corporate bonds or treasury bonds denominated in the currency in which the payments will be made and with maturities equivalent to the estimates for the pension obligations in question. In Sweden, the Group also takes into account interest rates on mortgage bonds.

If the actual return on the planned assets were to deviate by 1 percentage point from the management estimate, the carrying amount of the pension obligations would be SEK 0.3 million higher or SEK 0.3 million lower. If the discount rate deviated by +/–0.5 percentage point from the management estimate, the pension obligations would be SEK 13 million lower/higher than the carrying amount.

NOTE 28 – OTHER PROVISIONS

Restructuring	2017	2016
At 1 January	40,855	44,169
Recognised in the income statement:		
Restructuring		
– additional provisions	5,236	18,242
Utilised during the year	–20,175	–25,961
Other		
– additional provisions	2,800	5,112
utilised during the year	–108	–2,171
Exchange rate difference	286	1,464
At 31 December	**28,894**	**40,855**

	2017	2016
Non-current portion	17,612	14,569
Current component	11,282	26,286
	28,894	**40,855**

In order to maintain long-term competitiveness and restore profitability to a satisfactory level, SEK 5 million was allocated in restructuring costs during the year. The restructuring programme relates primarily to measures to adjust to lower demand and covers publicly announced measures in Norway.

NOTE 29 – PLEDGED ASSETS

Relating to pension obligations	Group		Parent company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Floating charges	40,000	40,000	–	–
Restricted bank deposits	21,324	12,000	21 324	12,000
Relating to liabilities to credit institutions				
Shares in subsidiaries	649,294	698,294	500,404	1,226,884
Property mortgages	94,225	94,225	–	–
Receivables from subsidiaries	200,000	200,000	–	–
Current assets	88,815	210,267	–	–
Total	**1,093,658**	**1,242,786**	**521,728**	**1,238,884**

NOTE 30 – CONTINGENT LIABILITIES

	Group		Parent company	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Liability FPG	1,164	1,164	–	–
Bank Guarantee	21,324	20,000	21,324	20,000
Other contingent liabilities	447	441	–	–
Total	**22,935**	**21,605**	**21,324**	**20,000**

NOTE 31 – RESERVES

	Hedged reserve	Translation reserve	Total reserves
Opening balance 1 January 2016	–3,840	–21,798	–25,818
Cash flow hedges	–893		–893
Hedging of net investments		–11,283	–11,283
Exchange rate difference		15,821	15,821
Tax effect	196	2,155	2,351
Closing balance 31 December 2016	–4,537	–15,286	–19,822
Opening balance 1 January 2017	–4,537	–15,286	–19,822
Cash flow hedges	189		189
Hedging of net investments		–8,441	–8,441
Exchange rate difference		20,196	20,196
Tax effect	–42	1,868	1,826
Closing balance 31 December 2017	–4,389	–1,663	–6,052

Revaluation reserve has been reclassified to Translation reserve.

NOTE 32 – SHARE CAPITAL AND OTHER CONTRIBUTED CAPITAL

SHARES

The number of shares at year-end 2017 was 211,205,058 (2016:211,205,058) with a quotient value of SEK 1.12 per share (2016:SEK 1.12 per share). All issued shares are fully paid. The Extraordinary General Meeting, held 25 January 2016, decided on the issuance of subscription warrants. On conversion to shares the number of shares can increase by a maximum of 40,000,000 and the share capital by SEK 44 800 000.

	Number of shares (thousand)	Share capital	Share premium	Total
1 January 2016	156,660	234,989	699,320	934,309
Extra Ordinary General Meeting, 25 January 2016				
Write-down of share capital		–59,531	59,531	0
Conversion of convertible debentures [1]	27,273	30,545	36,363	66,908
New share issue through set-off [2]	27,273	30,545	1,636	32,181
Bond-Loan			6,573	6,573
On 31 December 2016	211,205	236,549	803,423	1,039,972
1 January 2017	211,205	236,549	803,423	1,039,972
Convertible loan [1]			–3,335	–3,335
On 31 December 2017	211,205	236,549	800,088	1,036,637

[1] Conversion of the convertible loan 2013/2018 (ISIN: 005281821).
[2] The set-off issue was directed at Swedbank (publ) AB and Nordea Bank AB (publ).

NOTE 33 CONT.

CASH FLOW FROM FINANCING ACTIVITIES

			Non cash changes		
	At January 2017	Cash flows	Fair value changes	Foreign exchange movement	At December 2017
Long-term borrowings	167,925		15,647		183,572
Finance lease liabilities	2,087	–1,376		–36	747
Net debt	170,012	–1,376	15,647	–36	184,319
Cash and cash equivalents	–89,859	–35,907		1,684	–124,082
Bank overdraft	2,942	–2 967		25	0
Net debt	–86,917	–38,874	–	1,709	–124,082

NOTE 33 – OTHER ITEMS NOT AFFECTING LIQUIDITY IN THE CONSOLIDATED CASH FLOW STATEMENTS

	Group		Parent company	
	2017	2016	2017	2016
Gains on disposal of intangible assets and property, plant and equipment	–2,582	–2,284	–	–
Change in provisions	–26,722	–10,740	–	–
Acquisition of banks' claims	–	–		228,477
Non-cash affecting dividend		–	60,484	64,123
Non-cash regulated subsidiary transactions	–	–	–60,000	–255,000
Exchange rate differences and other	10,161	9,057	4,364	–41,765
Total	–19,143	–3 967	5,348	–4,165

NOTE 34 – BUSINESS COMBINATIONS

During the year no material acquisitions occurred.

NOTE 35 – DIVIDEND

A dividend for 2016 of SEK 0 per share was approved at the AGM on 17 May 2017. A dividend for 2017 of SEK 0 per share will be proposed at the AGM on 16 May 2018.

NOTE 36 – INFORMATION ABOUT BONG AB

Bong AB is a public limited liability company registered in Kristianstad, Sweden, Uddevägen 3, Box 516, 291 25 Kristianstad, Sweden. Bong AB is listed on Nasdaq Stockholm (Small Cap).

NOTE 37 – SUSTAINABILITY REPORT

Bong has set up its sustainability report separately from the Administration Report in accordance with the rules in the Swedish Annual Accounts Act. The sustainability report in respect of the financial year 2017 can be found on pages 6-12 and covers Bong AB (publ.), corporate identity number 556034-1579 domiciled in Kristianstad, and the business consolidated into the group accounts.

NOTE 38 – RELATED PARTY TRANSACTIONS

Transactions with a subsidiary to Holdham S.A.are counted as related-party transactions since Holdham.S.A. is the largest shareholder in Bong AB.

	2017	2016
Sales during the year	68,406	91,874
Purchases during the year	2,110	10,489
Current receivables balance sheet date	17,994	26,345

The company's assessment is that there is no uncertainty in the receivables.

NOTE 39 – PURCHASES AND SALES BETWEEN GROUP COMPANIES

The Parent Company's business consists of management of operating subsidiaries and Group management functions. In 2017 the Parent Company charged the subsidiary management fees amounting to SEK 2,541 thousand (924). The Parent Company's purchases from subsidiaries amounted to SEK 0 thousand (197). Pricing between Parent and subsidiary is on a commercial basis and at market prices.

NOTE 40 – PROFIT FROM INTEREST IN SUBSIDIARIES

	2017	2016
Dividend	60,484	64,123
Impairment of shares in subsidiaries	–526,480	0
Group contributions paid	–60,000	0
Total	–525,996	64,123

NOTE 41 – ADOPTION OF NEW ACCOUNTING POLICIES

(A) NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

None of the standards, amendments and interpretations that came Into effect for the financial year starting January 1, 2017 have had any material impact on the Group's financial statements.

(B) NEW AND REVISED STANDARDS AND INTERPRETATIONS OF EXISTING STANDARDS NOT APPLIED PROSPECTIVELY BY THE GROUP

A number of new standards and interpretations come into force for financial years after 1 January 2017 and have not been applied at the time of preparation of these financial statements. None of these are expected to have a material impact on the consolidated financial statements with the exception of those identified below.

IFRS 9 Financial instruments

IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedging acounting. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments and introduces a new write-down model.

The new rules will not have any impact on the Group's financial position as IFRS 9 does not have any significant impact on the valuation of the Group's financial instruments. IFRS 9 introduces a new model for recognition of expected credit losses that takes forecasts into account. The Group will apply the simplified approach to credit reservation for short-term receivables, i e the reserve will correspond to the expected loss over the entire customer service life.

IFRS 9 reduces the requirements for applying hedge accounting by replacing the 80%-125% criterion with a requirement for an economic relationship between hedging instruments and secured items and by requiring that the hedging ratio should be the same as is used in risk management. The Group believes that the current hedging conditions meet the requiremenst terms for hedge accounting under IFRS 9 and that it will not have any impact at the transition date based on the hedging relationships that apply in that period.

NOTE 41 CONT.

IFRS 9 will be applied by the Group for the fiscal year that commences on January 1, 2018. The Group will not calculate comparative figures for the 2017 fiscal year, in accordance with the transitional rules of the standard.

IFRS 15 Revenue from contracts

IFRS 15 is the new standard for recognition of revenues. IFRS 15 replaces IAS 18 and IAS 11 Construction Contracts and related SIC and IFRIC.
The new standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The standard is effective for annual periods beginning on or after 1 January 2018.

In 2017, the effects of IFRS 15 have been analyzed and the conclusion is that IFRS 15 has no significant impact on the Group's income statement. In upcoming quarterly reports and annual reports the Group will increase the disclosure in line with the requirements in IFRS 15.

IFRS 16 Leases

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. The Group has started to map and quantify the impact of IFRS 16 and will be able to make a better assessment during 2018.

No other IFRS standards or IFRIC interpretations which have not yet come into force are expected to have a material impact on the Group.

NOTE 42 – EVENTS AFTER THE END OF THE PERIOD

Please refer to page 15 in the Administration report.

NOTE 43 – PROPOSED DISTRIBUTION OF EARNINGS

The Board of Directors proposes that the earnings available for distribution, SEK 429,169,378.87 be carried forward, see note 35.

The consolidated financial statements will be submitted to the Annual General Meeting on 16 May 2018 for adoption. The Board of Directors and the CEO ensure that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and give a true and fair view of the Group's results of operations and financial position.

The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting policies in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Kristianstad 12 April 2018

Christian Paulsson
Chairman of the Board

Mikael Ekdahl
Member of the Board

Stéphane Hamelin
Member of the Board

Eric Joan
Member of the Board

Stefan Lager
Member of the Board

Helena Persson
Member of the Board

Peter Harrysson
Member of the Board

Christer Muth
Member of the Board

Håkan Gunnarsson
Member of the Board & CEO

Our Audit Report was submitted 24 April 2018

PricewaterhouseCoopers AB

Lars Nilsson
Authorised Public Accountant
Auditor in charge

Christer Olausson
Authorised Public Accountant

Auditor's report

To the meeting of shareholders in Bong AB (publ), corporate identity number 556034-1579

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

OPINIONS

We have audited the annual accounts and consolidated accounts of Bong AB (publ) for the year 2017 with the exception of the corporate governance report found on pages 17-19. The annual accounts and consolidated accounts of the company are included on pages 15-43 in this document

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not address the corporate governance report found on pages 17-19. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OUR AUDIT ACTIVITIES

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit has addressed the Key audit matter
Testing of the going concern assumption For the financial year, the group reports a loss of MSEK 9 and has reported a loss for all financial years since 2010, with adjustment for the refinancing effect amounting to MSEK 345 during 2016. The group operates in a market which, as regards the sale of envelopes, is declining. During 2016, the completed restructuring program had a positive effect on costs. The group has had a cash flow from the ongoing operations of MSEK 55 financial years 2014 – 2017 and has sold assets equivalent to MSEK 145 during this period.	As there is a limited amount of liquidity in the group and the possibility to sell assets at a significant value is also limited, we have focused on determining if there is sufficient liquid funds to continue to undertake the operations. In order to assess the correctness of the application of the going concern assumption in preparing the financial reports, we have focused on evaluating the company management's assumptions and judgements as regards the group's liquidity requirements during the next 12 months, we have studied and assessed the company management's forecasted expenses against the historical outcome of their forecasts and we have considered the up and down sides in the forecast scenarios and their relevant impact, and we have assessed the terms of the loan liabilities. Based on our audit, we have made the conclusion that Bong currently has realistic possibilities to fulfill its obligations during the 12 months after financial year end. We also believe that Bong's annual accounts provide satisfactory information regarding Bong's challenges and risks in the context of the going concern assumption.
Impairment testing of intangible assets As at 31 December 2017, goodwill and other intangible assets amounted to MSEK 603. According to IFRS, an annual impairment test is to take place. This impairment text is based on judgements and assumptions which are complex and involve a high degree of significant assessments on behalf of company management. Note 14 describes the manner in which the company management has undertaken its assessment. It is also seen that no impairment requirement has been identified based on the applied assumptions. Impairment testing takes place for the group as one cash-generating unit.	In our audit, we have taken a position as regards the company management's assumptions and assessments. This has taken place, for example, through an analysis of the degree to which previous years' assumptions have been achieved and has also considered possible adjustments of the assumptions from previous years due to the development of the operations and external factors. We have challenged company management as regards the judgements concerning future cash flow and expected WACC. We have executed our own sensitivity analyses to test the safety margins. We have tested the impact of changes in significant assumptions such as operating income and WACC on safety margins and, based on these, we have assessed the risk of an impairment requirement arising. Based on our audit, we have not identified any material deviations from management's conclusions for the impairment assessment. We also believe that Bong's annual accounts provide a satisfactory view of Bong's challenges and risks in this area.
Valuation of deferred tax recoverables We refer to Note 20 – Deferred tax on page 37 of the Annual Report. At the end of the year, the group had loss carry forward amounts totaling MSEK 171, of which MSEK 123 are accounted as deferred tax assets. According to Note 20, these loss carry forwards are taken into consideration to the degree it is expected that they can be utilized against future taxable gains. According to IFRS, a regular assessment is to take place of the probability that these deficits will be able to be utilized against future taxable gains.	We believe this area is significant in our audit due to the high degree of complexity and assessment associated with the valuation of deferred tax recoverables. Our audit has primarily focused on the assessment of whether the loss carry forward amounts will be able to be utilized against future taxable gains. The calculated future profits are comprised, largely, of expected operating surpluses. We have challenged the company management's assessments and examined the documentation serving as the basis for these assessments. An analysis has taken place of the surplus generated during the year in relation to the future surpluses which will be required in order to utilize the losses. Discussions have taken place regarding changes in local tax regulations. We have involved our tax specialists in these discussions and assessments. In addition, we have evaluated the completeness and correctness of the disclosures found in Note 20. Based on our audit, we have not identified any material deviations from management's conclusions for the impairment assessment. We also believe that Bong's annual accounts provide a satisfactory view of Bong's challenges and risks in this area.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-14 and 46-49. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Bong AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

AUDITOR'S EXAMINATION OF THE CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for that the corporate governance statement on pages 17-19 has been prepared in accordance with the Annual Accounts Act

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB was appointed auditor of Bong AB by the general meeting of the shareholders on the 17 May 2017 and has been the company's auditor since before financial year 1998.

Malmö, 24 April 2018

PricewaterhouseCoopers AB

Lars Nilsson
Authorised Public Accountant
Auditor in charge

Christer Olausson
Authorised Public Accountant

Management Team

HÅKAN GUNNARSSON

Born 1969.

Chief Executive Officer (CEO). Business Unit Manager Nordic.

Employed since 1999.
In current position since 2017.

Education: Bachelor Degree in business administration (B Sc).

Previous positions: CFO for Bong AB.

Shareholding in Bong: 100,000 shares.

JEFF GREENLEAF

Born 1962.

Business Unit Manager UK.

Employed since 1992.
In current position since 2017.

Education: HND (Higher National Diploma) in Business Studies.

Previous Position: MD Surrey Envelopes Ltd.

Shareholding in Bong: 55,000 shares.

KAI STEIGLEDER

Born 1963.

Business Unit Manager Central Europe.

Employed since 2007.
In current position since 2014.

Education: Master in International Business (MIBS).

Previous positions: Sales Manager Smurfit Kappa Group and Group Beiersdorf.

Shareholding in Bong: 42,000 shares.

PIA FJELLANDER

Born 1958.

Chief Financial Officer (CFO).

Employed since 2007.
In current position since 2017.

Education: Bachelor of Law and degree in economics specialised in accounting and financing.

Previous positions: Group Financial Manager, Bong International AB.

Shareholding in Bong: 0 shares.

PASCAL GRAVOUILLE

Born 1962.

Business Unit Manager South Europe, Innovation Director

Employed since 2008.
In current position since 2010.

Education: Chemical engineer.

Previous positions: Business Manager Europe, Ferro Corporation.

Shareholding in Bong: 83,500 shares.

PETTER LINDAHL

Born 1978.

Business Unit Manager Retail

Employed since 2004.
In current position since 2014.

Education: Bachelor Degree in business administration (B Sc), Bachelor Degree in mechanical engineering (B Sc).

Previous positions: Site Manager Bong Nybro, Finance Manager Bong Packaging Solutions.

Shareholding in Bong: 0 shares.

OTHER KEY PERSONNEL

PETER ANDERSSON

Born 1964.

Director of Purchasing and Logistics.

Employed since 2006.

SIMON BENNETT

Born 1965.

Sales and Marketing Director, European Distributors.

Employed since 2007.

Board of Directors

CHRISTIAN PAULSSON
Chairman of the Board

MIKAEL EKDAHL
Member of the Board

HÅKAN GUNNARSSON
Member of the Board

STÉPHANE HAMELIN
Member of the Board

ERIC JOAN
Member of the Board

STEFAN LAGER
Member of the Board

HELENA PERSSON
Member of the Board

CHRISTER MUTH
Member of the Board
(Employee Representative)

MATS PERSSON
Alternate Director
(Employee representative)

Definitions

This Annual Report includes both financial ratios based on concepts defined in IFRS, APMs (Alternative Performance Measures) according to ESMA's definition and other company-specific ratios. The ratios are defined below.

ADJUSTED EARNINGS PER SHARE BEFORE AND AFTER DILUTION
Profit after tax, excluding extraordinary net financial item divided by average number of shares before and after dilution.

AVERAGE CAPITAL EMPLOYED
Capital employed at beginning of year plus capital employed at year-end divided by two.

AVERAGE EQUITY
Shareholders' equity at beginning of year plus equity at year-end divided by two.

ADJUSTED P/E RATIO, TIMES
Share price divided by adjusted earnings per share.

AVERAGE TOTAL ASSETS
Total assets at beginning of year plus total assets at year-end divided by two.

CAPITAL TURNOVER, TIMES
Net sales by average total assets.

Capital Asset turnover is a measure of how effectively the Group uses its assets.

EARNINGS PER SHARE BEFORE AND AFTER DILUTION
Profit after tax divided by the average number of shares before and after dilution.

EQUITY TO ASSETS RATIO, PER CENT
Shareholders' equity divided by total assets.

Equity to assets ratio is a measure of the Group's financial strength.

EBITDA
Operating income before depreciation and amortization.

ESMA
The European Securities and Markets Authority. ESMA is the European Union's body for monitoring the financial markets.

EXTRAORDINARY NET FINANCIAL ITEM
Net total gain from the refinancing transactions in 2016.

IFRS
International Financial Reporting Standards. An International accounting standard that Bong applies.

NET DEBT
Interest-bearing liabilities and provisions less liquid funds and interest-bearing receivables.

NET DEBT/EBITDA, TIMES
Net debt divided by EBITDA.

Net debt/EBITDA is a measure of the Group's financial strength.

NET DEBT TO EQUITY, TIMES
Net debt divided by equity.

Net debt to equity is a measure of the Group's financial strength.

OPERATING MARGIN, PER CENT
Operating profit divided by net sales.

Operating margin is a measure of profitability. It measures how much of revenues remains after operating expenses.

P/E RATIO, TIMES
Share price divided by earnings per share.

RETURN ON CAPITAL EMPLOYED, PER CENT
Earnings after financial income divided by average capital employed. For 2016 the extraordinary net financial item has been excluded.

This measure shows the return of the Group's total balance sheet, excluding non-interest-bearing debt. It is a profitability measure independent of the Group's indebtedness. It complements the measure return on equity.

RETURN ON EQUITY, PER CENT
Earnings after tax divided by average equity. For 2016 the extraordinary net financial item has been excluded.

This measure measures the return on shareholders' funds for the year and is useful in comparisons of other investments with the same risk profile.

SHARE PRICE/EQUITY, PER CENT
Price per share divided by equity per share.

Annual General Meeting 2018

The Annual General Meeting will be held at 4:00 pm 16 May 2018 at Malmö Börshus, Skeppsbron 2, in Malmö, Sweden.

PARTICIPATION AT THE AGM

Shareholders registered in the share register kept by Euroclear Sweden AB on 9 May 2018 are entitled to participate in the meeting. To be eligible to participate in the Annual General Meeting, shareholders with nominee-registered holdings must therefore temporarily re-register their shares in their own names through the agency of their nominees so that they are recorded in the share register in due time before 9 May 2018.

Shareholders who wish to participate in the meeting must notify the company no later than 9 May 2018, by one of the following methods:

By post to Bong AB (publ), Attn: Mattias Östberg
Box 516
SE-291 25 Kristianstad
Sweden

By telephone +46 (0)44-20 70 45
By e-mail to anmalan.arsstamma@bong.com.
Online www.bong.com.

DIVIDEND

The Board of Directors and the CEO propose that the AGM resolve that no dividend be paid for 2017.

AGENDA

The AGM will consider items of business which are required by law and the Articles of Association to be dealt with at the meeting, as well as other items of business mentioned in the notice convening the meeting.

Financial calendar

Annual General Meeting	16 May 2018
Interim report January – March 2018	16 May 2018
Interim report January – June 2018	12 July 2018
Interim Report January – September 2018	15 November 2018
Year-end Report 2018	14 February 2019

Addresses

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Bong has one of the broadest envelope ranges on the European market and is also one of the leaders in speciality packaging for e-commerce and the retail trade.

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