Green envelopes and light packaging

16 Annual Report

BONG

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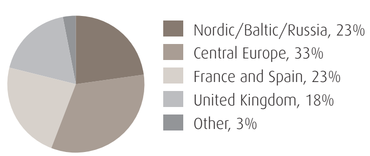
2016 in brief

- Net sales amounted to SEK 2,135 million (2,345).
- Operating earnings were SEK 9 million (-5), impacted by restructuring costs of SEK -18 million.
- Net debt at year-end was SEK 315 million (837).
- The equity-to-asset ratio on 31 December 2016 was 43 per cent (16).
- Profit after tax was SEK 297 million (-64). It was affected by a financial income of SEK 430 million attributable to the refinancing of the Group in the beginning of 2016.
- Håkan Gunnarsson was appointed CEO on 18 October 2016. He took up his position on 1 January 2017.

KEY FIGURES	2016	Q4	Q3	Q2	Q1	2015	2014	2013	2012
Net Sales, MSEK	2,135	579	489	500	567	2,345	2,533	2,564	2,946
Operating profit/loss, MSEK	9	15	−10	−8	11	−5	−123	−109	15
Profit/loss after tax, MSEK	297	−1	−25	−20	343	−64	−150	−141	−55
Cash flow after investing activities, MSEK	30	23	−23	20	7	−75	94	−91	−38
Operating margin, %[1]	0.4	0.4	−0.4	0.3	1.9	−0.2	−4.8	−4.3	0.5
Average number of employees[1]	1,556	1,556	1,570	1,589	1,605	1,763	1,873	2,051	2,271

[1] Year to date.

SALES TO ALL OF EUROPE



Bong in one minute

Bong is one of the leading providers of light 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 1,500 employees in 15 countries.

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

Letter to the **shareholders**

We are on the offensive with our light packaging

The successful refinancing in 2016 made it possible to continue the efforts to make our envelope operations efficient, and to go on the offensive with our light packaging. Bong has invested in new capacity to satisfy the growing demand for paper carrier bags, and more initiatives will be taken to accelerate growth.

The consolidated net profit in 2016 was SEK 297 million including the non-recurring income of SEK 430 million from last years' refinancing. The net debt decreased by SEK 522 million to SEK 315 million in 2016. We can continue to look ahead and invest strategically, especially in packaging, at the same time as we continue to improve efficiency in our envelope business.

THE ENVELOPE MARKET REMAINS TOUGH

The market for envelopes remains challenging. Volumes dropped by five per cent in the fourth quarter of 2016 according to the trade association FEPE. This has been the trend in recent years and is likely to continue. Larger companies and public authorities subsititute some of their physical mail with electronic communications. We do, however, see that the market for addressed direct mail is stable as more customers discover that they get a better response from the recipients of physical mail than from electronic mail.

The European envelope manufacturers are adapting to the lower demand, but the process is slow and has not gone far enough. This results in increased price pressure and lower margins. We continuously evaluate our plant structure and flow of goods in order to allocate production and warehouses to the most effective locations. In late 2016, we closed a production plant in Luxemburg and moved its production to our plants in France. In the last six years, we have cut the number of production plants in half in order to streamline and adapt to the current market. Our fixed costs are now substantially lower than previously and our competitiveness has increased as a result of this.

GOOD GROWTH FOR LIGHT PACKAGING

The sales of light packaging increased by eight per cent in the fourth quarter of 2016 compared to the corresponding period in 2015. The sales for the full year of 2016 was SEK 399 million. It is primarily our retail solutions that have been most successful. We have a complete offering in gift packaging and paper bags which is increasingly attracting the interest of retail chains across Europe. A contributing factor is the increased awareness of the negative environmental impact of plastic bags. We invested in new machinery for our production in Nybro, Sweden, to meet the growing demand for paper bags which are an excellent environmentally friendly alternative.

Sales of light packaging is driven by the growth in European e-commerce that accounts for an increasing share of consumer spending. Bong satisfies the need for protective packaging and packaging material.

We are currently conducting a strategic review of our entire packaging offer in order to increase customer orientation and competitiveness.

SUSTAINABILITY

Bong is a responsible company that strives for continuous improvements in all aspects, not least regarding sustainability. The Board has decided to sign the UN Global Compact. We focus our efforts in sustainability on reducing our consumption of energy and water per unit produced, and on minimising our products' environmental impact throughout their life-cycles. Customers are increasingly requesting information about the products' environmental profile. We are working on several fronts with both national certifications and the EU Ecolabel.

THE WAY FORWARD

Ahead of us lies the continuing challenges of the envelope market with lower demand and sales. We do, however, see opportunities to strengthen our position in the market through our new, more efficient, organisation. The decline in sales of envelopes is not yet fully compensated by the growth in packaging. The goal is that our total net sales will stabilise within three years and that light packaging will account for about 35 per cent of Group sales.

THANKS

I would like to extend the Board's and the management's gratitude to our employees and shareholders, without whose commitment our transformation into a profitable Bong is not possible. Some 300 new shareholders have joined the list of owners in 2016, a sign of increasing confidence in our ability to achieve success in packaging, and to run an effective envelope business.

Kristianstad, April 2017

Håkan Gunnarsson
Chief Executive Officer

Financial **recovery**

A comprehensive refinancing in the beginning of 2016 provided Bong with stable financial ground and has created conditions for profitable operations.

SIGNIFICANT IMPROVEMENT OF THE FINANCIAL POSITION

In early 2016, Bong acquired its lending banks' claims on Bong as part of a comprehensive refinancing of the Group. The transaction considerably reduced Bong's debt. The most important steps in the transaction are described below.

Acquisition of the banks' facilities

In January 2016 Bong acquired the banks' claims for a cash consideration totalling SEK 195 million. The Banks also received a total of 27,272,727 shares in Bong through a set-off issue against part of the claims. The Banks in their turn transferred about 23 million shares in Bong to the investors of the bonds issued on 21 December 2015.

Conversion of convertible bonds

All convertible bonds in series 2013/2018 have been converted at a conversion price of SEK 2.75 per share, which provided the holders of convertible bonds with a total of 27,272,727 shares in Bong.

Bond issue

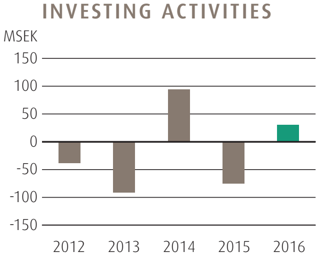
Senior secured bonds in the amount of SEK 200 million were issued by Bong on 21 December 2015. The bonds have a three-year maturity and a fixed annual interest rate of 10.0 per cent.

In accordance with the terms of the issue, the bond investors received 40,000,000 warrants with a three-year tenor. Each warrant entitles the holder thereof to subscribe for one share in Bong at a subscription price of SEK 1.15 per share. After full dilution, the share capital of Bong amounts to SEK 281,349,665 divided into 251,205,058 shares with a par value of SEK 1.12 per share.

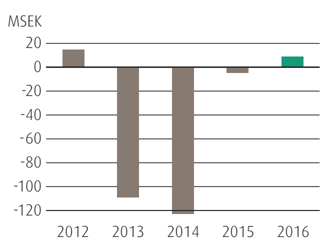
Stable financial structure

On 31 December 2016, Bong's net debt was SEK 315 million (837) which is equal to an equity ratio of 43 per cent (16). The refinancing also contributed to an improvement in net interest by approximately SEK 10 million per year.

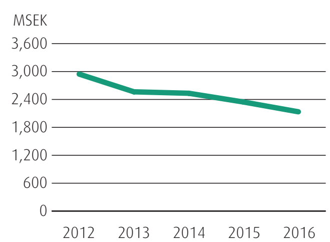
CASH-FLOW AFTER INVESTING ACTIVITIES



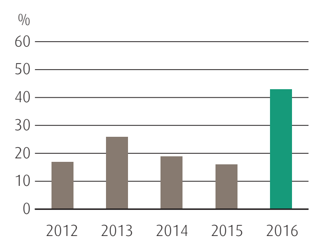
OPERATING PROFIT/LOSS



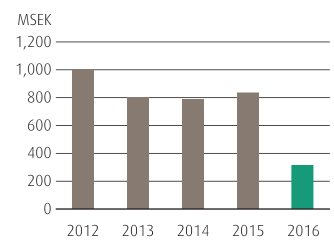
NET SALES



EQUITY TO ASSETS RATIO



NET DEBT



The markets for envelopes and light packaging

The European envelope market is mature. 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 64 billion units with a value of approximately SEK 12-13 billion at the production level.

In the Nordic countries, the UK and Russia, Bong is the clear market-leader. In France 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 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, Britain 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

Amongst Bong's transaction mail customers are 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 mail. Bong delivers envelopes both to wholesalers and office supply stores as well as directly to the end-user.

Envelopes for addressed direct mail

With a market value of about EUR 4 billion, adressed direct mail, ADM, accounts for roughly 30 per cent of the European envelope market. The number of shipments is estimated at about 18 billion units, which equals approximately 25 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 increase in value in the years leading up to 2021.[1]

Increased consumption in Eastern Europe

The consumption of envelopes in 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 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.

THE LIGHT PACKAGING MARKET

Light packaging is a collective term for a range of packaging types used for different purposes. The market is fragmented and consists of a variety of segments for which there is no singular overall estimate. Bong is active primarily in the packaging for e-commerce and retail. Bong provides flexible and elegant solutions for gift packaging and carrier bags for retailers.

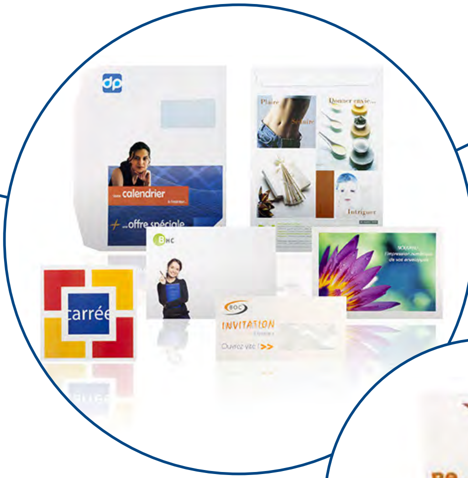
E-commerce in Europe

Purchases of physical goods online will continue to increase according to a survey of 12 countries in Western Europe and Scandinavia with a combined total of 253 million consumers. The survey – based on a sample of 12,000 consumers – showed that the e-commerce of physical goods in the surveyed countries amounted to a total value of EUR 189 billion in 2015. An increase of EUR 9 billion, or 5 per cent, compared to the previous year.[2]

[1] FEPE (Federation of Envelope Producers in Europe 2016). European Direct Mail Market Report.
[2] E-commerce in Europe 2016. PostNord.

A Versatile **Offer**

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 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 the envelope a personal touch by customising the design, size, paper quality, location of the window, sealing and other qualities.

LIGHT PACKAGING

Bong's packaging offer covers both the general need to on occasion send or deliver lightweight goods, as well as the specialised 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.

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

Gift packaging and carrier bags for the retail trade

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

Bong offers both individual stores and store chains a complete range of gift bags and packaging – 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 packaged 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 bubble bags and padded bags - and the materials used help the e-commerce companies to keep their costs down as they preserve the original condition of the goods and thus avoid costly returns.

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 secure. Bong offers security-coded packaging and packaging that indicates whether anyone has made any unauthorized attempts to open them.

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.

Bong Retail Solutions **has the carrier bags of the future**

Bong Retail Solutions offers retailers attractive packaging solutions easily handled and stored beneath the counter. Demand for Bongs paper carrier bags is expected to grow as both new EU-regulations and consumers favour environmentally friendly alternatives to plastic bags.

Bong Retail Solutions (BRS) develops, manufactures and markets light packaging for retailers. The growth in sales has been driven by the increasing demand for user-friendly solutions that benefit both the end-consumer and the store that sells them. The challenge for many retail chains is keeping costs under control while maintaining a high level of service. Bong's lightweight, expandable and attractive gift packaging easily fits beneath the checkout-counter. In a matter of seconds, the sales clerk can unfold the packaging and place the gift in it before handing it over to the customer.

Bong's offer is increasingly gaining the market's favour and Bong's list of customers includes leading European retail chains in the clothing, fashion and cosmetics industries.

A COMPLETE CONCEPT

Gift packaging and paper carrier bags constitute a complete concept that is available in all possible designs. In 2016 BRS made investments in new machinery for the production plant in Nybro, Sweden, in order to meet the growth in demand.

The unit has doubled its turnover during the period of 2013-2016. One important factor has been the success of the retail gift bags, which has seen sales increase by 41 per cent during 2016. What previously used to be a product sold mostly during the holidays is now selling throughout the year. Product development has successively added features and made the offer more attractive. BRS has not only managed to retain previous customers but also attract new ones.

On the road to fewer plastic bags

EU acts to reduce the use of plastic bags

On 29 April 2015, the EU adopted a directive aimed at reducing the use of plastic bags in Europe. The directive includes objectives that each member country may achieve as it deems appropriate. On 17 December 2016, the Swedish government decided on a regulation stipulating that retailers should inform their customers of the environmental impact of plastic bags, what consumers may do to decrease consumption of them, and the benefits of doing so (SFS 2016:1041).

In Sweden, an estimated 1.3 billion plastic bags and 57 million paper bags are consumed every year. That equals an average of about 130 plastic bags and six paper bags per person and year. The new directive stipulates that the average consumption should be decreased to 90 plastic bags per person and year by 2025.

The consequence of the Swedish regulation, and a likely change in public opinion, is expected to be a reduction in the consumption of plastic bags and an increased demand for substitutes for plastic carrier bags. The directive benefits Bong as a producer of paper carrier bags used in both Sweden and other EU countries.

Case **PostNord**

Bong has supplied PostNord with environment friendly, pre-franked bags since the late 1990s.

POSTNORD'S POSTAGE-PAID PACKAGING

PostNord's pre-franked blue bags, envelopes and boxes (that were previously green) are an easy way to send smaller goods. The bags are valid for a maximum of 2 kg and are available in four different versions: XL, L, M and S. For the slightly heavier goods, one of the three larger, padded bags are best suited.

Lighter and smaller items are best sent with the smallest option which has an internal bubble bag for protection. Bong has supplied PostNord with these products since the late 1990s. In 2016, Bong sold approximately 2 million padded bags and 1.2 million bubble protected bags to PostNord. The sale of bubble protected bags has increased more than fivefold since 2011.

The blue bags are green

The padded bag is easy to use and the envelope is made of recycled paper. Furthermore, the padding is made from recycled paper from the production in Nybro, Sweden. The protective bubble plastic inside the smallest bag can be easily removed and recycled.

PostNord

In 2015 PostNord delivered 5.2 billion letters and parcels, as well as 130 million packages, to the Nordic countries' 25 million inhabitants and 2 million businesses.

PostNord AB was formed through the merger of Post Danmark A/S and Posten AB in 2009. The parent company, PostNord AB, is a Swedish company with its head office in Solna.

Bong signs **Global Compact**

In April 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 in strategy and operations. Participating companies submit an annual report on progress to the UN, the first of which for Bong will be an integrated part of its annual report for 2017.

Global Compact

The Global Compact was announced in 1999 at the World Economic Forum in Davos following an initiative of the then UN Secretary-General Kofi Annan.

The aim of the Global Compact is to make companies apply ten principles related to human rights, labour conditions, environment and anti-corruption in their operations.

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.

Bong's **sustainability work**

Bong wishes to contribute to a better environment, good social relations, increase the respect for human rights and sound business principles in its own operations and in the other parts of its value chain where Bong has a possibility to exert influence.

INTERNATIONAL INDUSTRIAL GROUP

Bong is an international industrial group present in 15 countries and with annual sales of about SEK 2,100 million. Bong has customers throughout Europe and 21 production plants in Scandinavia, Central- and Western Europe. Seven of the plants are dedicated to overprint, i.e. the printing on already produced envelopes.

Bong is a responsible company that strives for continuous improvement in all aspects, not least regarding sustainability. It is of great importance for Bong and Bong's customers, employees and owners that Bong's business practices are ethically sound and based on respect for employees and the environment.

BONG WORKS WITH SUSTAINABILITY THROUGHOUT THE VALUE CHAIN

Bong strives towards sustainability in all stages of the value chain. The conversion of fine paper to envelopes and other paper products (such as gift packaging and shopping bags) is the basis for Bong's operations. Envelopes and packaging have an environmental impact during their entire life cycle - from the management of forests, to recycling, incineration or disposal of finished products. Bong's sustainability work takes on different shapes depending on where in the value chain the opportunity to influence and prioritise appear.

Policies and other control instruments

Bong has issued a number of policies that serve as a general framework for its sustainability efforts.

Bong's Code of Conduct applies to employees and others affected by the company's operations, such as suppliers. It clarifies, among other things, that Bong's business activities will be conducted with integrity and ethics. Bong strives to inspire those who the Group have business relations with to act in the spirit of the Code.

Environmental policy Bong will contribute to a long-term development of ecological sustainability through the production and offering of products that all have as little environmental impact as possible through their life-cycles. Bong will comply with applicable environmental laws, regulations and government regulations, though permits and terms are only the minimum level on which Bong's environmental work is based.

Quality policy Bong will offer envelope and packaging solutions in customer customised systems which increase the value and effectiveness for Bong's customers. This will be achieved through customer focus, responsibility and minimising the number of errors.

THE VALUE CHAIN

Bong's value chain ranges all the way from forestry to the recycling of used products. Bong prioritises measures which are aimed at reducing the consumption of energy, water and the carbon dioxide emissions per unit of production.

Supply of intermediate goods

The purchase of raw materials account for two thirds of the Group's total purchases, of which paper consitutes the majority (75 per cent). All of Bong's suppliers of paper have full verification of origin and traceability of their respective raw materials. Bong also imposes strict criteria in terms of environmental impact on suppliers of adhesives and dyes.

Production plants and certifications

Bong has 21 production plants in Europe, seven of which are dedicated to overprint. Most of Bong envelopes and packages are produced in plants that are environmentally certified. Currently, the plants in Solingen (Germany), Kristianstad (Sweden), Milton Keynes and Derby (UK), Evreux, Angoulême and Strasbourg (France), Tønsberg (Norway), Pirkkala (Finland) as well as Kohila (Estonia) are ISO 14001 certified. Additionally, out of Bong's production plants, 14 are FSC-certified and eight are PEFC-certified. The FSC and PEFC certifications guarantee the traceability of the wood-based raw materials used in the plant's production.

Nine of the 21 production plants also have quality systems that are ISO 9001 certified.

Energy consumption The heaviest environmental impact in the manufacturing process is caused by energy consumption and the related emissions of carbon dioxide.

Water Bong's production plants consume water for, among other things, the cleaning process of machinery and equipment. Clean water is becoming scarcer and Bong is determined to keep the consumption and pollution at low levels.

Waste management and the recycling of chemicals The paper that goes to waste in the production is sorted by quality and sold to be used as recycled paper in various paper products. In all, over 90 per cent of waste paper produced by the production plants is recycled this way, the remaining waste paper is either incinerated or otherwise disposed of in landfills. The waste is transported in accordance with applicable regulations. There is no storage of hazardous waste.

The chemicals used in the production process are appropriately disposed of and leftover dye is collected and recycled.

Mapping In the beginning of 2017, Bong made a survey of the consumtion of energy and water and the production of waste in its production facilities with the goal to measure and reduce consumtion and waste per produced unit. A reference level was established, on which future reduction efforts and analyses will be based.

Transportation

The production plants are located near their customers and Bong chooses well-reputed transportation carriers who strive to reduce carbon dioxide emissions.

Product usage and recycling

Not all paper mills that handle waste paper have the necessary equipment to receive paper containing windows and adhesive residues. Bong's recommendation is that envelopes be sorted as combustible waste and that the paperboard packaging be recycled.

PRODUCT CERTIFICATIONS AND LABELS

Bong's product portfolio includes various types of packaging and envelopes. The envelopes are sold on markets that use different certifications and labels. In the Nordic countries, the Svan-label guarantees that the envelopes are made from certified paper, that the adhesives and dyes are water-based and that the window is separable. The equivalent labels for Germany and France are Der Blaue Engel and the NF Environnement, respectively.

There is no comprehensive European-wide labelling that meets all needs. Bong has in recent years focused on the EU Ecolabel as a general European standard of certification labelling. The EU Ecolabel guarantees that the product can be recycled and that emissions to air and water have been kept at a minimum.

The EU-certification guarantees that the product is recyclable and that emissions have been minimised.

Employees

Motivated, skilled and healthy employees are a crucial competitive factor on Bong's markets. Bong strives to create a sustainable work environment that attracts, motivates and develops the workforce.

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 after completion of compulsory schooling.
- Bong offers equal opportunities for everyone without regard for ethnicity, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.
- 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.

Bong's personnel policy in practice

Bong is a modern company with short and informal decision-making pathways. The information policy is based on transparency and participation. Managers continually inform employees on local and company-wide developments. Everyone is encouraged to take an active part in decisions concerning improvements in the working environment that result in fewer work-related injuries, higher productivity and better quality.

Bong also strives to reward extraordinary efforts. Throughout the Group small bonus programmes are offered related to parameters such as the unit's earnings, production volume, number of claims and delivery reliability.

Bong strives to reduce sickness absence by means of increased information to managers and other employees on the importance of health promotion.

Case **Bong France**

Bong France has put environmental concern at the centre of its sustainability work by reducing emissions of carbon dioxide throughout the value chain, among other things.

With around 300 employees and two major production plants in Angoulême and Evreux, Bong France is a significant part of the Bong Group.

ENVIRONMENTAL WORK

The environmental work at the production plants is operating under the ISO certification 14 001. The quality management system supports not only Bong's own work, but also provides opportunities to influence suppliers. Every year progress is reported, disclosed and then followed-up by new targets for upcoming periods.

Sourcing

More than 99 percent of Bong's fine paper are made from wood that is origin-labelled and handled in accordance with the certifications PEFC and FSC.

Production

Energy consumption The energy consumption is kept low due to recent investments in the workplace heating system, capacitor banks to compensate for power losses, and improved lighting systems.

Water consumption The production plants consume between 3.5 m^3 and 9 m^3 per day, equivalent to the daily consumption of 25-64 people. It's Bong France's aim to reduce the amount of water consumed, by investing in improvements in the cleaning of dye containers.

Decreased usage of harmful adhesives and dyes In order to reduce the environmental impact, Bong France has taken a series of measures regarding the use of adhesives and dyes containing solvents. The use of volatile organic compounds (VOCs) has decreased as water-soluble components in both adhesives and dyes is increasingly replacing VOCs, while the production methods become more effective overall.

Packaging The cartons used for the delivery of envelopes and other products are completely recyclable and biodegradable.

Waste The major part of the waste consists of paper, with 100 per cent of the waste separated in-house. It is then collected by contractors who meet specific requirements and is recycled, incinerated or sent to landfills, depending on the type of waste.

Transportation

The plants' division of labour allows for a minimisation of the transport between them. Bong uses transport companies whose staff are trained in eco-friendly driving techniques that are gentle on the environment.

Carbon offset offer

Bong France's customers are offered envelopes and other packaging solutions whose input goods' origin are fully traceable, as well as the way in which the products are produced. Bong France also offers products that are entirely or partially climate-compensated. Bong compensates for all direct and indirect carbon emissions that production gives rise to (Scope 1 and 2). Upon request, Bong can also compensate for the non-production emissions, such as those from transportation (Scope 3).

Labels and Certifications

A number of certifications apply to Bong's products and processes. The most important ones are described below.

EcoVadis
EcoVadis is an international organization that evaluate and rate the sustainability efforts of companies worldwide. In 2016 Bong received the highest possible rating.

IMPRIM'VERT The IMPRIM'VERT certification commits Bong to deal with waste, store hazardous liquids responsibly, educate its staff and disclose its energy consumption in quarterly reports.

NF Environnement Bong undertakes to ensure that envelopes have certain optical and mechanical properties, to improve recyclability and reduce energy consumption, emissions to air and water and the use of hazardous substances in production.

Ecofolio This certification is focused on recyclability. Bong supports this organization whose goal is to combine sustainability with the efficient use of resources.

The EU Ecolabel This EU-certification is given if the producer has taken the environmental impact of the entire life-cycle of the product into consideration, from the extraction of raw materials to recycling. The product quality is also taken into consideration.

SOCIAL SUSTAINABILITY

Bong France prioritises the safety and well-being of its employees at the workplace. The company strives for continuous ergonomic and psychosocial improvements. Tasks that involve heavy lifting or awkward postures have been automated. Every year the risks associated with each workstation are evaluated. In 2016, the review focused on psychosocial factors and was done with the help of external consultants. The report resulted in new routines for performance reviews, improved reward systems and improved internal communication.

[6] Scope is a measure of proximity to the sources of emission. Please refer to http://www.ghgprotocol.org/calculation-tools/faq for more information.

Five-year summary

Key figures	2016	2015	2014	2013	2012
Net sales, MSEK	2,135	2,345	2,533	2,564	2,946
Operating profit/loss, MSEK	9	–5	–123	–109	15
Extraordinary items, financial net, MSEK	430	–	–	–	–
Profit/loss after tax, MSEK	297	–64	–150	–141	–55
Cash flow after investing activities, MSEK	30	–75	94	–91	–38
Operating margin, %	0.4	–0.2	–4.8	–4.3	0.5
Capital turnover rate, times	1.3	1.2	1.3	1.2	1.3
Return on equity, %	neg	neg	neg	neg	neg
Average capital employed, MSEK	1,159	1,343	1,375	1,586	1,527
Return on capital employed, %	1.8	neg	neg	neg	1.0
Equity ratio, %	43	16	19	26	17
Net loan debt, MSEK	315	837	790	802	1,005
Net loan debt/equity, times	0.45	2.64	2.09	1.54	2.70
Net debt/EBITDA,times	5.2	11.9	neg	neg	8.6
Average number of employees	1,556	1,763	1,873	2,051	2,271
Number of shares					
Number of shares outstanding at end of period	211,205,058	156,659,604	156,659,604	156,659,604	17,480,995
Diluted number of shares outstanding at end of period	251,205,058	183,932,331	183,932,331	183,932,331	18,727,855
Average number of shares	207,417,179	156,659,604	156,659,604	63,873,865	17,480,995
Average number of shares, diluted	246,533,341	183,932,331	183,932,331	73,796,014	18,727,855
Earnings per share					
Before dilution, SEK	1.42	–0.41	–0.96	–2.20	–3.20
After dilution, SEK	1.42	–0.41	–0.96	–2.20	–3.20
Adjusted earnings per share					
Before dilution, SEK	-0.64	–	–	–	–
After dilution, SEK	-0.64	–	–	–	–
Equity per share					
Before dilution, SEK	3.30	2.02	2.41	3.33	21.25
After dilution, SEK	3.30	1.95	2.27	3.06	20.50
Cash flow from operating activities per share					
Before dilution, SEK	0.26	–0.95	0.62	–0.40	–0.10
After dilution, SEK	0.26	–0.81	0.53	–0.34	–0.09
Other data per share					
Dividend, SEK	0,00[1]	0.00	0.00	0.00	0.00
Quoted market price on balance day, SEK	0.9	1.3	1.1	1.5	9.7
P/E-ratio, times	0.61	neg	neg	neg	neg
Adjusted P/E-ratio, times	neg	–	–	–	–
Price/Equity before dilution, %	27	62	46	45	45
Price/Equity after dilution, %	27	65	49	49	47

[1] The Board's proposal.

For definitions, see page 46.

The share

The Bong share is listed on the Nasdaq Stockholm Small Cap list. At the end of 2016, 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 declined by 28.3 per cent in 2016. The highest price paid, SEK 1.39, was recorded on 11 January 2016. The lowest price paid, SEK 0.65, was recorded on 15 December 2016.

OMX Stockholm PI, an index showing the price development of all listed shares on the Stockholm Stock Exchange, increased by 5.8 per cent in 2016. OMX Stockholm Small Cap PI, an index that measures the price performance of shares in companies whose size is comparable with Bong, rose by 18.4 per cent during 2016. In 2016, the total value of Bong shares traded amounted to 48 per cent of the market value of all outstanding shares on closing day 2016.

SHAREHOLDERS

The number of shareholders on 31 December 2016 was 1,979. 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 votes and capital.

Analysts who follow Bong

Redeye
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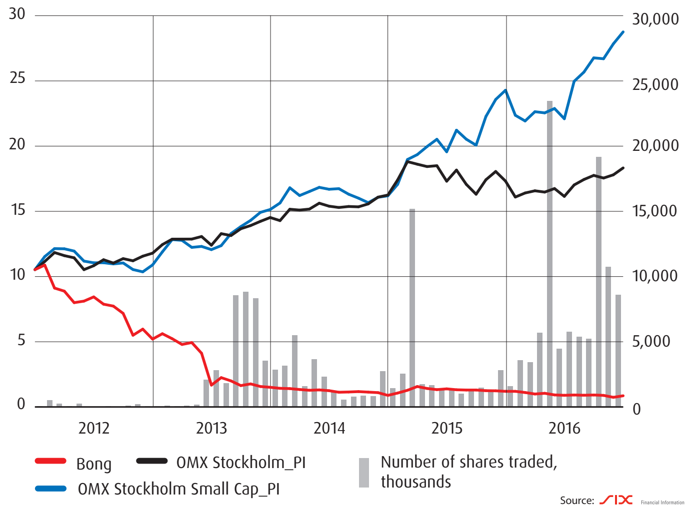
BONG'S SHARE PERFORMANCE 2012–2016



Owner	Number of shares	Share of capital and votes, %
Holdham S.A.	52,850,282	25.0
Svolder AB	16,661,088	7.9
Gomobile Nu AB	10,996,343	5.2
Ulf Tidholm	10,080,000	4.8
Paulsson Advisory AB	9,126,695	4.3

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 issue	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

Board of Directors' report

The Board of Directors and the Chief Executive Officer ("CEO") of Bong AB (publ.), corporate ID no. 556034-1579, registered headquarters in Kristianstad, Sweden, hereby submit their annual report for the financial year 1 January 2016 – 31 December 2016 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 1,500 employees in 15 countries. Bong is a public limited company and the share is listed on Nasdaq Stockholm (Small Cap).

MARKETS

During the fourth quarter of 2016, FEPE statistics show that the European envelope market volume decreased by approximately 5 per cent compared to the same period previous year. This decline is in line with Bong's decline in sales during the fourth quarter and Bong's estimation is that this decline will continue at the same pace during 2017.

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 light packaging market, where Bong is present, is still growing and is a large and fragmented market. Bong invested in machines for producing paper carrier bags with high quality printing in the second half of 2016, in Nybro, Sweden. Bong sees opportunities for these products within the retail segment due to the EU-legislation aiming at a reduction of the use of plastic bags in Europe. Member states will have to or have already taken measures to comply with the EU-directive.

SALES AND EARNINGS

Consolidated sales for the period was SEK 2,135 million (2,345). Exchange rate fluctuations had a negative impact on sales of SEK -36 million compared with 2015. 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 which had a negative impact on Bong's gross earnings.

Despite lower sales, operating profit amounted to SEK 9 million (-5), due to the new lower cost structure after the restructuring programs. Non-recurring items reduced the result by SEK -18 million (-36).

Net financial items for the period, excluding non-recurring items, amounted to SEK -46 million (-55). Non-recurring items, related to the refinancing transaction, amounted to SEK 430 million.

Earnings before tax were SEK 393 million (-60) and earnings after tax were SEK 297 million (-64).

Bong's total light packaging sales amounted to SEK 399 million (398). Currency fluctuations had a negative impact on light packaging sales of SEK -7 million compared with the corresponding period in 2015.

CASH FLOW

Cash flow after investing activities for the period was SEK 30 million (-75). Payments for the ongoing restructuring program had a negative impact on cash flow for the year of SEK -25 million (-79).

FINANCIAL POSITION

Cash and cash equivalents amounted to SEK 90 million, net of the escrow account amounting to SEK 12 million (SEK 64 million, net of the escrow account amounting to SEK 180 million). The Group had unutilized credit facilities of SEK 9 million on the same date. Total available cash and cash equivalents thus amounted to SEK 99 million, net of the escrow account amounting to 12 MSEK (SEK 92 million, net of the escrow account amounting to SEK 180 million). Consolidated equity at the end of December 2016 was SEK 697 million (SEK 317 million). 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 10 million. The interest bearing net loan debt decreased during the period by SEK 522 million to SEK 315 million (SEK 837 million).

ACQUISITION OF THE BANK FACILITIES

After the General Meeting of Shareholders on 25 January 2016 it was announced that Bong had finalized the acquisition of the banks' claims on the company.

Bong acquired the banks' claims against a cash consideration of SEK 195 million. The banks have also received 27,272,727 shares in Bong through a set-off issue against part of the claims. Furthermore, the banks also transferred 23,148,148 shares to the bond holders.

CONVERTIBLE BONDS

All convertible bonds in series 2013/2018 have been converted at a conversion price of SEK 2.75 per share, which provides the holders of convertible bonds with a total of 27,272,727 shares in Bong.

BOND ISSUE

Senior secured bonds in an amount of SEK 200 million were issued by the Company on 21 December 2015. The bonds have a three year tenor and a fixed annual interest rate of 10.0 per cent. Each bond has a nominal amount of SEK 250,000 and the bonds are listed on Nasdaq Stockholm. Bong has undertaken not to declare any dividends during the life of the bonds.

In accordance with the terms and conditions for the bonds, the bond investors have received 50,000 subscription warrants and 28,935 shares in Bong per bond. In total, 40 million subscription warrants (with a tenor of three years, which each entitles to subscribe for one share in Bong at a subscription price of SEK 1.15 per share) have been issued. The liquidity from the bond issue have been used to purchase the banks' claims.

EFFECTS OF THE TRANSACTION

The completion of the transaction has resulted in an increase of equity and a reduction of interest-bearing debt by approximately SEK 500 million, whereby a reasonable balance between indebtedness and operating profit is achieved. If full subscription of shares through exercise of the issued subscription warrants is made, an amount of approximately SEK 46 million will be added to the equity of the Company.

CAPITAL EXPENDITURE

Investing activities and acquisitions during the period had a net impact on cash flow of SEK -25 million (74). 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 1,556 (1,763). The Group had 1,507 (1,653) employees at the end of December 2016. 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

No material events have occurred after the end of the period.

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, Tønsberg in Norway, as well as Milton Keynes and Derby in the UK, Evreux, Angoulême and Strasbourg 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 Kristianstad, 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. The paper and production process in the envelopes series FSC® by Bong is FSC® certified.

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 0.9 million (0.9) and earnings before tax were SEK 310 million (-72). Non-recurring items related to the refinancing transaction amounted to SEK 229 million. Credits granted but not utilised amounted to SEK 9 million (28).

BOARD'S PROPOSED 2017 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors of Bong AB (publ) proposes that the 2017 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 8 million (excluding social security contributions). The calculation is based on the current composition of the Group Management.

OWNERSHIP

Bong's principal owners, with holdings of more than ten per cent of the votes and capital, are Holdham S.A., with 25 per cent of the votes and capital. Svolder AB own 7.9 per cent and Gomobile Nu AB 5.2 per cent of the votes and capital in the Company. The total number of ordinary shares was 211,205,058 on 31 December 2016. 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 in packaging to ensure sustained growth.

POSTAGE AND CHARGES

Changes in postage and charges can lead to changes in letter and mail volumes. Postage increases have a negative impact on volumes, while postage decreases have a positive impact. Postage is usually based on weight or size. Several large markets are using weight-based postage. A transition from weight to size-based postage could lead to changes in Bong's product mix and cause a shift towards small envelope sizes.

INDUSTRY STRUCTURE AND PRICE COMPETITION

The European envelope market has undergone accelerating consolidation since 2011 as a result of the financial crisis. The three largest envelope companies represent about 60 per cent of the total market. However, some of the major markets are still fairly fragmented. Bong believes that overcapacity in the industry has fallen slightly.

PAPER PRICES

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

DEPENDENCE ON INDIVIDUAL SUPPLIERS AND/OR CUSTOMERS

Uncoated fine paper is Bong's most important input material and is mainly purchased from three major suppliers. Delivery disruptions from any of the three suppliers could affect Bong negatively in the short term. In a longer term perspective, Bong does not have any suppliers that are critical to its operations. The Group's dependence on individual customers is limited. The biggest customer accounts for 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 2016 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 2,000 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 2016

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. Twentyfour shareholders, representing 46 per cent of the total number of shares and votes in the Company, participated in Bong's Annual General Meeting on 18 May 2016 in Malmö, Sweden. All Board members and the Company's auditors were present or represented at the AGM. Bong's principal shareholders can be seen under the heading Shareholders, page 13.

BOARD OF DIRECTORS

Bong's Board of Directors decides on the Group's overall strategy and on the acquisition and disposal of business entities and real 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 statutory meeting of the Board of Directors on 18 May 2016 the Board consisted of five 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 Eric Joan, Mikael Ekdahl (vice chairman), Helena Persson and the company's CEO Stéphane Hamelin. Stéphane Hamelin was replaced by Håkan Gunnarsson on 1 January 2017.

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

REMUNERATION OF THE BOARD

Christian Paulsson received a fee of SEK 200,000 as Chairman of the Board of Directors since the AGM 2016. Christian Paulsson has also received a fee of SEK 50,000 (150,000) for his time as Board member until the AGM 2016 and SEK 100,000 (50,000) for his time as member of the Audit Committee. Eric Joan received a fee of SEK 100,000 (300,000) as Chairman of the Board of Directors and 100,000 (0) as a member of the board up until the AGM 2016. The amount corresponds to the fee stipulated by the AGM. 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 2016 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 and CEO of hubbr AB. Board member of Huntway AB, Makalös AB, Paulsson Advisory AB and hubbr Finance AB.
Terminated board appointments/partnerships over the past five years: Chairman of the Board of Cross Sportswear International AB, Member of the Board of IBS AB, Caperio Holding AB and Apper Systems AB.
Holding in Bong: 9,126,695 shares through Paulsson Advisory AB.

Eric Joan (b. 1964)
Board member since 2010 and Chairman of the Board from September 2014 to May 2016.
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: -.

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: Vice chairman of Melker Schörling AB (publ), Chairman of the Board of Absolent Group AB and Mikael Ekdahl AB. Deputy member of the Board of Melker Schörling Tjänste AB.
Terminated board appointments/partnerships over the past five years: Chairman of the Board of Maltesholms Konsult och Förvaltnings Aktiebolag. Member of the Board of AAK AB, (publ.), Börje Jönsson Åkeri AB, KB Components AB and Torkelson Möbel AB.
Holding in Bong: 60,000 shares.

Stéphane Hamelin (b. 1961)
Board member since 2010 and Chairman of the Board from May 2013 to September 2014. 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.

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: Deputy board member in Indus Consulting AB.
Terminated board appointments/partnerships over the past five years: 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.
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 2016, the Board of Directors held fourteen meetings in addition to the statutory meeting. The CEO provided board members with information at all regular meetings about the financial position of the Group and significant events in the Company's operations. The Board meets at least four times a year in addition to the statutory meeting. One of the meetings can be held at one of the Group's units and be combined with an in-depth review of this unit.

Key issues that the Board of Directors addressed in 2016 included:
- 3 January Financing
- 27 January Financing
- 17 February Year-End Report and Auditors' Report
- 18 May Interim Report Q1 and Statutory Board meeting after AGM 2016
- 7 June Prospectus for Listing of Bond on Nasdaq Stockholm (Corporate Bond List)
- 18 July Interim Report Q2
- 13 September Subsidiary visit
- 18 October Appointment of Håkan Gunnarsson as CEO
- 16 November Interim Report Q3
- 15 December Budget 2017

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 2016

	Independent of company[1]	Independent of major shareholders[1]	Attendance at board meetings
Christian Paulsson	Yes	No	13
Eric Joan	Yes	No	12
Stéphane Hamelin	No	No	14
Mikael Ekdahl	Yes	Yes	13
Helena Persson	Yes	Yes	14

[1] The assessment of the independence of the Board members has been made in accordance with Nasdaq Stockholm's Rules for Issuers and criteria of independence.

RESTRICTIONS ON VOTING RIGHTS

The Company's articles of association do not contain any limitations in respect to how many votes each shareholder may cast at 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 2016 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. 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 one formal meeting with regular contacts in between.

REMUNERATION COMMITTEE

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

The Committee implemented in 2016 the changes in EUs audit package and its 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 two occasions in 2016, 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 2016, at which all members participated.

EXTERNAL AUDITORS

Bong's auditors are elected by the AGM for a term of one year. The 2016 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 2016, Bong's Group Management consisted of five persons, including one woman. The Group consists of the parent company Bong AB and a number of subsidiaries, as reported in note 19. Reporting by subsidiaries takes place on a monthly basis. The boards of the subsidiaries mainly consist of members of Bong's corporate management.

REMUNERATION FOR GROUP MANAGEMENT

The 2016 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 975,375,628.65 be carried forward. See note 37.

BOARD'S OPINION CONCERNING PROPOSED DIVIDEND

Bong's current priority is to reduce debt and improve profitability. Therefore, the Board proposes that no dividend be paid for 2016. No dividend was paid for 2015.

Consolidated income statements

TSEK	Note	2016	2015
INCOME STATEMENT			
Revenue	2	2,134,548	2,345,094
Cost of goods sold	3–4, 6, 8	–1,761,681	–1,938,844
Gross profit		372,867	406,250
Selling expenses	3–4, 6, 8	–191,387	–217,870
Administrative expenses	3–6, 8	–155,221	–172,611
Other operating income	7, 12	42,951	44,921
Other operating expenses	7, 12	–60,384	–65,726
Share in profit in associated companies	19	–	–
Operating profit/loss		8,826	–5,036
Financial income	9, 12	2,940	1,007
Financial expenses	10, 12	–48,755	–55,956
Non-recurring items, financial income		429,892	–
Total financial income and expenses		384,077	–54,949
Result before tax		392,903	–59,985
Income tax	11	–95,779	–4,322
NET RESULT FOR THE YEAR		**297,124**	**–64,307**
Attributable to:			
Parent Company's shareholders		295,230	–64,634
Earnings per share attributable to Parent Company's shareholders			
– basic, SEK	13	1.42	–0.41
– diluted, SEK	13	1.42	–0.41
– basic, SEK, excluding non-recurring items	13	–0.64	–0.41
– diluted, SEK, excluding non-recurring items	13	–0.64	–0.41

TSEK	2016	2015
STATEMENT OF COMPREHENSIVE INCOME		
Net result for the year	297,124	–64,307
Other comprehensive income		
Items not to be recognised in the income statement		
Actuarial profit/loss on post-employment benefit obligations	–19,208	13,909
	–19,208	13,909
Items that may subsequently be recognised in the income statement		
Cash flow hedges	–893	2,754
Hedging of net investments	–11,283	11,626
Exchange rate differences	15,821	–19,242
Income tax relating to components of other comprehensive income	6,410	–6,109
Other comprehensive income after tax	–9,153	2,938
TOTAL COMPREHENSIVE INCOME	**287,971**	**–61,369**
Attributable to:		
Parent Company's shareholders	287,644	–61,696

Consolidated balance sheet

TSEK	Note	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	14	563,258	557,146
Other intangible assets	15	37,455	47,125
Total		600,713	604,271
Tangible assets			
Property, plant and equipment	16	73,340	71,880
Plant and machinery	16–17	112,910	125,230
Equipment, tools, fixtures, and fittings	16	29,263	32,871
Construction in progress	18	13,256	4,905
Total		228,769	234,886
Financial assets			
Interests in other companies	20	1,030	3,501
Deferred tax assets	21	144,152	234,483
Other non-current receivables		1,919	2,515
Total		147,101	240,499
Total non-current assets		976,583	1,079,656
Current assets			
Inventories etc.			
Raw materials and consumables		81,351	89,932
Products in progress		5,172	6,060
Finished products and merchandise		100,025	115,836
Total	22	186,548	211,828
Current receivables			
Trade receivables	23	285,033	295,545
Current tax assets		20,866	17,461
Other current receivables	24	7,717	11,595
Deferred expenses and accrued income	25	42,555	68,990
Total		356,171	393,591
Cash and cash equivalents		89,859	244,309
Total current assets		632,578	849,728
TOTAL ASSETS		**1,609,161**	**1,929,384**

TSEK	Note	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	33	236,549	234,989
Other contributed capital		803,423	699,320
Reserves	32	–19,822	–25,818
Retained earnings including net result for the year		–326,958	–595,113
Equity attributable to equity holders of the Parent		693,192	313,378
Non-controlling interests		4,102	3,708
Total equity		697,294	317,086
Non-current liabilities			
Borrowings	27	167,925	656,696
Deferred tax liabilities	21	24,540	33,284
Pension obligations	28	219,742	201,295
Other provisions	29	14,569	11,335
Other non-current liabilities		3,328	4,968
Total non-current liabilities		430,104	907,578
Current liabilities			
Borrowings	27	2,942	220,015
Trade payables		204,116	210,309
Current tax liability		15,964	10,209
Other current liabilities	24	55,420	52,148
Other provisions	29	26,286	32,834
Accrued expenses and deferred income	25	177,035	179,205
Total current liabilities		481,763	704,720
TOTAL EQUITY AND LIABILITIES		**1,609,161**	**1,929,384**

Statement of changes in consolidated equity

		Attributable to Parent Company shareholders					
TSEK	Note	Share capital	Share premium	Reserves	Retained earnings incl. net result for the year	Non-controlling interests	Total equity
Opening balance on 1 January 2015		234,989	701,843	−18,091	−541,471		377,270
Comprehensive income							
Net result for the year					−64,307		−64,307
Other comprehensive income							
Items not to be recognised in the income statement							
Actuarial profit on post-employment benefit obligations, after tax					10,665		10,665
					10,665		10,665
Items that may subsequenlty be recognised in the income statement							
Cash flow hedges, after tax				2,148			2,148
Hedging of net investments, after tax				9,367			9,367
Exchange rate differences, after tax				−19,242			−19,242
Total other comprehensive income	32			−7,727	10,665		2,938
Total comprehensive income				−7,727	−53,642		−61,369
Transactions with shareholders							
Convertible debenture			−2,523				−2,523
Acquisition from non-controlling interests						3,708	3,708
Total transactions with shareholders			−2,523			3,708	1,185
CLOSING BALANCE ON 31 DECEMBER 2015	32, 33	**234,989**	**699,320**	**−25,818**	**−595,113**	**3,708**	**317,086**
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 recognised in the income statement							
Actuarial profit on post-employment benefit obligations, after tax					−15,104		−15,104
					−15,104		−15,104
Items that may subsequenlty be recognised in 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	32			5,996	−15,104	0	−9,108
Total comprehensive income				5,996	280,126	1,894	288,016
Transactions with shareholders							
New-rights issue		1,560	97,530				99,090
Bond loan			6,573				6,573
Dividend						−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	32, 33	**236,549**	**803,423**	**-19,822**	**−326,958**	**4,102**	**697,294**

Consolidated statement of cash flow

TSEK	Note	2016	2015
OPERATING ACTIVITIES			
Operating profit/loss		8,826	–5,036
Depreciation, amortisation, and impairment losses		51,818	75,426
Financial income received		432,832	1,007
Financial expenses paid		–48,755	–55,956
Tax paid		–5,402	–6,101
Other items not affecting liquidity	34	–427,381	–79,441
Cash flow from operating activities before changes in working capital		11,938	–70,101
Changes in working capital			
Inventories		28,505	37,279
Current receivables		16,447	2,131
Current operating liabilities		–2,709	–118,526
Cash flow from operating activities		54,181	–149,217
INVESTING ACTIVITIES			
Acquisition of intangible and tangible assets incl.advance payments to suppliers		–27,703	–28,396
Disposal of intangible and tangible assets		3,427	102,278
Cash flow from investing activities		–24,276	73,882
Cash flow after investing activities		29,905	–75,335
FINANCING ACTIVITIES			
Proceeds from borrowings		10,292	224,411
Amortisation of loans		–195,000	–
Dividend		–1,500	–
Cash flow from financing activities		–186,208	224,411
Cash flow for the year		–156,303	149,076
Cash and cash equivalents at start of year		244,309	96,744
Exchange rate difference in cash and cash equivalents		1,853	–1,511
CASH AND CASH EQUIVALENTS AT YEAR-END		**89,859**	**244,309**

Income statements for parent company

TSEK	Note	2016	2015
INCOME STATEMENT			
Net sales	2	924	918
Administrative expenses	4-5, 7	–8,034	–121,146
Other operating income	7	11	1,135
Other operating expenses	7	–49	–107
Operating profit/loss	2	–7,148	–119,200
Profit from interests in subsidiaries	41	64,123	55,963
Other interest income and similar line items	9	39,614	33,073
Interest expenses and similar line items	10	–15,075	–41,823
Non-recurring items, finance net	10	228,477	–
Total financial income and expenses		317,139	47,213
Result before tax		309,991	–71,987
Tax on profit/loss for the year	11	–15,940	0
NET RESULT FOR THE YEAR		**294,051**	**–71,987**

TSEK	2016	2015
STATEMENT OF COMPREHENSIVE INCOME		
Net profit for the year	294,051	–71,987
Other comprehensive income		
Cash flow hedges	0	0
Income tax relating to components of other comprehensive income	0	0
Other comprehensive income after tax	0	0
TOTAL COMPREHENSIVE INCOME	**294,051**	**–71,987**

Balance sheet for parent company

TSEK	Note	31 Dec. 2016	31 Dec. 2015
ASSETS			
Financial assets			
Interests in subsidiaries	19	1,026,884	771,884
Interests in other companies	20	1,000	1,000
Deferred tax assets	21	31,324	47,263
Receivables from subsidiaries		504,765	503,883
Total		1,563,973	1,324,030
Total non-current assets		1,563,973	1,324,030
Current assets			
Current receivables			
Receivables from subsidiaries		1,381	0
Current tax asset		24	0
Other current receivables	24	–	790
Deferred expenses and accrued income	25	147	19,640
Total		1,552	20,430
Cash and cash equivalents		12,029	180,268
Total current assets		13,581	200,698
TOTAL ASSETS		**1,577,554**	**1,524,728**

TSEK	Note	31 Dec. 2016	31 Dec. 2015
EQUITY AND LIABILITIES			
Equity	33		
Restricted equity			
Share capital		236,550	234,989
Non-restricted equity			
Share premium reserve		389,841	297,710
Retained earnings		291,483	363,470
Net profit for the year		294,051	-71,987
Total non-restricted equity		975,376	589,193
Total equity		1,211,925	824,182
Non-current liabilities			
Borrowings		168,499	286,951
Other liabilities		0	266,908
Total non-current liabilities	27	168,499	553,859
Current liabilities			
Borrowings	27	0	112,000
Trade payables		173	1,411
Liabilities to subsidiary		195,212	26,988
Other current liabilities	24	545	324
Accrued expenses and deferred income	25	1,200	5,964
Total current liabilities		197,130	146,687
TOTAL EQUITY AND LIABILITIES		**1,577,554**	**1,524,728**
Pledged assets	30	1,226,884	771,884
Contingent liabilities	31	20,000	20,000

Changes in equity for parent company

TSEK	Note	Restricted equity Share capital	Non-restricted equity Fair value reserve	Share premium reserve	Retained earnings incl. net profit for the year	Total
Opening balance on 1 January 2015		234,989	0	300,233	363,470	898,692
Comprehensive income						
Net profit for the year					–71,987	–71,987
Total comprehensive income					–71,987	–71,987
Transactions with shareholders						
Convertible loan				–2,523		–2,523
Total transactions with shareholders				–2,523		–2,523
CLOSING BALANCE ON 31 DECEMBER 2015	32, 33	**234,989**	**0**	**297,710**	**291,483**	**824,182**
Opening balance on 1 January 2016		234,989	0	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						
Decrease 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				6,573		6,573
Transaction costs				–11,971		–11,971
Total transactions with shareholders		1,560	0	92,132	0	93,692
CLOSING BALANCE ON 31 DECEMBER 2016	32, 33	**236,549**	**0**	**389,842**	**585,534**	**1,211,925**

Cash flow statement for parent company

TSEK	Note	2016	2015
OPERATING ACTIVITIES			
Operating profit/loss		–7,148	–119,200
Write-downs		0	115,861
Financial income received		39,609	28,207
Financial expenses paid		–13,058	–52,222
Tax paid		–24	24
Other items not affecting liquidity	34	–4,165	49,852
Cash flow from operating activities before change in working capital		15,214	22,522
Change in working capital			
Current receivables		11,908	–56,396
Current operating liabilities		174,219	–20,490
Cash flow from operating activities		201,341	–54,364
INVESTING ACTIVITIES			
Change in long-term receivables		15,057	34,631
Cash flow from investing activities		15,057	34,631
Cash flow after investing activities		216,398	–19,733
FINANCING ACTIVITIES			
Loans raised		–9,531	200,000
Amortisation of loans		–195,000	0
Cash flow from financing activities		–204,531	200,000
Cash flow for the year		11,867	180,110
Cash and cash equivalents at start of year		157	157
Exchange rate difference in cash and cash equivalents		5	1
CASH AND CASH EQUIVALENTS AT YEAR-END		**12,029**	**180,268**

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, the Netherlands, 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. This annual report was approved by the Board for publication on 11 April 2017.

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 42.

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, 21 Deferred Tax and 28 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'.

CUSTOMER RELATIONSHIPS

Customer relationships which have been acquired through a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are recognised at cost less cumulative amortisation. Amortisation is calculated on a straight-line basis over the expected life of the customer relationship.

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.

HEDGING OF FIXED INTEREST

Interest-rate swaps are used to hedge against the uncertainty in future interest-rate flows pertaining to loans at variable interest rate. The interest-rate swaps are measured at fair value in the balance sheet. The interest coupon part is recognised continuously in profit and loss as interest income or interest expense. Other change in value of interest-rate swap is recognised in other comprehensive income until the hedged item affects the income statement and provided the criteria for hedge accounting and effectiveness are met. The gain or loss attributable to the ineffective part is recognised in profit and loss.

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 hen 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 28 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 deviate from equivalent amounts in accordance with FAR 4, 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 statements. The Parent Company recognises defined-benefit pension plans in accordance with FAR recommendation No 4, Accounting of Pension Liability and Pension Expense.

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.

BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are recognised as a part of the cost of those assets. Capitalisation ceases when all activities necessary to get the asset ready for its intended use or sale have been substantially completed.

Financial income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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, in particular the requirement of future cash flow as a result of the investment.

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.

FINANCIAL INSTRUMENTS

The Parent Company applies measurement at fair value according to Chapter 4 Section 14 a-d of the Annual Reports Act, which means that the description of the Group's accounting policies applies to the Parent Company as well, except with regard to recognition of the profit or loss effects of hedging. The Parent Company accounts differ from the consolidated accounts in the following cases:

- Changes in value of hedging instruments for hedging of highly probable cash flows are recognised in the Income Statement.
- Changes in value of hedging instruments held for hedging of current and non-current receivables and liabilities are recognised in the Income Statement.

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 2016 Bong's sales to countries outside of Sweden accounted for 89 (91) per cent of total sales. Of the Group's total sales, approximately 59 (58) per cent were denominated in EUR, 20 (21) per cent in GBP, 11 (9) per cent in SEK, 4 (4) per cent in NOK and 6 (8) 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.

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.

If the EUR had appreciated/depreciated by 10 per cent against other currencies the Group's result on an annual basis, given the same flows as in 2016, would have changed by SEK -7.5/+7.5 million (+2.2/-2.2) as a consequence of transaction exposure. A similar strengthening of the GBP against other currencies would have resulted in an improvement of SEK +11.0 million (+5.5), mainly due to lower import costs for the Group's UK companies.

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 (0.7) due to losses/gains in the translation of trade receivables, trade payables and accrued interest costs denominated in EUR.

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

(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. If the EUR had appreciated/depreciated by 10 per cent compared with the closing day rate on 31 December 2016, with all other variables constant, earnings would have changed by SEK +1.8/-1.8 million (-1.5/+1.5), as a result of valuation of currency swaps not in hedge accounting and revaluation of subsidiaries' loans and deposits in Bong International AB.

An equivalent change would have increased/decreased consolidated equity by SEK +79.7.6/-79.7 million (+41.6/-41.6) 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 -0.03/+0.03 million (+0.8/-0.8) and equity would increase/decrease by SEK +10.2/-10.2 million (+10.7/-10.7).

(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.

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 (24) 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 behavior.

In 2016 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 23.

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 89.6 million (245.9), attributable to cash and cash equivalents of SEK 89.9 million whereof SEK 12 million on escrow account (244.3 whereof SEK 180 million on escrow account) and derivative instruments with a negative market value of SEK -0.3 million (1.6).

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 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 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 212 million (626) and approved unused credit to SEK 9 million (28).

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

NOTE 1 CONT.

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	2016	2015
Equity ratio, %	43	16
Net loan debt, SEK million	315	837
Net debt/equity, times	0.45	2.64
Net debt/EBITDA, times	5.2	11.9

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. Gains and losses on interest rate swaps have also been recognised in other comprehensive income and will be continuously transferred to financial expenses until the interest rate swaps expire. All cash flow hedging was assessed to be fully effective on 1 January.

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

The Group does not offset financial assets and liabilities.

NOTE 2 – NET SALES BY GEOGRAPHIC AREA

	2016	2015
Sweden	183,962	214,040
Other Nordic and Baltic	237,800	295,510
Central Europe	694,897	731,697
France and Spain	495,675	526,424
United Kingdom	383,969	455,388
Russia/Eastern Europe	67,686	52,031
Other	70,559	70,004
Total	2,134,548	2,345,094

PURCHASES AND SALES BETWEEN GROUP COMPANIES

The Parent Company's business consists of management of operating subsidiaries and Group management functions. In 2015 the Parent Company charged the subsidiary management fees amounting to SEK 918 thousand (749). The Parent Company's purchases from subsidiaries amounted to SEK 197 thousand (213). Pricing between Parent and subsidiary is on a commercial basis and at market prices.

NOTE 3 – EXPENSES CLASSIFIED BY NATURE OF EXPENSE

	2016	2015
Depreciation, amortisation and impairment (Note 6)	51,818	75,426
Costs for remuneration to employees (Note 4)	588,029	652,222
Changes in inventories of finished goods and work in progress	20,657	45,939
Raw materials	995,811	1,064,813
Transport costs	109,356	121,521
Other expenses	342,618	378,088
Total cost of goods sold, selling and administrative expenses	2,108,289	2,338,009

NOTE 4 – EMPLOYEES AND WAGES, SALARIES AND OTHER REMUNERATION

Average number of employees

	2016		2015	
	Number of employees	men	Number of employees	men
Sweden*	147	105	198	133
Germany	381	190	421	186
France	309	199	359	238
UK	231	169	224	173
Poland	165	100	172	97
Russia	109	40	108	64
Estonia	88	35	91	45
Finland	36	22	73	32
Norway	31	19	42	24
Luxembourg	26	16	28	18
Denmark	9	8	23	15
Spain	9	7	8	6
Belgium	8	2	10	2
Romania	4	3	–	–
Netherlands	3	2	6	4
Totalt	1,556	917	1,763	1,037

* Of which one employed man in parent company.

Board of Directors and senior executives

	Group				Parent company			
	2016		2015		2016		2015	
	Total	men	Total	men	Total	men	Total	men
Board members	48	42	47	40	7	6	7	6
President and other senior executives	32	30	37	34	1	1	1	1

NOTE 1 CONT.

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	
Derivative instruments	303			
Trade payables and other payables	407,204			

As of 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings (excluding finance lease liabilities)*	156,384	91,070	506,954	164,437
Bank credit lines	108,015			
Finance lease liabilities	2,041	1,469	471	
Derivative instruments	314			
Trade payables and other payables	412,180			

* After the refinancing in January 2016, cash flow regarding borrowings are expected to be as follows: Less than one year: SEK 215,000. Between one and two years: SEK 20,000. Between two and five years: SEK 220,000. More than five years: SEK 0. For the bank credit lines cash flow in less than one year is SEK 8,795.

NOTE 4 CONT.

Salaries, remuneration, and social security contributions

	Group						Parent company					
	2016			2015			2016			2015		
	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
	464,289	120,379	23,344	512,907	136,511	32,046	2,223	1,138	502	2,215	598	0
Total	**464,289**	**120,379**	**23,344**	**512,907**	**136,511**	**32,046**	**2,223**	**1,138**	**502**	**2,215**	**589**	**0**

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

	Group				Parent company			
	2016		2015		2016		2015	
	Board and CEO	Other employees	Board and CEO	Other employees	Board and CEO	Other employees	Board and CEO	Other employees
Total remuneration	21,914	444,598	25,195	489,927	2,223	0	2,215	0
including incentives, etc	200	932	0	483	0	0	0	0

AGM DECISION ON 2016 GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The Annual General Meeting 2016 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 and Business Area Manager France and Spain.

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

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

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

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

Remuneration of the CEO and other senior executives is prepared by the 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 Eric Joan received a fee of SEK 100 thousand for 2016 (300) and Christian Paulsson has received SEK 200 thousand since the AGM 2016 (0). Christian Paulsson has also received a fee of SEK 50 thousand (150) for his time as member of the board up until the AGM 2016 as well as SEK 100 thousand (50) for his time as member of the audit committee. The amounts represent part of the total Board fees set by the AGM. 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 2016 was SEK 600 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 Helena Persson received SEK 150 thousand (100).

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.

NOTE 4 CONT.

CHIEF EXECUTIVE OFFICER

For the year 2016 Stéphane Hamelin was paid a fixed salary including remuneration for paid leave of SEK 1,244 thousand (1,237). No benefits were paid. 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. No variable remuneration was paid in 2016. Pension premium shall be paid in accordance with French law. No other pension premiums were paid during 2016. In the event of termination by the company, the CEO is entitled to salary and benefits for 6 months. In the event of termination by the CEO, the period of notice is 6 months.

OTHER SENIOR EXECUTIVES IN THE MANAGEMENT GROUP

The management team, consisting of five people, have during 2016 received total fixed salaries of SEK 7,844 thousand (7,743), plus benefits mainly comprising car benefits valued at SEK 310 thousand (336). In addition to a fixed salary, a variable remuneration of no more than 40-60 per cent of the fixed salary may be paid, based on the Group's fulfilment of certain financial goals. Variable remuneration of SEK 95 thousand (300) was paid for 2016. During the year, variable remuneration of SEK 300 thousand (0) was paid for 2015. 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 616 thousand (596) was paid during 2016. In the event of termination by the company, unchanged salary is payable for 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 – REMUNERATION TO AUDITORS

	Group		Parent company	
PwC	2016	2015	2016	2015
Auditing assignments	3,421	3,807	186	434
Audit-related activities	169	8	169	8
Tax services	312	633	72	–
Other services	717	186	502	298
Total	**4,619**	**4,634**	**929**	**740**
KPMG	2016	2015	2016	2015
Auditing assignments	190	215	–	–
Audit-related activities	75	56	–	–
Tax services	47	163	–	–
Other services	0	0	–	–
Total	**312**	**434**	**–**	**–**
Other	2016	2015	2016	2015
Auditing assignments	64	107	–	–
Audit-related activities	114	0	–	–
Other services	28	224	–	–
Total	**206**	**331**	**–**	**–**

NOTE 6 – DEPRECIATION AND AMORTISATION

Broken down by non-current assets	2016	2015
Other intangible assets	11,589	10,994
Land and buildings	4,442	16,599
Plant and machinery	28,282	39,850
Equipment, tools fixtures and fittings	7,505	7,983
Total	51,818	75,426

Broken down by function	2016	2015
Cost of goods sold	37,283	51,941
Selling expenses	3,973	3,300
Administrative expenses	10,562	20,185
Total	51,818	75,426

NOTE 7 – OTHER OPERATING INCOME AND EXPENSES

	Group		Parent company	
Operating income	2016	2015	2016	2015
Exchange gains on operating receivables and liabilities	39,763	18,092	11	1,135
Capital gain on sale of non-current assets	3,188	26,829	–	–
Total	42,951	44,921	11	1,135

	Group		Parent company	
Operating expenses	2016	2015	2016	2015
Restructuring costs	–18,242	–19,660	0	0
Exchange losses on operating receivables and liabilities	–40,326	–18,145	49	107
Loss on sale of non-current assets	–1,816	–27,921	–	–
Total	–60,384	–65,726	49	107

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:

	2016	2015
Payment due within one year	60,473	60,731
Payment due later than one year but within five years	135,275	173,604
Payment due after five years	53,456	86,324
Total	249,204	320,659
Lease payments for operating leases were paid in the following amounts:	60,727	68,041

NOTE 9 – FINANCIAL INCOME

	Group		Parent company	
	2016	2015	2016	2015
Interest income	259	893	–	–
Exchange gains on financial items	2,681	114	–	–
Financial income, Group companies	–	–	39,608	26,948
Interest income, Other	–	–	1	9
Exchange rate differences on financial items	–	–	5	6,116
Total	2,940	1,007	39,614	33,073

NOTE 10 – FINANCIAL EXPENSES

	Group		Parent company	
	2016	2015	2016	2015
Write-down of holdings in other companies	–2 395	–	–	–
Interest portion in this year's pension costs	–2 793	–5,436	–	–
Interest expenses, other	–24 942	–32,611	–18,111	–25,441
Exchange rate differences on financial items	–2 534	–1,771	–11,029	–4,631
Other financial expenses	–16 091	–16,138	14,065	–11,751
Total	–48 755	–55,956	–15,075	–41,823

NON-RECURRING ITEMS, FINANCIAL EXPENSES

Bong has during the period completed the aquisition of its lending banks claims amounting to SEK 602,096 thousand whereof SEK 429,892 thousand affect the financial income and SEK 85,045 thousand have been expensed as a tax expense related to deferred tax assets on loss carried forward. The corresponding amount in the parent company amounts to 228,477 TSEK and expensed tax amounts to 15,940 TSEK.

NOTE 11 – TAX

	Group		Parent company	
	2016	2015	2016	2015
Current tax	–7,966	–6,009	–	–
Deferred tax	–87,813	1,687	–15,940	0
Total	–95,779	–4,322	–15,940	0

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.

NOTE 11 CONT.

	Group		Parent company	
	2016	2015	2016	2015
Profit before tax	392,903	–59,985	309,991	–71,987
Income tax calculated according to national tax rates for each country	–46,532	14,841	–68,198	15,837
Tax on:				
– adjustment of previous years' tax	–107	917	–	–
– non-taxable revenue/ other non-deductible expenses	124,371	–4,897	58,469	–12,395
– dividend from subsidiary	–	–	14,107	12,312
Recognition of previously unrecognised tax loss	–88,466	–15,183	–20,318	–15,754
Revaluation of deferred tax:				
- Write down	-85,045	–	–	–
Tax according to Income Statement	–95,779	–4,322	–15,940	0

NOTE 12 – EXCHANGE GAINS/LOSSES – NET

Exchange gains/losses are recognised in the income statement as follows	2016	2015
Other operating income	39,763	18,092
Other operating expenses	–40,326	–18,145
Financial income	2,681	114
Financial expenses	–2,534	–1,771
Total	–416	–1,710

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.

	2016	2015
Profit attributable to the Parent Company's shareholders	295,230	–64,634
Ordinary shares outstanding (thousands)	207,417	156,660
Basic earnings per share, SEK	1.42	–0.41

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.

	2016	2015
Profit attributable to the Parent Company's shareholders	295,230	–64,634
Non-recurring items, financial cost	–429,892	–
Profit attributable to the Parent Company's shareholders	–134,662	–
Ordinary shares outstanding (thousands)	207,417	156,660
Basic earnings per share, SEK	–0.64	–0.41

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. Calculations for 2016 and 2015 are based on dilution from subscription warrants and convertible debentures, respectively. The subscription warrants are assumed to have been converted into ordinary shares. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense minus the tax effect.

The number of options amounts to maximum 40,000,000. Each option gives the right to subscribe for one share in Bong. All options were used before 29 February 2016. Subscription for shares based on the options shall take place by 1 February 2019. Upon subscription, the price per share is 1.15 SEK. Bongs average share price during the year is below 1.15 SEK which is why no dilution effect is taken into consideration.

NOTE 14 – GOODWILL

	2016	2015
Opening costs	557,146	567,029
Exchange rate differences	6,112	–9,883
Closing costs	563,258	557,146

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.

NOTE 14 CONT.

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 -3.2 per cent. The two last years have been assumed to result in a weak 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.

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 -0.70 per cent, the recoverable amount had been the same as the book value of the cash-generating unit.
- If the assumption regarding growth during the forecast period had been 0.34 percentage points lower then the assumption used the recoverable amount would be the same as the book value of the cash-generating unit. Furthermore, if the assumption regarding growth during the forecast period had been 0.5 percentage points lower, it would mean a write-down of SEK 53 million.
- If the assumption regarding fixed costs in relation to turnover had been 0.39 percentage points higher than the assumption used, 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 points higher, it would mean a write-down of SEK 31 million. Furthermore, if the assumption regarding fixed costs had been 1 percentage point higher, it would mean a write-down of SEK 174 million.
- If the assumption regarding gross margin had been 0.68 percentage points lower than the assumption used 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 51 million.

NOTE 14 CONT.

- If the assumption regarding the estimated weighted cost of capital had been 1.2 percentage points higher than the assumption used 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 109 million.

NOTE 15 – OTHER INTANGIBLE ASSETS

	2016	2015
Opening costs	91,345	82,088
Purchase	0	664
Sale/retirement	–4,680	–10,747
Reclassifications	1,974	20,714
Exchange rate differences	705	–1,374
Closing costs	89,344	91,345
Opening accumulated depreciation	–44,220	–44,919
Sale/retirement	4,680	9,503
Exchange rate differences	–760	2,190
Depreciation for the year	–11,589	–10,994
Closing accumulated depreciation	–51,889	–44,220
Closing residual value according to plan	37,455	47,125

NOTE 16 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	2016	2015
Opening costs	160,195	230,458
Purchase	267	1,188
Sale/retirement	–817	–82,493
Reclassifications	–76	99
Exchange rate differences	10,575	10,943
Closing costs	170,144	160,195
Opening accumulated depreciation	–88,315	–59,952
Sale/retirement	807	4,240
Exchange rate differences	–4,854	–16,004
Depreciation for the year	–4,442	–16,599
Closing accumulated depreciation	–96,804	–88,315
Closing residual value according to plan	73,340	71,880
Of which land	8,849	8,522

NOTE 16 CONT.

Plant and machinery	2016	2015
Opening costs	669,791	1,153,118
Purchase	11,519	19,497
Sale/retirement	−59,024	−465,004
Reclassifications	3,861	751
Exchange rate differences	32,404	−38,571
Closing costs	658,551	669,791
Opening accumulated depreciation	−544,561	−998,286
Sale/retirement	57,199	458,092
Exchange rate differences	−29,997	35,608
Reclassifications	0	−125
Depreciation for the year	−28,282	−39,850
Closing accumulated depreciation	−545,641	−544,561
Closing residual value according to plan	112,910	125,230

Equipment, tools, fixtures and fittings	2016	2015
Opening costs	174,192	241,469
Purchase	4,222	4,727
Sale/retirement	−4,060	−65,017
Reclassifications	−1,450	−404
Exchange rate differences	6,223	−6,583
Closing costs	179,127	174,192
Opening accumulated depreciation	−141,321	−202,450
Sale/retirement	3,961	63,202
Exchange rate differences	−5,338	5,910
Reclassifications	339	–
Depreciation for the year	−7,505	−7,983
Closing accumulated depreciation	−149,864	−141,321
Closing residual value according to plan	29,263	32,871

NOTE 17 – FINANCE LEASES IN THE GROUP

DUE DATE OF FUTURE MINIMUM LEASE PAYMENTS

	Nominal values	Present values
	31 Dec. 2016	31 Dec. 2016
Within one year	1,351	1,297
After one year but within five years	958	853
Total	2,309	2,150

DUE DATE OF FUTURE MINIMUM LEASE PAYMENTS

	Nominal values	Present values
	31 Dec. 2015	31 Dec. 2015
Within one year	2,041	1,959
After one year but within five years	1,940	1,766
Total	3,981	3,725

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

	2016	2015
Opening costs	4,905	21,196
Accrued expenses	11,695	5,762
Reclassifications	−4,309	−21,561
Exchange rate differences	965	−492
Closing balance	13,256	4,905

NOTE 19 – THE PARENT COMPANY AND GROUP HOLDINGS OF SHARES IN GROUP COMPANIES

Company	Corporate identity number	Location	Number of shares	Ownership(%)
Bong International AB *	556044-3573	Kristianstad, Sweden	1,501,200	100
Bong GmbH *	HRB 1646	Solingen, Germany	1	100
Bong Sverige AB	556016-5606	Kristianstad, Sweden	804,000	100
Bong UK Ltd	3895897	Milton Keynes, Great Britain	7,000,000	100
IPC SAS	327 956 199	Angoulême, France	15,000	100
Bong SAS	775 695 299	Saint Sébastien de Morsent, France	100,000	100
Pflüger Lober Kuvert GmbH	HRB 9534	Erlangen, Germany	1	100
Surrey Envelopes Ltd	2592120	Spondon, Great Britain	100,000	100

* Subsidiaries to Bong AB.

The compilation includes directly owned subsidiaries and indirectly owned companies with sales exceeding SEK 150 million. All subsidiaries are consolidated in the Group.

The purpose of IFRS 10 is to establish principles for preparation and presentation of consolidated financial statements when an entity controls one or more other companies. The standard defines the concept of control and establishes control as the basis for consolidation. The standard provides guidance for determining whether an entity controls another and thus will consolidate into this company in the consolidated financial statements. The standard also specifies how the consolidated financial statements should be prepared. The standard has not had any significant effect because all companies are wholly owned.

NOTE 20 – INTERESTS IN OTHER COMPANIES

Company	Corporate identity number	Location	Invested capital	Book value
Bong Fastigheter KB	969655-5763	Stockholm, Sweden	TSEK 1,000	1,000
Mail Inside	492 969 787 RCS	Paris, France	TSEK 2,501	30
Total				1,030

NOTE 21 – 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. The offset amounts are as follows:

Deferred tax per temporary difference:

Deferred tax asset	31 Dec. 2016	31 Dec. 2015
Loss carryforward	125,163	205,429
Property, plant and equipment	6,119	6,417
Pensions	13,766	20,310
Other temporary differences	−896	2,327
Total	144,152	234,483

NOTE 21 CONT.

Deferred tax liability	31 Dec. 2016	31 Dec. 2015
Intangible assets	15,452	16,105
Property, plant and equipment	8,441	13,266
Other temporary differences	647	3,913
Total	24,540	33,284

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 92,891 TSEK (96,425), the majority of which are not time-limited.

NOTE 21 CONT.

The gross change with regard to deferred taxes is as follows	2016	2015
At start of year	201,199	206,105
Exchange rate differences	–184	–484
Recognised in the Income Statement	–87,813	1,687
Actuarial loss on retirement benefits	–116	–3,244
Tax relating to components of other comprehensive	6,526	–2,865
At year-end	119,612	201,199

NOTE 22 – INVENTORIES

The expenditure for the inventory that was recognised is included in the item "Cost of goods sold" and amounted to SEK 955,811 thousand (1,064,813). Of the inventory value, SEK 0 thousand (2,573) has been measured at net realisable value. The inventory depreciated during the year by SEK -346 thousand (905).

NOTE 23 – TRADE RECEIVABLES AND OTHER RECEIVABLES

	31 Dec. 2016	31 Dec. 2015
Trade receivables	293,116	303,148
Minus provision for impairment of receivables	–8,083	–7,603
Trade receivables–net	285,033	295,545

Stated amounts, per currency for the Group's trade receivables are as follows:	31 Dec. 2016	31 Dec. 2015
SEK	27,157	26,252
GBP	131,633	109,454
EUR	90,551	131,104
Other currencies	35,692	36,338
Total	285,033	303,148

Geographic distribution of receivables	31 Dec. 2016	31 Dec. 2015
Sweden	35,467	32,984
Other Nordic and Baltic	21,801	35,692
Central Europe	86,744	72,463
France and Spain	40,827	42,668
United Kingdom	90,684	103,032
Russia/Eastern Europe	9,510	16,309
Total	285,033	303,148

Changes in the reserve for doubtful trade receivables are as follows:	2016	2015
At 1 January	7,603	13,908
Provision for doubtful debts	3,946	3,997
Receivables that have been written off during the year as uncollectable (–)	–2,675	–7,829
Reversal of unutilised amounts	–1,131	–1,192
Exchange rate difference	340	–1,281
At 31 December	8,083	7,603

NOTE 23 CONT.

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	31 Dec. 2016	31 Dec. 2015
Group 1 new customers	1,494	4,396
Group 2 existing customers without previous defaults	277,775	291,825
Group 3 existing customers with some previous non-payments where all non-payments have been fully recovered	5,764	6,927
Total trade receivables	285,033	303,148

On 31 December 2016 trade receivables totalling SEK 30,449 thousand (39,223) 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:	31 Dec. 2016	31 Dec. 2015
Less than 3 months	23,446	31,620
3 to 6 months	2,358	2,344
More than 6 months	4,645	5,259
Total	30,449	39,223

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

NOTE 24 – OTHER CURRENT RECEIVABLES AND LIABILITIES

Other current receivables

	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Currency and interest rate derivatives	–	1,196	–	–
Other current receivables	7,717	11,595	0	790
Total	7,717	12,791	0	790

Other current liabilities

	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Currency and interest rate derivatives	–	442	–	–
Other current liabilities	55,420	52,148	545	324
Total	55,420	52,590	545	324

NOTE 25 – ACCRUED EXPENSES/INCOME AND DEFERRED INCOME/EXPENSES

Deferred expenses and accrued income

	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Deferred interest	993	7,683	0	123
Other deferred expenses	9,147	2,409	–	19,132*
Accrued supplier bonus	8,053	7,914	–	–
Other accrued income	24,362	50,984	147	385
Total	42,555	68,990	147	19,640

*Refers to deferred transaction costs

Accrued expenses and deferred income

	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Pay-related accrued expenses	73,052	76,348	329	110
Accrued interest payable	373	3,951	0	2,390
Accrued customer bonus	71,097	58,134	–	–
Other accrued expenses	32,513	40,772	871	3,464
Total	177,035	179,205	1,200	5,964

NOTE 26 – CASH AND CASH EQUIVALENT

	Group		Parent company	
	2016	2015	2016	2015
Cash and cash equivalent	77,859	64,309	29	268
Escrow account	12,000	180,000	12,000	180,000
Total	89,859	244,309	12,029	180,268

NOTE 27 – BORROWINGS

	Group		Parent company	
Long-term	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Bank loans	0	389,788	0	286,951
Bond loan and convertible loan	167,925	266,908	168,499	266,908
Total	167,925	656,696	168,499	553,859

NOTE 27 CONT.

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 also were awarded shares and subscription warrants without consideration with a total fair value of SEK 37.3 million. This is considered to be 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 recognized 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	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Bank credit lines	2,942	108,015	–	108,015
Bank loans	0	112,000	0	112,000
Total	**2,942**	**220,015**	**0**	**112,000**
Total borrowings	**170,867**	**876,711**	**168,499**	**665,859**

Maturity dates of long-term borrowings are as follows:	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Between 1 and 2 years	167,925	50,588	168,499	38,136
Between 2 and 5 years	0	441,908	–	114,409
More than 5 years	0	164,200	–	229,906
Total	**167,925**	**656,696**	**168,499**	**553,859**

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:	31 Dec. 2016	31 Dec. 2015
Bank credit lines	0.78%	2.02%
Other borrowings	10.00%	6.11%

Recognised amounts, per currency, are as follows:	31 Dec. 2016	31 Dec. 2015
SEK	167,925	381,019
EUR	2,942	410,580
GBP	–	85,112
Other currencies	0	0
Total	**170,867**	**876,711**

The Group has the following unutilised credit facilities:	31 Dec. 2016	31 Dec. 2015
Variable interest rate:		
– expires after more than one year	5,655	27,978
Fixed interest rate:		
– expires after more than one year	3,821	

NOTE 28 – 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	2016-12-31	2015-12-31
Present value of funded obligations	70,980	70,028
Fair value of plan assets	–47,716	–46,536
Deficit in funded plans	23,264	23,492
Present value of unfunded obligations	196,478	177,803
Closing balance pension liability	219,742	201,295

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

2016	Sweden	Germany	Norway	Other	Total
Present value of obligation	98,209	95,018	3,251	51,495	247,973
Fair value of plan assets	0	0	–25,682	–22,034	–47,716
Total	**98,209**	**95,018**	**–22,431**	**29,461**	**200,258**

2015	Sweden	Germany	Norway	Other	Total
Present value of obligation	85,292	89,492	32,945	21,213	228,942
Fair value of plan assets	0	0	–39,090	–7,444	–46,535
Total	**85,292**	**89,492**	**–6,145**	**13,769**	**182,408**

Significant actuarial assumptions

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

NOTE 28 CONT.

2015	Sweden	Germany	Norway	Other
Discount rate (%)	3.00	2.00	2.70	2.00
Inflation (%)	1.30	1.50	1.50	1.50
Salary increases (%)	1.10	0.00	0.00	1.50
Life expectancy at 65, men	21	19	–	23
Life expectancy at 65, women	23	23	–	–

Compilation of managed assets:	2016	2015
Insurance policy (unlisted)	47,716	46,536
Other	0	0
Total	**47,716**	**46,536**

Fees for plans for benefits after terminated employment are expected to be SEK 13.6 million for financial year 2017.

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 3, this is a multi-employer defined-benefit plan. For financial year 2014, 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 2016, Alecta's surplus in the form of the collective funding ratio amounted to 149 per cent (153).

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

NOTE 28 CONT.

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 per cent 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 per cent from the management estimate, the carrying amount of the pension obligations would be estimated at SEK 15 million lower or SEK 17 million higher than the actual carrying amount.

NOTE 29 – OTHER PROVISIONS

Restructuring	2016	2015
At 1 January	44,169	103,544
Recognised in the income statement:		
Restructuring		
– additional provisions	18,242	19,660
Utilised during the year	–25,961	–82,214
Other		
– additional provisions	5,112	5,638
utilised during the year	–2,171	–
Exchange rate difference	1,464	–2,459
At 31 December	**40,855**	**44,169**

	2016	2015
Non-current portion	14,569	11,335
Current component	26,286	32,834
	40,855	**44,169**

In order to maintain long-term competitiveness and restore profitability to a satisfactory level, SEK 18 million was allocated in restructuring costs during the year. The restructuring programme relates primarily to measures to adjust to lower demand and covers essentially Luxembourg, Netherlands and Sweden.

NOTE 28 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 2015	278,306	50,462	227,845
Service costs during current year	2,204		2,204
Interest expense/(revenue)	5,033	762	4,270
Revaluations:			
- Return on plan assets excl. amounts included in interest expense/(revenue)	–	925	–925
- (Profit)/loss as a result of changed demographic assumptions	3,424	–	3,424
- (Profit)/loss as a result of changed financial assumptions	–16,065	–	–16,065
- Experience-based (profits)/losses	–3,833	–	–3,833
Exchange rate differences	–6,745	–2,676	–4,070
Fees:			
- Employer	–	11,557	–11,557
- Employees covered by the plan	15	15	0
Payments from the plan			
- Benefits paid	–14,510	–14,510	0
At 31 December 2015	**247,831**	**46,536**	**201,295**
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	20,024	–	20,024
- 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	**267,457**	**47,716**	**219,742**

NOTE 30 – PLEDGED ASSETS

	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Relating to pension obligations				
Floating charges	40,000	40,000	–	–
Restricted bank deposits	12,000	180,000	12,000	180,000
Relating to liabilities to credit institutions				
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Shares in subsidiaries	698,294	892,542	1,226,884	771,884
Property mortgages	94,225	107,366	–	–
Receivables from subsidiaries	200,000	–	–	–
Current assets	210,267	193,731	–	–
Total	**1,254,786**	**1,413,639**	**1,238,884**	**951,884**

NOTE 31 – CONTINGENT LIABILITIES

	Group		Parent company	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Liability FPG	1,164	1,182	–	–
Bank Guarantee	20,000	20,000	20,000	20,000
Other contingent liabilities	441	661	–	–
Total	**21,605**	**21,843**	**20,000**	**20,000**

NOTE 34 – OTHER ITEMS NOT AFFECTING LIQUIDITY IN THE CONSOLIDATED CASH FLOW STATEMENTS

	Group		Parent company	
	2016	2015	2016	2015
Gains on disposal of intangible assets and property, plant and equipment	–2,284	–14,587	–	–
Change in provisions	–10,740	–64,914	–	–
Acqusition of banks' claims	–432,522	–	228,477	
Non-cash affecting dividend	–	–	64,123	55,963
Non-cash regulated subsidiary transactions	–	–	–255,500	–
Exchange rate differences and other	18,165	60	–41,765	–6,111
Total	**–427,381**	**–79,441**	**–4,165**	**49,852**

NOTE 32 – RESERVES

	Hedged reserve	Translation reserve	Revaluation of assets	Total reserves
Opening balance 1 January 2015	–5,988	–17,464	5,361	–18,091
Cash flow hedges	2,754			2,754
Hedging of net investments		11,626		11,626
Exchange rate difference		–19,242		–19,242
Tax effect	–606	–2,259		–2,865
Closing balance 31 December 2015	**–3,840**	**–27,339**	**5,361**	**–25,818**
Opening balance 1 January 2016	–3,840	–27,339	5,361	–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**	**–20,647**	**5,361**	**–19,822**

NOTE 33 – SHARE CAPITAL AND OTHER CONTRIBUTED CAPITAL

SHARES

The number of shares at year-end 2016 was 211,205,058 (2015: 156,659,604) with a quotient value of SEK 1.12 per share (2015: SEK 1.50 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 2015	156,660	234,989	701,843	936,832
Convertible loan			–2,523	–2,523
On 31 December 2015	**156,660**	**234,989**	**699,320**	**934,309**
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] 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 35 – BUSINESS COMBINATIONS

During the year no material acquisitions occurred.

NOTE 36 – HEDGE ACCOUNTING

The Parent Company and its subsidiary Bong International AB's borrowings in EUR and GBP are identified as hedging of net investments in subsidiaries in Germany, Estonia, France and the UK. The fair value of the borrowings on 31 December 2016 was SEK 0 thousand (445,057). The exchange difference amounting to SEK 0 thousand (8,384) on translation of the borrowings to SEK on the balance sheet date, is recognised in the 'Reserves' in equity. On the balance sheet date borrowings amounted to SEK 0 after the purchase of the banks' claims in January, 2016.

NOTE 37 – DIVIDEND

A dividend for 2015 of SEK 0 per share was approved at the AGM on 18 May 2016. A dividend for 2016 of SEK 0 per share will be proposed at the AGM on 17 May 2017.

NOTE 38 – 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 39 – 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.

	2016	2015
Sales during the year	91,874	76,055
Purchases during the year	10,489	17,657
Current receivables balance sheet date	26,345	19,859

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

NOTE 40 – PURCHASES AND SALES BETWEEN GROUP COMPANIES

The Parent Company's business consists of management of operating subsidiaries and Group management functions. In 2016 the Parent Company charged the subsidiary management fees amounting to SEK 924 thousand (918). The Parent Company's purchases from subsidiaries amounted to SEK 193 thousand (197). Pricing between Parent and subsidiary is on a commercial basis and at market prices.

NOTE 41 – PROFIT FROM INTEREST IN SUBSIDIARIES (PARENT COMPANY)

	2016	2015
Dividend	64,123	55,963
Impairment of shares in subsidiaries	0	–56,115
Group contributions paid	0	–59,746
Total	**64,123**	**–59,898**

NOTE 42 – 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, 2016 have had any material impact on the Group's financial statements.

NOTE 42 CONT.

(B) NEW AND REVISED STANDARDS AND INTEPRETATIONS 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 2016 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 15 Revenue from contracts with customers and associated amendments to various other standards

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers 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. The company has just started to identify and quantify the impact of IFRS 15 and will be able to make a better assessment during 2017.

IFRS 9 Financial instruments

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

NOTE 42 CONT.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. With IFRS 9 a new impairment model is introduced that requires recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. For hedge accounting and effectiveness testing the 80-125 per cent threshold is removed and replaced by economic relationship between hedged item and hedging instrument, and hedging ratio shall be based on risk management. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group has not yet assessed the impact of the standard.

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. EU has not yet adopted the standard. The Group has just started to map and quantify the impact of IFRS 16 and will be able to make a better assessment during 2017.

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 43 – EVENTS AFTER THE END OF THE PERIOD

No material events have occurred after the end of the period.

NOTE 44 – PROPOSED DISTRIBUTION OF EARNINGS

The Board of Directors proposes that the earnings available for distribution, SEK 975,375,628.65, be carried forward, see note 37.

The consolidated financial statements will be submitted to the Annual General Meeting on 17 May 2017 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 11 April 2017

Christian Paulsson
Chairman of the Board

Mikael Ekdahl
Member of the Board

Eric Joan
Member of the Board

Helena Persson
Member of the Board

Christer Muth
Member of the Board

Peter Harrysson
Member of the Board

Stéphane Hamelin
Member of the Board

Håkan Gunnarsson
CEO

Our Audit Report was submitted 11 April 2017

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 2016 with the exception of the corporate governance report found on pages 16-18. The annual accounts and consolidated accounts of the company are included on pages 14-42 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 2016 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 2016 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 16-18. 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 adopt the income statement and balance sheet for the parent company and the group.

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 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.

On the basis of this, we selected the units deemed to be significant in determining the auditing activities to be undertaken in these units. The units included are primarily the larger production and sales units within the group. The units which are not seen to be significant have been audited by the group team on the basis of an overall analysis aimed at identifying any possible material deviations.

In producing our audit plan, we determined the audit activities which were to take place regarding significant units. The majority of the group's operations are abroad and we collect reports from the local audit teams on an ongoing basis during the year. The group team annually assesses the degree of involvement required in order to ensure that a sufficient and appropriate audit has been executed. The selection of the units to be visited is on a rotation basis.

In addition, the group team has, amongst other things, executed an audit of the parent company, consolidation, annual accounts and significant assumptions and judgements. On the basis of the audit activities that we have performed, we believe that we have obtained sufficient audit evidence to be able to express an opinion on the financial statements as a whole.

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.

Testing of the going concern assumption

For the financial year, the group reports a loss, excluding the refinancing effect equivalent to MSEK 345, of MSEK 48 after tax, and has reported a loss for all financial years since 2010. 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. During January 2016, and as described in the administration report on page 14 and in Note 27 on page 38, the group financed the redemption of outstanding loans from banks through a bond loan, which decreased the debt level by approximately MSEK 402. The group has had a cash flow from the ongoing operations of MSEK 2 during 2014, 2015 and 2016 and has sold assets equivalent to MSEK 140 during 2014, 2015 and 2016. 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.

How our audit has addressed the Key audit matter

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 next 12 months. 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 2016, goodwill and other intangible assets amounted to MSEK 601. 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, single cash-generating unit.

How our audit has addressed the Key audit matter

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 for the respective geographical areas. 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 concluded that there is no impairment requirement for intangible assets. 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 21 on page 36 – Deferred taxes of the Annual Report.

At the end of the year, the group had deferred tax recoverables relating to tax losses amounting to MSEK 218, of which MSEK 125 have been capitalized in the financial statements. According to Note 21, 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.

How our audit has addressed the Key audit matter

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 21.

Based on our audit, we have concluded that there are realistic possibilities to utilize the capitalized loss carry forward amounts. 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 1-13 and 45-48. 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 ISA's 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 2016 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 16-18 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.

Kristianstad 11 April 2017

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 Jefferson Smurfit and Tesa.

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 France and Spain.

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.

SYLVIE BATAILLE

Born 1960.

Group Manufacturing and Innovation Director.

Employed since 1998.

SIMON BENNETT

Born 1965.

Sales and Marketing Director, European Distributors.

Employed since 2007.

Board of Directors

CHRISTIAN PAULSSON

Chairman of the Board

STÉPHANE HAMELIN

Member of the Board

MIKAEL EKDAHL

Member of the Board

ERIC JOAN

Member of the Board

HELENA PERSSON

Member of the Board

PETER HARRYSSON

Member of the Board
(Employee Representative)

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 2017

The Annual General Meeting will be held at 4:00 pm 17 May 2017 at Yllan, Väverigatan 2, in Kristianstad, Sweden.

PARTICIPATION AT THE AGM

Shareholders registered in the share register kept by Euroclear Sweden AB on 11 May 2017 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 11 May 2017.

Shareholders who wish to participate in the meeting must notify the company no later than 11 May 2017, 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 2016.

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	17 May 2017
Interim report January – March	17 May 2017
Interim report January – June	12 July 2017
Interim Report January – September	16 November 2017
Year-end Report 2017	15 February 2018

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Form and production: Bong and Kanton. Printing: TMG Stockholm 2017.

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

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