

# Corporate governance report 2011

## Corporate governance in BioGaia

BioGaia is a Swedish public limited company whose class B shares are listed on the Mid Cap list of the NASDAQ OMX Nordic Exchange Stockholm. The company's corporate governance is exercised through the General Meeting of Shareholders, the Board of Directors, the President and the Executive Management in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

## Articles of Association

According to BioGaia's Articles of Association, the company, directly or through subsidiaries or other forms of co-ownership or partnership, shall engage in the development, production, marketing and sale of health-enhancing products in the form of pharmaceuticals, natural health products, dietary supplements, additives for food products and animal feed, suitable delivery systems for these products and other activities compatible therewith. The company is domiciled in Stockholm, Sweden. The Articles of Association can be viewed on BioGaia's website under the heading "Investors/Corporate Governance".

## General Meeting of Shareholders

The General Meeting of Shareholders is the highest decision-making body through which the shareholders exercise their influence over the company. The Annual General Meeting (AGM) elects the members of the Board of Directors. The responsibilities of the AGM also include adoption of the company's income statements and balance sheets, approval of the appropriation of disposable profits and discharge from liability for the members of the Board and the President. The AGM also elects the company's auditor.

One shareholder, Annwall & Rothschild Investment AB, holds 11.6 per cent of the share capital and 36.2 per cent of the votes in the company. Other individual shareholders hold less than 10 per cent of the share capital and votes each.

### 2011 AGM

BioGaia's AGM was held on 10 May 2011 and was attended by shareholders representing 44.4 per cent of the total number of votes in the company. The AGM was also attended by the company's President, the Board members elected by the previous AGM and all of the Board members elected by the year's AGM, as well as the company's elected auditor.

### 2012 AGM

The 2012 AGM will be held at 4:00 p.m. on Tuesday, 8 May 2012, at Citykonferensen Ingenjörshuset, Malmskillnadsgatan 46, in Stockholm.

### Notice of the AGM

Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidning) and on the company's website. An announcement that notice has been given shall be published in Svenska Dagbladet no earlier than six weeks and no later than four weeks prior to the Meeting.

## Nominating Committee

The task of the Nominating Committee is to prepare recommendations regarding election and remuneration for decision by the AGM.

The 2011 resolved that the Nominating Committee

would be appointed according to the following:

"The Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which has the right to appoint a member to the Nominating Committee together with the Board Chairman. In determining the composition of the Nominating Committee, the largest shareholders in terms of voting power shall be based on the ownership conditions at 30 June 2011. The Nominating Committee shall be chaired by the member representing the largest shareholder at that time. If any of the three largest shareholders should waive their right to appoint a member to the Nominating Committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member. The names of the three shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2012 AGM. The term of office shall extend until a new Nominating Committee has been appointed.

In the event that the shareholder represented by a member is no longer one of the three largest shareholders in terms of voting power, and if the Nominating Committee deems it appropriate, the member can resign and a representative for the next largest shareholder in order of voting power can be given the opportunity to replace this member. The same applies of a member of the Nominating Committee leaves the Committee for some other reason."

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Allan Ladow, representing Sebastian Jahreskog, who is the second largest shareholder via direct and indirect holdings, and Board Chairman David Dangoor, the fourth largest shareholder. All three members of the Nominating Committee are independent in relation to the company and its management.

The Nominating Committee will prepare recommendations for the following matters to be put before the 2012 AGM for resolution:

- appointment of the Chairman of the AGM
- election of the Board of Directors
- election of the Board Chairman
- fees for members of the Board
- fees for the auditors
- appointment of the Nominating Committee ahead of the 2013 AGM

All shareholders have the opportunity to contact the Nominating Committee with recommendations for Board candidates for further evaluation within the framework of the Committee's work. No suggestions or proposals have been submitted to the Nominating Committee as of today's date.

The Nominating Committee presents a written motivation to the AGM for election of Board members.

## Board of Directors

According to BioGaia's Articles of Association, the Board shall consist of at least five and at most eight members with no more than three deputies. The Board is elected yearly by the AGM to

serve for the period until the end of the following AGM. In 2011 the Board consisted of seven members elected by the AGM, with no deputies. One Board member, Jan Annwall, has been a member of the Board since 1990 and is a major shareholder in the company. Jan Annwall was previously employed by the company as CFO and Executive Vice President, but retired on 1 April 2010. However, Jan Annwall works to a limited extent as a consultant to the company. The six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided on page 66.

BioGaia's independent legal counsel has been appointed to serve as Secretary at Board meetings. The President is not a member of the Board but is co-opted to attend all Board meetings. Other executives in the company take part in Board meetings in order to present reports. The Board has adopted rules of procedure that include instructions for the division of responsibilities between the Board and the President and the structure of Board activities during the year. Furthermore, the Board has adopted instructions for the President, authorisation instructions including instructions for liquidity management and a policy for foreign exchange management. The rules of procedure, President's instructions and authorisation instructions are reviewed at least once a year.

The Board decides on matters related to the Group's overall strategy, organisation and management. The Board approves both interim reports and the annual report before these are published. The Board held nine minuted meetings and one strategy seminar in 2011. At these meetings the Board has discussed budgetary matters, business plans, financial accounts, investments, financial reports and major agreements. At the strategy seminar, the Board dealt mainly with issues concerning R&D, product development, brand building and related matters. During the year, Inger Holmström was absent from one meeting.

The Board of Directors continuously evaluates its own performance through both open discussions and a written evaluation. The results of the written evaluation are submitted to the Nominating Committee

## Board fees

The 2011 AGM resolved that Board fees would be paid in an amount of SEK 300,000 to the Board Chairman and SEK 150,000 to each of the other Board members not employed by the company.

## Board Chairman

The Chairman supervises the work of the Board and is responsible for ensuring that the Board carries out its duties in accordance with the Swedish Companies Act and the rules of procedure. Through ongoing contact with the President, the Chairman continuously monitors the company's development and ensures that the Board is provided with the information necessary to carry out its duties. David Dangoor has been Board Chairman since the 2007 AGM.

## President

The President is responsible for overseeing the company's business development and for

supervising and coordinating its day-to-day operations. The Board has established instructions for the President that among other things regulate his management and development of the company and the provision of reports and decision data to the Board. The President prepares the requisite information and decision data such as reports on the company's finances, the order situation, significant business matters and strategic issues prior to Board meetings, as well as presenting reports and motivating proposals for decision. Furthermore, the President continuously informs the Board Chairman about the company's financial and business situation. Every year the Board carries out an evaluation of the President's performance in which no member of the Executive Management is present.

### Executive Management

BioGaia's Group Executive Management consists of the eight individuals who are presented on page 67. The Group's Executive Management is headed by the President and is responsible for planning, supervising and monitoring the company's day-to-day operations. Minuted meetings are normally held once a month. The responsibilities and powers of the President are regulated by the Swedish Companies Act and by the instructions that are adopted by the Board. The responsibilities and powers of the Executive Management are defined in the established job descriptions and authorisation instructions.

### Remuneration Committee

The Board has appointed a Remuneration Committee consisting of the Board Chairman David Dangoor and Board member Stefan Elving. The task of the Remuneration Committee is to prepare recommendations for remuneration and other terms of employment of the President and other senior executives who together make up the Executive Management. The principles for remuneration to senior executives are resolved on by the AGM. The Remuneration Committee prepares its recommendations based on these principles.

### Auditors

BioGaia's independent auditors are normally appointed by the AGM to serve for a period of four years. The 2010 AGM elected Grant Thornton Sweden AB as the company's auditor until the end of the 2014 AGM. Grant Thornton has appointed Lena Möllerström Nording as Auditor in Chief. By decision of the AGM, auditing fees are paid according to approved account.

The auditors examine the administration of the company by the Board of Directors and the President and the quality of the company's financial reporting. At the request of the Board, the auditors review the semi-annual report and the year-end report.

The auditors report the results of their review to the shareholders through an audit report, which is presented to the AGM. In addition, the auditors submit written and oral reports to the Executive Management and the Board. The auditors take part in the Board meeting preceding publication of the year-end report to present the results of their audit of the annual accounts and observations from ongoing examination of the company's internal control during the financial year.

The auditors also submit an auditor's statement on the corporate governance report and a report on the examination of remuneration to senior executives.

In addition, Grant Thornton has provided certain tax-related advice and performed other audit-related services. Information about remuneration to the

auditors can be found in Note 5 of the annual report.

Due to the fact that independent Board members have accounting expertise and in view of the Board's ongoing examination of the financial reporting and the company's limited size and transaction volume, the Board has decided not to set up any audit committee. Instead, the entire Board of Directors meets with the auditors at least once a year without the presence of the President or other members of the Executive Management.

### The Board's report on internal control over financial reporting for the 2011 financial year

#### Introduction

As stated in the Swedish Companies Act and the Swedish Code of Corporate Governance (the Code), the Board of Directors is responsible for establishing and maintaining adequate internal control. This report has been prepared in accordance with these rules and provisions and is thereby limited to internal control over financial reporting.

#### Financial reporting

The Board is responsible for ensuring that the company's organisation is suitably structured so that the financial accounts, cash management and other financial conditions can be controlled satisfactorily.

Every year, the Board of Directors adopts rules of procedure for the Board's activities and instructions regulating the division of responsibilities between the Board and the President. The rules of procedure state which matters require approval or authorisation from the Board. At Board meetings, the President reports on matters requiring treatment by the Board.

The Managing Director ensures that the Board is provided with the objective, detailed and relevant information needed for the Board to make well founded decisions and that the Board is continuously informed about the company's business development and financial position.

Aside from the rules of procedure between the Board and the President, BioGaia's control environment is based on the company's organisation and operating structure, in which roles and responsibilities are defined. There is a high level of employee awareness about the importance of maintaining good control over financial reporting. The company's financial development is assessed and monitored monthly. Financial reports and summaries are prepared by the Group's finance department and are presented to the Board quarterly and to the Executive Management monthly.

#### BioGaia's values

BioGaia's vision is to improve the health of people around the world by offering first class probiotic solutions. BioGaia also has a set of shared values and the company's employees are well aware of these.

BioGaia and BioGaia's employees:

- are fast, innovative and respectful
- build strong relationships with their customers
- strive for high quality and deliver on time
- have ethical principles and are open and honest
- take personal responsibility for and are dedicated to the company's business.

#### Risk assessment

The company works continuously with risk assessment and risk management to ensure that the risks to which the company is exposed are handled within the limits ultimately established by the Board. The executive management conti-

nuously analyses the company's business processes with regard to efficiency and risks. This work includes the identification of significant risks for misstatements and deficiencies in the financial reporting. To limit risks, suitable processes and controls are built into the company's operations. The most critical business processes and the absolutely largest values, in terms of both assets and business/product development, are found in the Parent Company. In addition, the bulk of sales take place in the Parent Company. Processes that are deemed to be of special importance to BioGaia are sales including quality assurance, R&D and manufacturing.

#### Control activities

The risks identified in financial reporting are managed through a number of control activities in the company's processes. Processes and controls are reviewed and updated regularly in order to detect, prevent and correct any errors or deficiencies. The control structure also includes the division of powers and responsibilities and the Executive Management's monthly review of the company's financial information.

#### Information and communication

BioGaia has information and communication paths that are designed to promote the completeness and accuracy of the financial reporting. Authorisation instructions and policies are distributed to all employees and can be viewed on the company's intranet. Once or twice a year, all of BioGaia's employees meet to increase their knowledge about the company's processes and goals and to exchange information and experiences. In 2011 the company's employees met for two days in May.

#### Monitoring

The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Grant Thornton Sweden AB, also audits a selection of BioGaia's routines and internal controls. The Board then evaluates this information and ensures that measures are taken in respect of the identified deficiencies and resulting recommendations.

The company has no special internal audit function. In light of the company's size and the volume of transactions, together with the expertise in this area possessed by the Board of Directors and the Board's meeting with the independent auditor, the Board has determined that there is no reason to set up a formal intern audit function.

Stockholm, 21 February 2012

Board of Directors of BioGaia AB

#### Auditors' statement on the corporate governance report

The Board of Directors and the President are responsible for the corporate governance report and for ensuring that it is prepared in accordance with the Annual Accounts Act.

As a basis for our statement on whether the corporate governance report has been prepared and is consistent with the other parts of the annual report, we have read the corporate governance report and judged its statutory content based on our knowledge of the company.

A corporate governance report has been prepared and its statutory information is consistent with the annual report and the consolidated accounts.

Stockholm, 21 February 2012

Grant Thornton Sweden AB

Lena Möllerström Nording  
Authorised Public Accountant