

Corporate governance report 2014

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 company's highest decision-making body. The Annual General Meeting (AGM) elects the members of the Board of Directors. In addition, the responsibilities of the AGM 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 auditors.

One shareholder, Annwall & Rothschild Investment AB, holds 8.7 per cent of the share capital and 34.1 per cent of the votes in the company. Other individual shareholders hold less than 10 per cent of the share capital and votes each.

2014 AGM BioGaia's AGM was held on 6 May 2014 and was attended by shareholders representing 55.5 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.

2015 AGM The 2015 AGM will be held at 4:00 p.m. on Thursday, 7 May, at Lundqvist & Lindqvist Klara Strand, Klarabergsviadukten 90, in Stockholm.

Notice of the AGM Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) 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 AGM.

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

The 2014 AGM 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 2014. 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 2015 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 the Chairman of BioGaia AB, David Dangoor, together with Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Allan Ladow, representing Sebastian Jahreskog, who via direct and indirect ownership is the second largest shareholder, and Jannis Kitsakis, representing Fjärde AP-Fonden, the company's third largest shareholder. All four members of the Nominating Committee are independent in relation to the company and its management.

The Nominating Committee shall prepare recommendations for the following matters to be put before the 2015 AGM for resolution:

- a) appointment of the Chairman of the AGM
- b) election of the Board of Directors
- c) election of the Board Chairman
- d) fees for members of the Board
- e) election of auditors
- f) fees for the auditors
- g) appointment of the Nominating Committee ahead of the 2016 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 2014 the Board consisted of eight 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 seven remaining members are independent in relation to both the company and its management. A presentation of the Board is provided on page 68.

BioGaia's 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 separation of duties 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 seven minutes meetings and one strategy seminar in 2014. During the year, Paula Zeilon, Inger Holmström, Thomas Flinck and Brit Stakston were each absent from one meeting.

At the meetings the Board has among other things discussed business plans, investments, strategic matters, financial reports, major agreements, budgetary matters and accounting matters. At the strategy seminar, the Board dealt mainly with issues concerning R&D, product development, patent strategy, regulatory and quality issues and related matters.

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

Board fees The 2014 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 twelve individuals who are presented on page 68. 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 Board Chairman David Dangoor and Board member Stefan Elving. The task of the Remuneration Committee is to prepare recommendations for the 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. The 2014 AGM resolved to re-elect the certified auditing firm of Grant Thornton Sweden AB for the period until the end of the AGM that will be held in 2015. The auditing firm has appointed Lena Möllerström Nording as Auditor in Charge. 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 also review 6 month 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 4 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. Furthermore, 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 2014 financial year

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

Financial reporting 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 President 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 structure is based on the company's organisation and its operation 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 also has a set of shared values and the company's employees are well aware of these (see below).

BioGaia's vision is to improve the health of people around the world by offering first class probiotic products.

BioGaia's values:

- My personal commitment is vital for BioGaia's success.
- We are innovative and action-oriented.
- We are business-minded and deliver on our promises.
- We are honest, respectful and selfless in what we do and say.

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 continuously 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 these 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 the 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 2014 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 internal audit function.

Stockholm, 20 February 2015

Board of Directors of BioGaia AB

Auditors' statement on the corporate governance report

To the general meeting of the shareholders in BioGaia AB (publ.), corporate identity number 556380-8723

The Board of Directors is responsible for the corporate governance report for the year 2014 (on pages 64-65) and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance report and based on this reading and our knowledge of the company and the Group we believe we have sufficient grounds for our statement. This means that our statutory review of the corporate governance report has a different focus and scope compared to the focus and scope of an audit according to the International Standards on Auditing and generally accepted accounting principles in Sweden.

In our opinion, a corporate governance report has been prepared and its statutory information is consistent with the annual report and the consolidated accounts.

Stockholm, 20 February 2015

Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

Executive Management



PETER ROTHSCHILD
Born in 1950. M.B.A. President, founder and principal shareholder. Board assignments in Looft Industries AB. Holds 370,334 class A shares and 379 666 class B-shares via Anwall & Rothschild Investment AB, and 10,000 warrants.

MARGARETA HAGMAN
Born in 1966. M.B.A. Executive Vice President Accounting, Finance and Investor Relations. Employed by the company since 1996, in current position since 2010. Holds 9,000 class B shares and 3,000 warrants.

URBAN STRINDLÖV
Born in 1964. Mechanical Engineer. Executive Vice President and Sales Director. Employed by the company since 2004, in current position since 2010. Holds 10,000 warrants.

EAMONN CONNOLLY
Born in 1957. Ph.D. Senior Vice President Research BioGaia and IBT. Employed by the company since 2000, in current position since 2002 (IBT 2013). Holds 0 shares.

ANN WENNERSTRÖM
Born in 1961. Registered nurse, education in marketing, PR and Public Affairs. Marketing Director. Employed by the company since 2012. Holds 6,000 warrants

KATAYOUN WELIN-BERGER. Born in 1968. Ph.D. in Pharmacology. Head of the Department for Strategic Purchasing and Quality. Employed by the company since 2014. Holds 0 shares.

Board of Directors

DAVID DANGOOR
Born in 1949. Chairman of the Board. Elected to the Board in 2003. M.B.A. Marketing and PR consultant. President of Innovative Partners LLC. Former Vice President and Marketing Director at Philip Morris USA and Philip Morris International. Other board

assignments: Lifetime Brands, Inc., New York, City Ballet Inc., BAM, Brooklyn, School of Creative Leadership, Berlin University and Svensk-Amerikanska Handelskammaren (SACC NY, ordförande 1997–2001). Holds 518,918 class B shares and 50,000 class B shares via private company.

INGER HOLMSTRÖM
Born in 1948. Elected to the Board in 2007. M.A. in language and linguistics and a degree in journalism. President of Priority Group. Former Corporate Communications Director at Coop Norden, Posten and Vattenfall. Holds 500 class B shares.

STEFAN ELVING
Born in 1941. Elected to the Board in 2001. Former Marketing Director and Executive Vice President of Icahandlarnas AB. Other board assignments: Arcus AS. Holds 0 shares.

BRIT STAKSTON
Born in 1961. Elected to the Board in 2014. PR Consultant, media strategist and owner of PR Agency Stakston AB. Holds 0 shares.





JESSICA EIDEMO

Born in 1974. M.Sc. Biology, education in business economics and marketing. Head of Business Unit Pediatrics. Employed by the company since 2012, in current position since 2014. Holds 6,000 warrants.

BO MÖLLSTAM

Born in 1952. M.B.A. Director of Intellectual Property. Employed by the company since 1990, on a consulting basis since 2003. Holds 51,000 class B shares.

NIGEL TITFORD

Born in 1973. M.Sc. Business Administration and Business Law. Head of Business Unit Adult Health. Employed by the company since 1999, in current position since 2014. Holds 792 class B shares.

KRISTINA SILVERIO

Born in 1964. M.Sc.Eng. Vice President Production and Supply. Employed by the company since 2003, in current position since 2005. Holds 0 shares.

ULRIKA KÖHLER

Born in 1966. B.Sc. Biology with extended studies in microbiology. Head of Business Unit New Business. Employed by the company since 2013. Holds 0 shares.

HELEN OLSSON

Born in 1965 responsible for Human Resources. Employed by the Company as a consultant since 2013, in current position since 2015. Holds 0 shares.

JÖRGEN THORBALL

Born in 1962. Elected to the Board in 2008. Physician. Managing Partner XOventure GmbH, President of Ophiuchus AG. Former international senior positions for example at

Novozymes, BioGaia, Aventis and Pharmacia. Other board assignments: ViroGates A/S, YourGlobalEye Aps, 1cryobio AG Anova Pharmaceuticals, AG. Holds 0 shares.

PAULA ZEILON

Born in 1962. Elected to the Board in 2003. M.Sc. Eng. Partner in Conlega affärskonsultbolag. President of Life Science Foresight Institute. Former Marketing Director at Amersham Biosciences AB. Holds 1,000 class B shares.

JAN LITBORN

Born in 1951, Elected to the Board in 2014. Partner at the law firm Glimstedt and specialized in business law. Other board assignments: Anders Hedin Invest AB, Visio Property Ltd,

Svensk Fastighetsfinansiering AB, Lord Asset Management LTD, Consesus Asset Management AB with several medium-sized companies. Holds 0 shares.

JAN ANNWALL

Born in 1950. Elected to the Board in 1990. M.B.A. Former Executive Vice President and CFO of BioGaia AB. Founder and principal shareholder in BioGaia AB. Holds 370,334 class A shares and 379,666 class B shares via Annwall & Rothschild Investment

