

Corporate governance report 2019

COMPLIANCE WITH STOCK EXCHANGE REGULATIONS, GOOD PRACTICE ON THE STOCK MARKET AND THE SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on a regulated market in Sweden shall apply the Swedish Corporate Governance Code (the Code) drafted by the Swedish Corporate Governance Board. The aim of the Code is to improve confidence in Swedish listed companies by promoting positive development of the companies' corporate governance. The Code is based on the "comply or explain" principle which means that a company may deviate from the Code but that any such deviations must be explained.

BioGaia has not deviated in 2019 from any of the rules set out in the Code.

Nor has BioGaia been subject to a decision by the Nasdaq Stockholm Disciplinary Committee or a statement by the Swedish Securities Council.

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 CEO and the Executive Management in accordance with the Swedish Companies Act, the Code, the Articles of Association and internal controls. The internal controls mainly comprise the Board's rules of procedure, instructions for the CEO and a number of policy documents and manuals that contain rules and recommendations.

The share capital consists of 740,668 class A shares carrying 10 votes each and 16,595,794 class B shares carrying one vote each. There are no restrictions on the number of votes each shareholder may cast at a General Meeting of Shareholders.

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, food 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 decision on discharge from liability for the members of the Board and the CEO. The AGM also elects the company's auditors.

According to BioGaia's Articles of Association, shareholders who wish to participate in a General Meeting of Shareholders must (i) be entered into a print-out or other presentation of the entire share register relating to conditions five weekdays prior to the meeting and (ii) notify the company no later than 16.00 CET on the day stipulated in the notice of the meeting. This day may not be a Sunday or other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not occur earlier than the fifth weekday prior to the meeting.

One shareholder, Anwall & Rothschild Investment AB, owns 5.6% of the share capital and 31.8% of the votes in the company. Other individual shareholders hold less than 10% of the share capital or votes each.

2019 AGM BioGaia's AGM on 8 May 2019 was attended by shareholders representing 59.0% of the total number of votes in the company. The AGM was also attended by the CEO, the Board members elected by year's AGM, the Board Chairman and the company's elected auditor. In addition, four representatives from the Nominating Committee attended the AGM.

The AGM resolved on the following proposals, among others:

- adoption of the annual report
- discharge from liability for the Board of Directors and the CEO
- a dividend of SEK 10 per share as well as a provision of SEK 3.2 million to the Foundation to Prevent Antibiotic Resistance established by BioGaia in 2017. The purpose of the Foundation is through support to research, education and information activities to promote the use of products and methods that prevent and thereby reduce the use of antibiotics and the risk of antibiotic resistance.
- re-election of Board members Ewa Björling, David Dangoor, Peter Elving, Inger Holmström, Anthon Jahreskog, Peter Rothschild and Brit Stakston
- re-election of Peter Rothschild as Board Chairman and David Dangoor as Vice Chairman

- re-election of the registered auditing firm Deloitte AB
- Board fees of SEK 600,000 to the Board Chairman, SEK 430,000 to the Vice Chairman and SEK 230,000 to each of the other Board members
- that an additional fee of a maximum of SEK 155,000 per month shall be paid to the Board Chairman for significant working duties in addition to the board assignment. Such additional remuneration to be paid in accordance with a special agreement and in accordance with the Board's detailed decision
- payment of auditor's fees according to approved account
- principles for remuneration and other terms of employment for senior executives in accordance with the Board's proposal -Payment of auditor's fees according to approved account
- to adopt guidelines for the composition of the Nominating Committee.

2020 AGM The 2020 AGM will be held at 16.00 CET on 7 May in the Swedish Society of Medicine's premises, Klara Östra Kyrkogata 10, 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 is published in Svenska Dagbladet.

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

The 2019 AGM resolved that the Nominating Committee would be appointed as follows:

The Board Chairman shall convene the four 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 situation at 30 June 2019. The Nominating Committee shall be chaired by the member representing the largest shareholder on that date. If any of the four largest shareholders should waive its 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 four shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2020 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 four largest shareholders in terms of voting power, and if the Nominating Committee deems it appropriate, the member shall leave and a representative for the next largest shareholder in order of voting power be given the opportunity to replace this member. In the event that an appointed member of the Nominating Committee resigns from the Nominating Committee for some other reason, the shareholder who has appointed the member in question has the right to appoint a new member to the Committee. If this shareholder waives its right to appoint a new representative, the Nominating Committee, if it deems so appropriate in respect of the remaining mandate period, shall ask the next largest shareholder in terms of voting power if it wishes to appoint a representative to the Nominating Committee.

The Nominating Committee shall prepare recommendations for the following matters to be put before the 2020 AGM for resolution:

- a) appointment of the Chairman of the AGM
- b) election of the Board of Directors
- c) election of the Board Chairman and possible Vice 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 2021 AGM.

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of the Chairman of BioGaia AB's Board, Peter Rothschild, together with Per-Erik Andersson, representing Anwall & Rothschild Investment AB, the company's largest shareholder, Magnus Skåninger representing the company's second largest shareholder Swedbank Robur Fonder, Jannis Kitsakis representing the company's third largest shareholder Fjärde AP-Fonden and Sebastian Jahreskog, who through direct and indirect ownership is the company's fourth largest shareholder. All members of the Nominating Committee, except for Peter Rothschild, are independent in relation to the company and its management.

All shareholders have had 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. In its motivation the Nominating Committee takes into account diversity and breadth in the Board and seeks an even gender distribution.

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 Articles of Association contain no rules that relate to appointment and dismissal of Board members. The Board is elected annually at the AGM for the period until the next AGM has been held. The Board comprises seven members elected by the AGM with no deputies.

Board Chairman, Peter Rothschild, is a major shareholder in the company and was previously Managing Director (1990-2016) and Group President (2016-2018) of the company. The six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided at page 77.

BioGaia has appointed an external lawyer to serve as Secretary at Board meetings. The CEO 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 CEO and the structure of Board activities during the year. In addition to the responsibilities that are generally applicable pursuant to the Swedish Companies Act, the Articles of Association and the Swedish Corporate Governance Code, the following are regulated by the Board's rules of procedure:

- At least 5 Board meetings during the year, in addition to the statutory meeting.
- Establishment of the overall objectives for the company's operations and decision on the company's strategy.
- Approval of budgets and similar long-term plans, including the investment budget.
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- Matters related to investments and similar in amounts of more than SEK 2 million.
- Decision on the formation and capitalisation of subsidiaries in amounts of more than SEK 2 million.
- Adoption of the annual report, administration report and interim reports.
- Raising of loans
- Signing of agreements with a term of more than seven years.
- Launching of large-scale lawsuits and settlement of disputes of material significance.
- Other matters of material financial or other significance.

Furthermore, the Board has adopted authorisation instructions and finance policy instructions regarding for liquidity management and a policy for foreign exchange management. The rules of procedure, CEO's instructions and authorisation instructions are reviewed at least once a year.

BOARD ATTENDANCE 2019 ¹⁾

Members elected by the AGM	Elected in		Board meetings Attendance/total no. of Board meetings	Remuneration Committee Attendance/total no. of committee meetings	Audit Committee Attendance/total no. of committee meetings
	2018	1950			
Board Chairman Peter Rothschild	2018	1950	10/10	1/1	
Vice Chairman David Dangoor ²⁾	2003	1949	8/10	1/1	2/2
Board member Ewa Björling ²⁾	2015	1961	10/10		
Board member Peter Elving ²⁾	2018	1948	10/10	1/1	
Board member Inger Holmström ²⁾	2007	1948	10/10		
Board member Anthon Jahreskog ²⁾	2015	1980	10/10		2/2
Board member Brit Stakston ²⁾	2014	1961	9/10		

¹⁾ All members of the Board who have been prevented from participating in a Board meeting have been given the opportunity to present their views to the Chairman prior to the meeting.

²⁾ Independent in relation to the major shareholders, the company and the company's management.

At the Board meetings, the following are dealt with as required:

- Business plans
- Business performance monitoring
- Investments
- Strategic matters
- Financial reports
- Major agreements
- Budgetary matters
- Accounting 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 2019 AGM resolved that Board fees would be paid in an amount of SEK 600,000 to the Board Chairman, SEK 430,000 to the Vice Chairman and SEK 230,000 to each of the other Board members not employed by the company. An additional fee in a maximum amount of SEK 155,000 per month to the Board Chairman.

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 CEO, the Chairman continuously monitors the company's development and ensures that the Board is provided with the information necessary to carry out its duties. Peter Rothschild has been Board Chairman since the 2019 AGM.

CEO The CEO 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 CEO that among other things regulate management and development of the company and the provision of reports and decision data to the Board. The CEO prepares the required 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 CEO continuously informs the Board Chairman about the company's business situation. Every year the Board carries out an evaluation of the CEO's performance at which no member of the Executive Management is present.

EXECUTIVE MANAGEMENT BioGaia's Group Executive Management consists of the ten individuals who are presented on page 76.

The Group's Executive Management is headed by the CEO 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 CEO 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 job descriptions and in authorisation instructions.

REMUNERATION COMMITTEE The Board has appointed a Remuneration Committee to prepare recommendations for the remuneration and other terms of employment for the CEO 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. The Remuneration Committee consists of Peter Rothschild, Peter Elving and David Dangoor (chairman). The Remuneration Committee held one 1 minuted meeting in 2019. The members of the Remuneration Committee attended each meeting.

AUDIT COMMITTEE BioGaia appointed an Audit Committee in 2019. The key task of the Audit Committee is to support the Board with quality assurance of the financial reporting. The Audit Committee also prepares matters relating to regulatory compliance. The committee holds regular meetings with the company's auditors and evaluates audit work. The committee discusses significant accounting issues that affect the Group and assists the Nominating Committee in the preparation of proposals for auditors and their remuneration. The chairman of the Audit Committee is responsible for ensuring that the entire Board is kept informed about the work of the committee as well as, when necessary, presenting the Board with matters for decision. The Audit Committee's members comprise Anthon Jahreskog (chairman) and David Dangoor. The Audit Committee held two minuted meetings during 2019. The members of the Audit Committee attended each meeting.

AUDITORS BioGaia's auditors are normally appointed by the AGM to serve for a period of one year. The 2019 AGM resolved on re-election of the registered auditing firm of Deloitte AB to serve for the period until the end of the AGM to be held in 2020. The auditing firm appointed Birgitta Lööf 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 CEO and the quality of the company's financial reporting. At the request of the Board, the auditors also 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 and the semi-annual report to present the results of their audit of the annual accounts and the interim report respectively 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, the sustainability report and a report on the examination of remuneration to senior executives.

Deloitte has also 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.

Furthermore, the entire Board of Directors meets with the auditors at least once a year without the presence of the CEO or other members of the Executive Management.

AUTHORISATIONS There are no authorisations resolved by the AGM for the Board to make decisions on the issue of shares, warrants and/or convertibles or the acquisition of treasury shares.

THE BOARD'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING FOR THE FINANCIAL YEAR 2019

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

Internal control over 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 CEO. The rules of procedure state which matters require approval or authorisation from the Board. At Board meetings, the CEO reports on matters requiring consideration by the Board.

The CEO 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 CEO, BioGaia's control structure is based on the company's organisation and way of conducting operations, where 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.

The company's values BioGaia also has a set of shared values and the company's employees are well aware of these (see below). This is ensured through interviews in connection with new recruitment and through regular workshops with each department.

BioGaia's values

- My personal engagement 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 identifying significant risks for misstatements and deficiencies in the financial reporting and ensuring that there are suitable processes and controls in the company's operations to limit these risks. 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 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.

Monitoring The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Deloitte AB, also reviews 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 review function (internal audit). 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, 5 March 2020

Peter Rothschild
Board Chairman

David Dangoor
Vice Chairman

Ewa Björling
Board member

Peter Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Auditor's report on the corporate governance report
To the general meeting of the shareholders in BioGaia AB (publ) corporate identity number 556380-8723

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors which is responsible for the corporate governance statement for the financial year from 1 January 2019 to 31 December 2019 on pages 71-73 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard 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.

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 of the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 5 March 2020
Deloitte AB

Birgitta Lööf
Authorized public accountant