

Corporate governance report for BioGaia AB 2009

Corporate governance in BioGaia

BioGaia is a Swedish public limited company whose class B shares are listed on the small caps list of the Nasdaq OMX Nordic Exchange Stockholm. The company's operations are governed by the General Meeting of Shareholders, the Board of Directors and the Managing Director 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 shall, directly or through subsidiaries or other forms of partnership or cooperation, shall engage in the development, production, marketing and sales of products which benefit health in the form of pharmaceuticals, natural health products, dietary supplements, food additives and animal feed and suitable delivery systems for these products and other therewith compatible activities. The company is registered in Stockholm, Sweden. The Articles of Association are available on BioGaia's website under the heading "Corporate Governance".

General Meeting of Shareholders

The General Meeting of Shareholders is the highest decision-making body. The Annual General Meeting (AGM) elects the members of the Board of Directors. The responsibilities of the AGM also include the 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 Managing Director. The Annual General Meeting also elects the company's auditors.

Annual General Meeting 2009

The 2009 Annual General Meeting of BioGaia was held on 22 April 2009 and was attended by shareholders representing 46.8% of the total number of votes in the Company. The AGM was also attended by the Company's Managing Director, the Board members elected by the previous AGM, all of the Board members elected by the year's AGM and the Company's auditor.

Annual General Meeting 2010

The 2010 Annual General Meeting will be held on Thursday, 6 May 2010, at 4:00 p.m., at Lundqvist and Lindqvist, Klara strand conference, Klarabergsviadukten 90, Stockholm.

Notice of Annual General Meeting

Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) and Svenska Dagbladet no more than six weeks and not less than four weeks prior to the Meeting.

Nominating Committee

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

The 2009 AGM resolved that the Nominating Committee would be appointed as follows: "The Board Chairman shall convene the three largest shareholders in the company, 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 ownership conditions on 30 June 2009 shall determine which are the largest shareholders in terms of voting power. The Nominating Committee shall be chaired by the member representing the largest shareholder at this time. If any of the three largest shareholders should waive this right to appoint a member of the nominating committee, the shareholder next in order of size shall be given the opportunity to appoint a member. The names of the three owner representatives shall be made public as soon as they have been appointed, but not later than six months before the 2010 Annual General Meeting. The term of office of the Nominating Committee shall extend until a new Nominating Committee has been appointed".

The Nominating Committee has been appointed in accordance with the resolution of the AGM and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the largest shareholder, the Board Chairman David Dangoor, the second largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiebolaget Skandia, the fourth largest shareholder.

The Nominating Committee shall prepare recommendations to be put before the 2010 AGM for resolution regarding the following matters

- a) appointment of Chairman of the AGM
- b) election of Board of Directors and auditors

- c) election of Board Chairman
- d) fees for the members of the Board
- e) fees for the auditors
- f) appointment of the Nominating Committee for the 2011 AGM.

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

Board of Directors

According to BioGaia's Articles of Association, the Board shall consist of not less than five and not more than eight members with not more than three deputies. The Board is elected annually by the AGM to serve for the period until the end of the following AGM. In 2009, the Board has consisted of seven members elected by the AGM with no deputies. One Board member, Jan Annwall, who has been a member of the Board since 1990, is employed by the Company and is also a major shareholder. The six remaining members are independent of both the Company and its management. Jan Annwall has notified that he will end his employment with the company on 1 April 2010. A presentation of the Board is provided in [appendix 1](#).

BioGaia's independent legal counsel has been appointed to serve as Secretary at Board meetings. The Managing Director is not a member of the Board but is a co-opted member at 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 Managing Director and the structure of Board activities during the year. The Board has also adopted instructions for the Managing Director, authorisation instructions including instructions for liquidity management. The rules of procedure, the Managing Director's instructions and the authorisation instructions are reviewed at least once a year.

The Board decides on matters relating to the Group's overall strategy, organisation and management. The Board approves both intermediate reports and the annual report before these are published. The Board held nine minuted meetings and also a strategy seminar in 2009. At these meetings, the Board has discussed budgets, business plans, financial accounts, capital expenditure, financial reports and major contracts. At the strategy seminar, the members of the management group presented their fields of responsibility and thereafter the Board dealt with strategy questions. Paula Zeilon was absent from one meeting and Stefan Elving was absent from two meetings. The other Board members attended all the meetings.

The Board of Directors continuously assesses 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 2009 AGM resolved that Board fees would be paid in amounts of SEK 200,000 to the Board Chairman and SEK 100,000 to each of the other Board members not employed by the Company.

Board Chairman

The Chairman 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 Managing Director, 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.

Managing Director

The Managing Director is responsible for overseeing the Company's business development and for supervising and coordinating its day-to-day operations. The Board has adopted instructions for the Managing Director which among other things regulate his management and development of the Company and the provision of reports and decision data to the Board. The Managing Director prepares the requisite information and decision data such as reports on the Company's finances, the order situation, significant business and strategic issues prior to Board meetings, and presents reports and motivates proposals for decision. Furthermore, the Managing Director continuously informs the Board Chairman about the Company's financial and business situation. Every year the Board carries out an evaluation of the Managing Director's performance, when no member of the executive management is present.

Executive Management

BioGaia's Group Executive Management consists of the 10 persons presented in [appendix 2](#). The Management Group is headed by the Managing Director and is responsible for planning, supervising and monitoring the Company's day-to-day operations. Minuted meetings are normally held every four weeks. The responsibilities and

powers of the Managing Director are regulated by the Swedish Companies Act and by the instructions adopted by the Board. The responsibilities and powers of the Group 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 Managing Director and other senior executives who together make up the Group Executive Management. The principles for remuneration to senior executives are approved by the AGM. The Remuneration Committee prepares its recommendations in accordance with these principles.

Auditors

BioGaia's independent auditors are normally appointed by the AGM to serve for a period of four years. The 2007 AGM elected Lena de Rosche and Ivar Verner (deputy), both from Grant Thornton Sweden AB, as the Company's auditors until the end of the 2010 AGM. By decision of the AGM, auditing fees are paid on a current account basis.

The auditors examine the administration of the Company by the Board of Directors and the Managing Director and the quality of the Company's financial reporting. At the request of the Board, the auditors also review the six-monthly report and the year-end statement.

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 their ongoing examination of the company's internal control during the financial year.

Grant Thornton has also provided certain tax-related advice and performed other audit-related services. Disclosures about remuneration to the auditors are given in Note 6.

In view of the Company's limited size and volume of transactions, 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 in the absence of the Managing Director and other member of the executive management.

The Board's report on internal control over financial reporting for the financial year 2009

Introduction

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

Financial reporting

The Board is responsible for ensuring that the Company's organisation is structured so that the financial accounts, cash management and other financial conditions are controlled in a satisfactory manner.

Each 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 Managing Director. The rules of procedure state which matters require approval or confirmation by the Board. At Board meetings, the Managing Director reports on matters requiring consideration by the Board.

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

In addition to the rules of procedure between the Board and the Managing Director, BioGaia's control structure is based on the Company's organisation and operating routines 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 on a monthly basis. Financial reports and summaries are prepared by the Group's finance department and are presented to the Board quarterly and to the executive management each month.

BioGaia's values

BioGaia also has a set of shared values of which the Company's employees are well aware (see box below).

BioGaia's values

- We believe in our mission, that our natural products improve human health
- We aim to be fast, innovative and informal problem-solvers
- We build strong relationships with our customers by meeting their needs
- We strive to achieve high quality, delivery reliability and profitability
- We have ethical principles, and are open and honest in dealing with our colleagues and partners
- We take personal responsibility for the success of the company

Risk assessment

The Company works continuously with risk assessment and risk management in order to ensure that the risks to which the Company is exposed are managed with the framework 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 essential risks of error in the financial reporting. To limit the risks, suitable processes and controls are built into the activity.

The most critical business processes and the absolutely largest values, both assets and business and product development, are found in the Parent Company. In addition, the majority of the 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 taken care of 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 correctness 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 2009 the Company's employees met for two days in May.

Follow-up

The executive management makes an annual evaluation of the effectiveness of the internal control. Each year, the Company's elected auditing firm, Grant Thornton Sweden 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 deficiencies identified and the resulting recommendations.

The Company has no special internal audit function. In view of the Company's size and the volume of transactions, the Board of Directors' has decided that there is no reason to set up a formal internal audit function.

Stockholm, 22 February 2010

David Dangoor
(Chairman)

Jan Annwall

Stefan Elving

Thomas Flinck

Inger Holmström

Jörgen Thorball

Paula Zeilon

This corporate governance report has not been examined by the Company's auditor.

Appendix 1 Presentation of the Board

Appendix 2 Presentation of the Group Executive Management