

# Corporate Governance Report 2016

Bactiguard Holding AB (publ) ('Bactiguard' or 'the company') has prepared this Corporate Governance Report in compliance with Chap.6 § 6 of the Swedish Annual Accounts Act and Chap.10 of the Swedish Code of Corporate Governance ('the Code').

In addition to the principles for corporate governance required by law or other applicable legislation, at Bactiguard corporate governance is based on internal documents such as the articles of association, the Board of Directors' work plan and CEO instruction, and policies and guidelines, as well as external rules such as the Nasdaq Stockholm Rules and regulations for Issuers and the Code. In 2016, the company has not made any deviations from the Code.

## Shares and shareholders

The Bactiguard series B share is listed on Nasdaq Stockholm. At year-end, the total number of shares was 33,302,373 (of which 4,000,000 non-listed series A shares) and the number of shareholders was 2,632. Page 26 contains a list of the company's biggest shareholders as per 31 December 2016.

## General Meetings

The shareholders' right to decide on matters affecting Bactiguard is exercised at the general meeting in accordance with the Swedish Companies Act and is the company's highest decision making organ. The rules that control conducting general meetings are found in the Swedish Companies Act, the Code, and the company articles of association §§ 10–12.

All shareholders registered in the share registry as of the record date and who have provided timely notice of their intention to participate in the general meeting are entitled to participate therein and vote their full shareholding. There are no limitations as to the number of votes shareholders may exercise at the general meeting. Notice for convening the general meeting is published for shareholders on the company's website and announced in Post- och Inrikes Tidningar. Simultaneously with publication of the notice, the company advertises this information in the newspaper Dagens Industri. Shareholders wanting to have a matter considered at the general meeting shall request so in writing to the Board of Directors. Such matters shall be brought for consideration at the general meeting if the request was submitted to the Board of Directors no later than seven weeks prior to the meeting. All shareholders are entitled to ask questions to the company regarding matters on the agenda for the general meeting, and in relation to the company and the Group's financial position.

An annual general meeting ('AGM') shall be held in Stockholm, Huddinge or Botkyrka within six months of the closing date for the financial year. The company's financial year begins on 1 January and closes 31 December. The AGM determines issues including adopting the company's annual report, appropriation of the company's profit or loss, and discharging the board members and the CEO from liability. The AGM also appoints board members and auditors, and determines the establishment of a nomination committee, fees for the Board of Directors and auditors, and guidelines for determining salaries and other remuneration to the CEO and other senior managers. Resolutions by the general meeting are normally passed by simple majority vote, except where the Swedish Companies Act imposes requirements for a higher portion of the shares and assigned votes represented at the general meeting, for example, resolutions regarding amendment of the company's articles of

association. The general meeting has not authorised the Board of Directors to repurchase company shares.

## The Articles of Association

Bactiguard's articles of association are published in full on the Bactiguard website, [www.bactiguard.se](http://www.bactiguard.se). Changes to Bactiguard's articles of association are made in accordance with the provisions of the Swedish Companies Act. Bactiguard's articles of association stipulate that the Board of Directors shall consist of not less than three and no more than seven members. The board members are elected by the AGM for one year at a time. The company articles of association do not contain any special provisions on appointment or dismissal of board members.

## Nomination committee

At the 2016 AGM, rules were adopted for appointment of members to the Nomination committee for the 2017 AGM. These rules, as adopted, provide that the Nomination committee shall be formed by the chairman of the Board of Directors contacting the three largest shareholders (by votes) as per ownership statistics on 31 August, who each shall be entitled to appoint one member to serve together with the chairman of the Board of Directors on the Nomination committee. For the 2017 AGM, the Nomination committee consists of Jan Lombach, Chairman, (appointed by KK Invest AB, a company controlled by Christian Kinch), Thomas von Koch (appointed by Bactiguard B.V., a company controlled by Thomas von Koch), Christian Brunlid (appointed by Handelsbanken Fonder AB) and Stanley Brodén (Chairman of the Board of Directors).

## Board of Directors

The Board of Directors is the highest management organ of the company, standing under the authority of the general meeting. The Board of Directors is, inter alia, responsible for the company's organisation and management of the company's affairs, ensuring that the company's organisation is designed to adequately control the company's accounts, financial management and other economic conditions. The Board of Directors shall continually assess the company's financial position. The Board of Directors shall primarily address comprehensive and long-term issues, and other issues of unusual character or great significance to the Group and the company.

The Board of Directors' work shall follow a written work plan that shall ensure that the Board of Directors is fully informed and that all control related aspects of the company's operations are addressed. Pursuant to the work plan, the Chairman of the Board of Directors is responsible for monitoring and discussing the developments of Bactiguard in regular contacts with the CEO. The Chairman of the Board of Directors shall also perform duties such as ensuring that the Board of Directors receive continual information from the CEO as necessary to monitor the company's financial position, financial planning and development, and that an annual assessment of the work of the Board of Directors is conducted. In addition to the specific responsibility of the Chairman of the Board of Directors, the Board of Directors has not allocated its areas of responsibility in any way, other than that stipulated in the instructions for the audit and remuneration committees.

The work plan of the Board of Directors stipulates that the Board of Directors shall, in a 12 month cycle, address at least the following areas of importance for the company; accounting and auditing issues; market and market analyses; risk identification; strategy; organisation; assessment of the Board of Directors and the CEO and the system for internal control; and the company's capital structure. The Chairman of the Board of

Directors is responsible for the annual evaluation of the work of the Board of Directors.

During 2016 the Chairman conducted a written survey evaluation with all board members comprising of 15 different aspects of the work of the Board of Directors. The Chairman of the Board of Directors has presented results of the evaluation to both the Board of Directors and the Nomination committee.

During 2016 the Board of Directors held a total of 9 meetings where minutes were recorded. All board members attended all board meetings. In 2016 the work of the Board of Directors was characterised by focus, long-termism and perseverance in terms of the work on increasing the sale of BIP products and winning new licencing deals. The Board of Directors has also continued its work on ensuring long-term stable financing as a basis for the company's continued development. During the year the Board of Directors also increased its focus on strengthening the management structure for securing delivery of the development the Board of Directors wants to see.

In 2016 the Board of Directors has comprised Stanley Brodén (Chairman), Mia Arnhult, Peter Hentschel and Christian Kinch and from the 2016 AGM Marie Wickman-Chantereau as well. Additional information on the board members is available on page 31.

#### **Board Committees**

The Audit committee is tasked with monitoring the company's financial reporting and the effectiveness of internal controls and risk management in the company, and internal audits as necessary. The committee shall also monitor and review the auditor's independence and impartiality, and especially follow whether the auditor provides other services than purely auditing services to the company. The committee also contributes proposals to the general meeting for adoption regarding the appointment of auditors. Since the audit committee's re-establishment in February 2016, the committee comprises the board members Mia Arnhult (Chairman), Stanley Brodén and Peter Hentschel. All members were present at meetings during 2016.

The Remuneration committee shall support the Board of Directors with proposals, advice, and preparation in regard to issues of remuneration principles for the CEO and other senior managers and individual remuneration to the CEO in accordance with remuneration principles. These principles include the relationship between fixed and any variable remuneration, and the relationship between performance and remuneration, the general terms for any bonus and incentive programme, and the general terms for non-monetary benefits, pension, notice of termination and severance pay. The Board of Directors is also responsible as a whole for establishing remuneration levels and other employment terms for the CEO. Share-related incentive programmes for group management are, however, adopted only by the AGM. The committee shall also; support the Board of Directors in monitoring the system through which the company complies with publication requirements stipulated by legislation, market regulations and the Code in regard to information related to remuneration of the CEO and other senior managers; monitor and assess any ongoing or concluded incentive programs for variable remunerations to the CEO and/or other senior managers; evaluate compliance with the guidelines for remuneration to the CEO and other senior managers adopted by the AGM as well as the current structure and levels of remuneration. In 2016 the remuneration committee comprised the board members Stanley Brodén (Chairman) and Peter Hentschel. All members were present at meetings during 2016.

#### **Chief Executive Officer**

The CEO is appointed by the Board of Directors and is responsible for the daily administration of the company's operations in accordance with the instructions and regulations of the Board of Directors. The CEO also functions as the Chairman of the management making all decisions in consultation with other managers. Christian Kinch was the company's CEO in 2016. Additional information on the CEO is available on page 30.

#### **Internal controls and risk management activities regarding financial reporting**

As the company's financial system is designed to ensure that entering agreements and payment of invoices, and similar, must follow the decision processes, and the signatory and authorisation procedures provided in internal steering documents, the company has a basic control structure to counteract and prevent the risks identified by the company. In addition to these control structures, a series of additional control activities are conducted to further discover and correct any errors and deviations. Such control activities consist of follow-up at various levels in the organisation, for example, follow-up and review by the Board of Directors regarding their formal decisions; review and comparison of income items and account settlement; and approval of the accounting of business transactions with the finance department. In accordance with its work plan, the Board of Directors conducts an annual review of these internal controls and also, annually, performs risk identification and establishes risk mitigation measures. The auditor is invited to a board meeting to present its auditing measures in regard to internal control.

The division and delegation of responsibility have been documented and communicated in internal steering documents established for the Board of Directors and the company, such as; the work plan of the Board of Directors, the CEO instruction, and the delegation of authority, authorisation procedure and other internal steering documents, such as the financial handbook. All internal steering documents are maintained up-to-date on a regular basis, to reflect legislative changes or revision of reporting standards. Bactiguard has established an organisation for the purpose of ensuring that all financial reporting is correct and efficient.

The internal steering documents define responsibilities and daily interactions between the positions involved so that all necessary information and communication reach all persons as necessary. The group management receives weekly and monthly financial information regarding the company and its subsidiaries in regard to developments of upcoming investments and liquidity planning. The company's communication policy is designed to ensure that publication of all information, both internal and external is made correctly and at the appropriate time for all occasions.

Monitoring is conducted continuously at all levels of the organisation. The Board of Directors regularly assesses the information which the company's senior management and auditors submit. In addition, the Board of Directors conduct annual follow-up of previous risk assessments and any measures implemented therefore. The Board of Directors' monitoring of developments in internal controls and ensuring that measures are taken in regard to any shortcomings or suggestions that arise are particularly important.

#### **Internal audit**

Considering the scope of the company's operations and the organisational structure at large, the Board of Directors has not found any reason to implement an internal auditing unit. The Board of Directors has assessed that the monitoring and review programme described above are sufficient, in combination with the external audits, to maintain effective internal controls in regard to the financial reporting.