

## **Corporate Governance Report IBT AB 2017**

### **Compliance with the Swedish Code of Corporate Governance (Svensk kod för Bolagsstyrning)**

The purpose of the Code is to strengthen confidence in Swedish listed companies by promoting a positive development of the company's corporate governance. The code is based on the "comply or explain", which means that a company can deviate from the code, but these deviations must be explained.

IBT has not deviated from any of the rules outlined in the Swedish Code of Corporate Governance.

### **Environment and responsibility**

IBTS activities pose no special environmental risks and require no special environmental permits or decisions by authorities. The Board believes that the company conducts its business in accordance with applicable health and safety regulations and provides its employees with a safe and healthy working environment.

### **Diversity and equality**

IBT will be a workplace where diversity and equality are natural parts of the work operations. A workplace characterized by diversity and equality is necessary for the IBT will be an attractive workplace and to achieve set goals. Recruitment will be based on skills, diversity and equality.

### **Sustainability**

IBT will be perceived as an innovative and creative company that stands for quality and health, and has a role in society. It is important for the IBT to work with sustainability. Respect for human rights, the environment and anti-corruption will characterize our everyday lives through both the business strategies, financial processes, investments and purchases.

The Company does not create a sustainability report.

### **Corporate Governance in IBT**

IBT is a Swedish limited liability company, whose B shares are listed on Nasdaq First North in Stockholm. Control of the company is via the Annual General Meeting, the Board of Directors, the CEO and senior management in accordance with the Companies Act, rules of procedure for the Board and instructions for the President and the Swedish Code of Corporate Governance. The Board is responsible for evaluating the targets and for continuously evaluating IBTS financial position and results as well as evaluating the operational management.

Share Capital consists of 222 198 A shares with 10 votes per share and 5,281,440 B shares with one vote per share.

### **Articles of association**

According IBT's articles of association, the Company, directly or through a subsidiary or other forms of partnership or collaboration to develop, produce, market and sell pharmaceuticals and conduct related business. The registered office is in Stockholm. The Articles of Association are available on IBTS website under Investors / Governance.

### **Annual General Meeting**

In accordance with the Shareholders' General Meeting IBTS highest decision making body and the shareholders exercise their voting rights on key issues, such as the adoption of the statement of comprehensive income and financial position, the disposition of the IBTS result, the discharge of the Board and CEO, election of Board members and auditors, and remuneration to the board and auditors. In addition to the Annual General Meeting can be extraordinary general meeting is called. In accordance with the articles of association published the notice of the Annual General Meeting and Extraordinary General Meeting in Post- och Inrikes Tidningar and on the IBT's website.

Annwall & Rothschild Investment AB, owns 8.4 percent of capital and 32.8 percent of the votes. Other individual shareholders holding less than 10 per cent of capital and votes.

### ***Annual General Meeting 2016***

IBTS Annual General Meeting on February 8, 2016 was attended by shareholders representing 100 per cent of the total number of votes in the company. At the AGM, the company's president, all AGM elected directors and the company's elected auditor.

The Annual General Meeting voted to approve the following:

- the establishment of the annual report
- granted discharge of liability to the directors and the CEO
- re-election of Peter Rothschild (Chairman), Jan Annwall, Margareta Hagman and Anders Ekblom
- the re-election of the registered accounting firm Deloitte AB

- that fees shall be paid with SEK 200,000 to the Chairman and remuneration of SEK 400,000 as Executive Chairman and SEK 100,000 to each of the other members
- that the auditors' fees be paid according to approved invoices
- to treat the loss as proposed in the Annual Report

### ***Annual General Meeting 2017***

2017 Annual General Meeting held on 4 May 2017 in the City Conference Ingenjörshuset Malmskillnadsgatan 46 in Stockholm.

### ***Notice of Annual General Meeting***

Notice of Annual General Meeting shall be published in Post- och Inrikes Tidningar and on the company's website. That notice has been given shall also be published in the Swedish newspaper Svenska Dagbladet.

### **Nomination**

At the Annual General Meeting of IBT 2016, there was no decision taken in relation to the Nominating Committee. The Board decided in autumn 2016 to appoint a Nomination Committee as follows:

The Chairman, or his designee shall offer the four largest shareholders in the company, the right to appoint a member to the Nomination Committee together with the Chairman. For the composition of the Nomination Committee, the shareholdings on June 30, 2016 will be used to determine the largest voting shareholders. The representative for the largest shareholder at this date is to be chairman of the Nomination Committee. If any of the four largest shareholders waive their right to appoint a member to the committee, the committee shall consist of the representatives wishing to participate in the nomination committee. The names of the three owner representatives shall be published. The Nomination Committee shall exist until a new Nomination Committee is appointed.

Nomination Committee has in accordance with the decision of the AGM formed and comprises, besides the chairman of IBT AB Board, Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Sebastian Jahreskog second largest shareholder, and Jannis Kitsakis as representative of the Fourth AP Fund, the third largest shareholder. Per-Erik Andersson is chairman of the committee.

Three of the members of the committee are independent of the company and its management.

The nomination committee shall prepare the below proposals to be submitted to the Annual General Meeting 2017 for resolution:

- a) proposal for Chairman of the meeting
- b) proposal for number of Board
- c) election of the Chairman
- d) election of other directors
- e) election of auditors
- f) publishing board fees
- g) proposed auditor fees
- h) proposal for a Nomination Committee for the 2018 AGM

All shareholders have the opportunity to contact the Nomination Committee with proposals to members to the board for further evaluation in the context of its work. Any comments or suggestions have been submitted to the committee to date.

The Nomination Committee submits a written justification for proposals to the Board at the AGM. The Nomination Committee in its provided proposals will consider the diversity and breadth of the board and seeks gender balance.

### **Board of Directors**

According to IBT's Articles of Association, the Board shall consist of a minimum of three and a maximum of ten members and no deputy members. The board is elected annually at the AGM for the period until the next AGM. The Board has during 2016 consisted of four elected members without deputies. Peter Rothschild and Jan Annwall are indirect shareholders of IBT via Annwall & Rothschild Investment AB. The other members are independent of the company and its management.

A presentation of the Board is available in **Appendix 1**.

The CEO is not a member of the Board but is co-opted to all Board meetings. Other company employees participate in Board meetings as rapporteur. The Board has adopted rules of procedure, including the division of labor between the Board and the President and the structure of the board's work during the year. In addition to the responsibilities of the Swedish Companies Act and the Articles of Association is regulated following the Board's rules:

- Hold at least four board meetings, in addition to statutory meetings
- Determine the overall objectives of the company's operations and the company's strategy and assess the operational management and risk assessment of the company.
- Approve the budget and the corresponding long-term plans, including investment decisions
- Consider matters relating to investments and the like with the amount of five hundred thousand (SEK 500 000), or other obligations of the Company, which represents a cost to the company in excess of five hundred thousand (SEK 500,000)
- Decide on the purchase and sale of property, shares or acquisition of another company over five hundred (SEK 500 000) thousand
- Approve the annual accounts, annual and interim reports
- Borrowings
- Conclude agreements with a term of more than three years
- Initial processes of great magnitude and the settlement of disputes of significance
- Other issues of significant economic or other significance

The Board has responsibility for overseeing the Company's financial position, to monitor the effectiveness of the Company's internal controls, internal audit and risk management, to keep informed about the audit of the annual accounts and consolidated accounts and monitor the impartiality and independence of the auditor. In addition, the Board has established the President's instruction, authorization instructions including instructions for liquidity management and policy for currency management. The Rules of Procedure (Arbetsordning), the President's Instructions (VD -instruktion) and Authorization Instructions (Attestinstruktion) are verified at least once a year.

#### **Board Meeting participation 2016 <sup>1)</sup>**

Members elected at the AGM	Elected	y.o.b.	Board Meeting Participation / Total number of meetings
Chairman of the Board Peter Rothschild	2011	1950	11/11
Member of the Board Jan Annwall 4)	2014	1950	11/11
Member of the Board Margareta Hagman 4)	2015	1966	11/11
Member of the Board Anders Ekblom 3)	2014	1954	11/11
Member of the Board Eamonn Connolly 2)	2013	1957	1/1

1) If a member was unable to attend the board meeting that had the opportunity to make their views known to the chairman before the meeting.

2) Left the Board 2016

3) Independent of the major shareholders, the company and management

4) Independent of the company and management

Agenda items handled at the board meetings where appropriate:

- Business Plans
- Activity Monitoring
- Investments
- Policy Issues
- Financial Result Reports
- Major contracts
- Budget
- Periodic financial reporting

The Board evaluates its work continuously through open discussions. From 2017, the Board will perform an annual written evaluation of the work and the Nomination Committee will be informed about the results of the evaluation.

#### **Remuneration to the Board**

The AGM 2016 resolved on Directors' fees of SEK 200,000 to the Chairman and SEK 100,000 to other members. In addition, a decision was made for an extra fee of 400,000 to the chairman of his mission to be executive chairman.

### **Chairman of the Board of Directors**

The Chairman is responsible for leading the work and to ensure that the Board fulfills its obligations in accordance with the Swedish Companies Act (Aktiebolagslagen) and the Board's rules (styrelsens arbetsordning). Through ongoing contact with the CEO, the Chairman monitors the company's progress and ensures that the Board has access to the information necessary for the Board to meet its commitments. Moreover, the Chairman, as Executive Chairman, is actively involved in funding issues, licensing issues and in presentations to the market as well as assisting management in business development. Peter Rothschild has been chairman since 2011.

### **Chief Executive Officer**

The CEO is responsible for the company's business development and leads and coordinates the daily activities. The President has an instruction approved by the board that regulates his management and development of the company, as well as ongoing reporting and decision support to the Board. The President presents the necessary information and documentation such as reports on the company's finances, order situation, significant business and strategic issues for Board meetings and presents reports and motivates proposals for decision. The CEO also holds the Chairman continuously informed about the company's operations.

The Managing Director is responsible for external communications.

The Board annually evaluates the CEO. This evaluation is performed without any company executives present.

### **Company management**

The management of the IBT consists of two people through the end of 2016, and three people from January 9, 2017 as presented in Appendix 2.

The management team is led by the Chief Executive Officer whom is responsible for planning, managing and monitoring the daily operations. Minuted meetings are normally held once a month. The powers and responsibilities of the president are, in addition to the responsibilities regulated by the Companies Act, established in the President's instructions adopted by the Board. Management's powers and responsibilities are defined in job descriptions and authorization instructions.

### **Remuneration Committee**

The Board has decided to not appoint a compensation committee, as it believes it is most effective and appropriate that the full Board shall participate in matters concerning remuneration to senior executives. Decisions on current remuneration levels and other employment terms for the CEO and other senior executives has been taken by the Board.

### **Auditor**

IBT's auditors are normally approved for a period of one year at the AGM. At the 2016 Annual General Meeting resolved to elect Deloitte AB until the close of the Annual General Meeting to be held in 2017. The accounting firm has appointed Birgitta Lööf as the principal auditor. Remuneration to the auditors, in accordance with the decision at the AGM, is according to invoiced audit activities.

The auditors review the Board and Chief Executive Officer of the company and the quality of financial reporting. The auditors also conduct, on behalf of the Board, a review of financial statements, including the year-end report, audit of annual accounts and review an interim report.

The auditor's report their findings to the shareholders through the audit report, which is presented at the AGM. In addition, the auditors provide written and oral reports to management and the board. At the Board meeting preceding year-end, the auditor presents the views of the completed audit of the annual financial statements and the notes from the interim audit during the fiscal year and of the company's internal control.

The auditors also submit an audit opinion on the corporate governance report and a report on the review of the remuneration of senior executives.

Information on remuneration to the auditors, see Note 5 in the Annual Report.

The Board has determined, based on the independent members of the board accounting skills, the Board's ongoing review of financial reporting, and considering the company's limited size and scope, not to appoint an audit committee. Furthermore, the entire board participates in a meeting with the auditor at least once a year without the company's CEO or other executive management.

## **The Board's description of internal control over financial reporting for the year 2016**

### *Introduction*

The Board is responsible under the Companies Act and the Swedish Code of Corporate Governance for internal control. This report has been prepared in accordance with these provisions and thus limited to internal control over financial reporting.

### *Internal control over financial reporting*

The Board is responsible for the company's organization is designed so that accounting, cash management and financial condition are controlled in a satisfactory way.

The Board adopts rules of procedure for the Board and instructions for the division of duties between the Board and the President. The rules of procedure state which matters that require Board approval or confirmation. At Board meetings, the CEO reports on matters that require the Board's consideration.

The Managing Director ensures that the Board receives factual, detailed and relevant information to enable the Board to make informed decisions, and that the Board is continuously informed about the development of the company's operations and financial position.

Within IBT's internal control over financial reporting, for example, focused on ensuring an efficient and reliable management and accounting of purchases and sales, other revenue recognition and reporting of the company's financing. The internal control environment mainly includes the following five components: control environment, risk assessment, control activities, information and communication, and monitoring.

### *Control environment*

The work of the Board and CEO are based IBTS control structure of the organization and mode of operations in which roles and responsibilities are defined and communicated within the organization. Employee awareness of maintaining good control over financial reporting is adequate and the analysis and monitoring of financial development is monthly. Financial reports and statements made by the IBTS finance department and reported to the Board on a quarterly basis and to the senior management on a monthly basis.

### *Risk assessment*

The company works continuously with risk assessment and risk management to ensure that the risks to which the Company is exposed are managed within the limits established by the Board. Management analyzes business processes for effectiveness and risks on an annual basis.

This work includes identifying significant risks for errors in financial reporting and ensure that there are appropriate processes and controls within the business to manage these risks. Processes that are deemed to be of particular importance for IBT's research and development. A more detailed description of the risk exposure can be found in the annual report.

### *Control activities*

The risks identified regarding financial reporting are managed through a number of controls in business processes. Processes, policies and controls are reviewed and updated annually. The aim is to detect, prevent and correct errors and deviations. The control structure also includes the established powers (e.g. attestation), split of responsibilities, IT risks and management's monthly review of financial information. The company controls service providers fulfillment of current services under contract, including verification of quality.

### *Information and communication*

IBT has information and communication pathways intended to promote completeness and accuracy in financial reporting. Attestation rules and communication policies are distributed to all employees and available on the company's intranet. One to two times a year the company's entire staff meet to increase knowledge of the processes and goals and to exchange information and experience. In 2016 the company's staff met for two days in September.

### *Follow-up*

Company management evaluates annually the internal control. Although the independent accountants, Deloitte, annually reviews the selection of IBTS procedures and internal controls. The board then evaluates this information and ensure that measures are taken concerning the problems and proposals that emerged.

The company has no separate audit function (internal audit). The Board has determined that, given the company's size and scope of operations, and the expertise possessed by the Board, in addition to the board meeting with the auditor, there is no reason to set up a formal internal audit department.

Stockholm May 24, 2017

Peter Rothschild  
Chairman of the Board

Jan Annwall  
Board Member

Margareta Hagman  
Board Member

Anders Ekblom  
Board Member

Appendix 1: Presentation of the Board of Directors

Appendix 2: Presentation of Senior Management

***This is a translation of the Swedish version of the Bolagsstyrningsrapport of Infant Bacterial Therapeutics AB (publ). When in doubt, the Swedish wording shall prevail.***

## **Appendix 1**

IBT's Board of Directors consists of four (4) ordinary members, including the chairman of the board, with no deputy board members, all of whom are elected for the period up until the end of the annual shareholders' meeting 2017.

### **Peter Rothschild**

Chairman of the Board since 2011. Born 1950.

Master of Business Administration from Stockholm School of Economics.

Chairman of the Board of Directors of TriPac AB, TwoPac Aktiebolag, TwoPac Machine AB, Looft Industries AB, CapAble AB, TwoPac Laboratories AB, MetaboGen AB, Atina Enterprises AB, Nefor Holding AB and Voranco Holding AB. Member of the Board of Directors of Annwall & Rothschild Investments AB, the Allbright Foundation and Founder and President of the BioGaia group.

Previously CEO of BioGaia, member of the Board of Directors of Moberg Pharma AB and the Institution of Biology and Biochemistry at Chalmers University.

Shareholding in the Company: 222 198 series A shares and 241 458 series B shares through Annwall & Rothschild Investments AB, a company co-owned with Jan Annwall.

### **Jan Annwall**

Board member since 2014. Born 1950.

Business Administration degree from Stockholm University.

Member of the Board of Directors and CEO of Annwall & Rothschild Investments AB and Konglomeratet AB. Deputy member of the Board of Directors of Looft Industries AB. Founder and Board Member of BioGaia.

Previously member of the Board of Directors of TwoPac Aktiebolag, TwoPac Machine AB, TwoPac Laboratories AB, TriPac AB and CapAble AB. Executive Vice President and CFO of BioGaia.

Shareholding in the Company: 222 198 series A shares and 241 458 series B shares through Annwall & Rothschild Investments AB, a company co-owned with Peter Rothschild.

### **Anders Ekblom**

Board member since 2014. Born 1954.

M.D., Ph.D, D.D.S and Associate Professor at Karolinska Institutet.

Chairman of the Board of Directors of Karolinska University Hospital and TFS International AB. Member of the Board of Directors of the Swedish Research Council, Mereo Biopharma Ltd., Medivir Aktiebolag, AnaMar AB, RSPR Pharma AB, and NxtScience AB.

Previously member of the Board of Directors and CEO of AstraZeneca AB, and chairman, member or deputy member of the Board of Directors of a number of subsidiaries of AstraZeneca AB. Member of the Board of Directors of Albireo AB, SwedenBIO Service AB and Viscogel AB.

Shareholding in the Company: 27 519 series B shares through the wholly-owned company NxtScience AB.

### **Margareta Hagman**

Board member since 2015. Born 1966.

Master of Business Administration, Örebro University.

Deputy CEO of BioGaia. Member of the Board of Directors of TwoPac Machine AB, TwoPac Laboratories AB and CapAble AB, TwoPac Aktiebolag, TriPac AB and Annwall & Rothschild Investments AB.

Shareholding in the Company: 2 100 series B shares.

## **Appendix 2**

### **Staffan Strömberg**

CEO since 2013. Born 1967.

M.Sc. in chemical engineering and Ph.D. in organic chemistry from the Royal Institute of Technology in Stockholm.

Staffan Strömberg has more than 20 years of experience in the pharmaceutical industry. Besides his roles at Billerud Tenova Bioplastics and at the Swedish Medical Products Agency, he has also been Vice President of NiCOx France, had various project management positions in AstraZeneca and been Head of R&D of Swedish Orphan.

Member of the Board of Directors of Cycle Pharmaceuticals AB.

Former CEO of Billerud Tenova Bioplastics AB and Head of Medical Devices at the Swedish Medical Products Agency.

Shareholding in the Company: 91 728 series B shares and 45 864 series B shares through private company.

### **Eamonn Connolly**

Head of R&D since 2013. Born 1957.

Doctor of Philosophy (Ph.D.), University of Manchester Institute of Science and Technology and B.Sc. (Hons) Biochemistry, First class, University of Manchester.

Eamonn Connolly has more than 25 years of experience of the pharmaceutical and biotechnology industry from his various positions within companies such as: BioGaia, Fresenius Kabi and Pharmacia & Upjohn.

Previously member of the Board of Directors of IBT.

Shareholding in the Company: 56,864 series B shares.

### **Daniel Mackey, included in senior management from January 9, 2017**

Chief Financial Officer since January 2017. Born 1974

Economics Degree (B.Sc), State University of New York, Plattsburgh, New York.

Daniel Mackey has more than 20 years of experience in finance and accounting. Besides his roles as Head of Brokerage Business, Sweden, Nordea Bank, and Nordic Head of Nordic Fund Distribution and Head of Swedish Fund Accounting at Nordea Investment Management he has had various management and strategic project management assignments from previous employers Nordea Bank and Investors Bank & Trust.

Shareholding in the Company: 3 010 series B shares