

Corporate Governance Report

Major external regulations

- Swedish Companies Act
- Swedish and international accounting law
- NASDAQ OMX Stockholm regulations
- Swedish Corporate Governance Code

Major internal regulations

- Articles of Association
- Board of Directors' working procedures
- CEO instructions
- Policy documents



① Annual General Meeting

Sobi's highest decision-making body is the Annual General Meeting (AGM) at which all shareholders have the right to elect members to the Board. The AGM also elects the auditor. The AGM must be held within six months of the end of the financial year in order to decide on adopting the income statement and balance sheet and on the appropriation of profits or losses.

② Nomination Committee

The Nomination Committee represents the company's shareholders and has the sole task of preparing for resolutions on election and compensation issues at the AGM.

③ Board of Directors/Chairman of the Board

The Board's responsibility for the Group's organisation and administration involves ensuring the satisfactory control of accounting procedures, fund management and general financial circumstances. The Board also decides on overall goals, strategies, the financial structure, policies, appointment of the Chief Executive Officer (CEO), executive compensation, acquisitions, disposals and major investments. The Board approves and adopts the annual reports and interim reports, and is responsible for proposing a dividend, if any, at the AGM. The Board's work is based on its working procedures, CEO instructions and the principles for the division of duties between the CEO, the Chairman of the Board, Board members and the various committees established by the Board. The Board's working procedures and the CEO instructions are revised and updated once a year.

The Chairman of the Board leads the Board's work, monitors the company's progress and ensures that important issues are addressed as needed and that all important decisions are preceded by an active and constructive discussion. The Chairman is employed by the company as an executive chairman.

④ Audit Committee

The Audit Committee's main duties are to handle the company's accounting, financial, reporting and audit matters, as well as issues relating to the company's internal control. The responsibilities of the Committee include an annual discussion of the proposals from the auditors regarding the scope and methods of the audit, examining in advance proposed changes in accounting principles and adjustments to accounting documents that affect financial reporting, consulting with management and the auditors regarding compliance with laws and regulations relating to financial matters and an annual review of auditors' fees.

⑤ Compensation & Benefits Committee

It is the responsibility of the Compensation & Benefits Committee to propose guidelines and principles for the company's remuneration programmes. This includes oversight of and proposals for remuneration for senior executives and for long-term incentive programmes, pension plans and other issues relating to remuneration for the company's employees.

⑥ Scientific Committee

The Scientific Committee's tasks include advising on scientific matters, evaluating the company's research strategies, and following up and reporting to the Board on scientific trends and new areas of research.

⑦ CEO/Executive Leadership Team

The Company has a functional organisation and the Executive Leadership Team consists of the CEO and the heads of the most important functions. The Executive Leadership Team is composed of individuals with a broad range of skills as well as in-depth and extensive experience in R&D and in producing and selling pharmaceuticals. In addition, Executive Leadership Team members possess the requisite skills in finance and business, law, human resources and communications. The company's operative management is based on the decision-making procedure established by the Board, as reflected in the organisational and governance model based on which Sobi works and is governed. At board meetings, the CEO and, when necessary, the Chief Financial Officer (CFO), General Counsel and other senior executives present information on matters that require the attention of the Board.

⑧ Auditors

The company's auditor, elected at the AGM, audits the consolidated financial statements, as well as the annual accounts of the parent company and subsidiaries, and also prepares an audit report.

Swedish Orphan Biovitrum AB (Sobi) is a Swedish public limited liability company with its registered office in Stockholm. The company is listed on NASDAQ OMX Stockholm. In addition to the rules stipulated by law or other statutes, the company applies the Swedish Corporate Governance Code without deviating from it.

This corporate governance report is for the 2013 financial year. The report constitutes a part of the formal Annual Report and has been reviewed by the company's auditors.

Shareholders, share capital, the share and voting rights

At the end of 2013 Sobi has a total of 10,153 (8,006) shareholders. Investor AB was the largest shareholder, holding 39.8 per cent (39.9) of the share capital and 39.8 per cent (40.5) of the voting rights. The 15 (15) largest shareholders accounted for 75.5 per cent (75.2) of the share capital and 75.5 per cent (76.6) of the votes. No owner other than Investor AB has a direct or indirect shareholding that represents at least one tenth of the voting rights of all shares in the company. Sobi's Articles of Association contain no restrictions on how many votes each shareholder may cast at a general meeting.

The Articles of Association do not have any specific provisions regarding the appointment and dismissal of directors or about amending the Articles.

At present, the Board intends to use any future profits generated by Sobi to finance the continued development and expansion of operations. The Board does not intend to propose any dividend within the foreseeable future.

Annual General Meeting

The company does not apply any special arrangements relating to the function of the general meeting of shareholders, either due to provisions in the Articles of Association or, as far as is known to the company, shareholder agreements. The Articles of Association stipulate that the Annual General Meeting (AGM) is to be held in Stockholm. Sobi has not found that the composition of the body of shareholders motivates any particular measures for shareholders being able to follow the AGM remotely.

Annual General Meeting 2013

At the Annual General Meeting (AGM) on 26 April 2013, directors Bo Jesper Hansen, who was also re-elected as Chairman, Adine Grate Axén, Matthew Gantz, Lennart Johansson, Helena Saxon, Hans GCP Schikan and Hans Wigzell were re-elected to serve until the 2014 AGM.

The AGM resolved on remuneration for the Chairman of the Board and the directors elected by the AGM, see note 14.

The AGM also voted in favour of a long-term incentive programme and the hedging measures associated with it. The AGM also resolved to approve the Board's proposal on the transfer of treasury shares. The minutes of the 2013 AGM are available at www.sobi.com.

Annual General Meeting 2014

The AGM will be held on Thursday 8 May 2014 in the Wallenberg Auditorium at the Royal Swedish Academy of Engineering Sciences (IVA). See the last page of the Annual Report.

Nomination Committee

According to the instructions and statutes adopted by the AGM on 26 April 2013, the Nomination Committee is to consist of four members, three of whom are to represent the company's three largest shareholders as of the final banking day in August 2013, based on statistics from Euroclear Sweden AB. As stipulated in the same resolution, the fourth person is to be the Chairman of the Board. The composition of the Nomination Committee is to be announced at least six months before the AGM.

The Nomination Committee for the 2014 AGM consists of: Petra Hedengran, Investor AB (Nomination Committee chair) Roger Johanson, Skandia Liv Åsa Nisell, Swedbank Robur Fonder AB Bo Jesper Hansen, Chairman of the Board, Swedish Orphan Biovitrum AB

The Nomination Committee has held three meetings.

Board of Directors

Composition of the Board

During the 2013 fiscal year the Board consisted of seven directors elected at the AGM on 26 April 2013, as well as two employee representatives and two deputies appointed by the trade unions. Three members, including the employee representatives, were women. For further details on the Board, see pages 58–59.

Sobi is a speciality pharmaceutical company with a focus on marketing, developing and producing pharmaceutical products to treat rare diseases. The portfolio contains products that are marketed and that are at all stages of clinical development. It is therefore crucial that the members of the Board have extensive, in-depth experience of marketing and research in the pharmaceutical industry, as well as financial expertise.

Chairman of the Board

The duties of the Chairman of the Board, apart from leading the Board in its work, include monitoring the progress of the company and ensuring that important matters, in addition to those already on the agenda, are brought up for discussion as necessary. The Chairman is to consult with the CEO regarding strategic matters, participate in important external relationships and represent the company with regard to ownership issues. The Chairman is also responsible for ensuring that the work of the Board is regularly evaluated and that new directors receive adequate instruction. The Chairman of the Board is employed by the company as executive chairman. As such, his duties include representing the company in dealings with partners and other stakeholders in the pharmaceutical field, as instructed by the CEO.

Independence

The company complies with the independence requirements in the Swedish Corporate Governance Code such that the majority of the Board members elected at the AGM are independent of the company and management, and that at least two of them are independent in relation to the larger shareholders.

The table on page 55 shows the independence of the directors at the time this report was published.

Number of meetings

The Board meets at least five times a year, usually in conjunction with the publication of the interim and annual financial statements and the AGM. Additional meetings or teleconferences are convened as necessary. The Board carries out an in-depth strategic review of operations during at least one board meeting each year.

The Board has scheduled a total of eight meetings for 2014.

The Board's work in 2013

The Board held 21 meetings in 2013, whereof 9 ordinary card meetings and 12 extra board meetings. Out of the 12 extra board meetings, 5 meetings where decisions taken per capsulam. The statutory board meeting was held 26 April 2013. Sobi's General Counsel served as secretary at the meetings. Other Sobi employees presented reports. The number of extra Board meetings where required in order to address the issue of the bond loan, suggestions for potential partnerships and several matters regarding commercial agreements.

Important board decisions in 2013

- Extended of the bond loan
- Proposals on potential partnerships
- Evaluation and amendment of commercial agreements
- Development of the project portfolio
- Recruitment of key personnel

Committees

Audit Committee

Sobi's Audit Committee consists of three members who are independent of management: Lennart Johansson (Chairman), Adine Grate Axén and Helena Saxon.

The Committee met nine times during the year. The table below shows the attendance of each director at the meetings. The company's elected auditors attended six of the meetings. Topics discussed at the meetings included the auditors' planning of the audit, their observations and scrutiny of the company, auditors' fees and the company's interim reports. The large number of meetings during the year was mainly due to personnel and organisational changes within the finance department and the renegotiation of the company's credit facilities. For information on remuneration for the company's auditors, see note 15.

Compensation & Benefits Committee

Sobi's Compensation & Benefits Committee consists of three members: Bo Jesper Hansen (Chairman), Hans GCP Schikan and Helena Saxon. Hans GCP Schikan and Helena Saxon are independent in relation to senior management. Sobi's head of human resources serves as secretary to the Committee, but is not a member.

The Compensation & Benefits Committee met eight times during the year. The table below shows the attendance and status (independent/dependent) of each director. At the meetings, the Committee discussed and followed up on annual salary revision and bonuses for the CEO and senior management, and made proposals for guidelines, nominations and allocations for the long-term incentive programme. The proposals for guidelines for CEO and senior management remuneration will be presented at the AGM in May 2014 for the approval of the shareholders.

For information about salaries and benefits for the CEO and senior management, see note 14.

Scientific Committee

The Scientific Committee consists of three members, two of whom are independent in relation to senior management: Hans Wigzell (Chairman) and Hans GCP Schikan. The third member, Bo Jesper Hansen, is not independent in relation to management. The Committee's work in 2013 included advising on acquisitions and licensing of new research projects. The Committee convened twice in 2013, with all three members present at one meeting and two members present at the other.

Board remuneration

The AGM held on 26 April 2013 resolved that for the period up to the next AGM, remuneration for the Board of SEK 2,190,000¹ will be paid, of which SEK 300,000 will be paid to each director elected by the AGM with the exception of the Chairman of the Board who will not receive any remuneration for work on the Board or its committees. For work on the Audit Committee, a fee of SEK 90,000 will be paid to the chairman of the committee and SEK 50,000 to each of the other committee members. For work on the Compensation & Benefits Committee, a fee of SEK 50,000 will be paid to the chairman of the committee and SEK 25,000 to each of the other committee members. For work on the Scientific Committee a fee of SEK 50,000 will be paid to the chairman of the committee and SEK 25,000 to each of the other committee members. It was further resolved that for each meeting of the Board, a fee of SEK 10,000 is to be paid to the members of the Board who reside in Europe but outside the Nordic region, and a fee of SEK 20,000 is to be paid to the members of the Board who reside outside Europe.

For more information on remuneration for the Board, see note 14.

¹ The board remuneration paid out was SEK 2,151,700 due to the fact that the Chairman of the Board did not receive any compensation for his work on the committees.

	Independence	Attendance ⁴		
		Board	Audit Committee	Comp. & Ben. Committee
Bo Jesper Hansen	1	20/21	–	8/8
Hans Wigzell	●	17/21	–	–
Lennart Johansson	2	20/21	9/9	–
Helena Saxon	2	20/21	9/9	8/8
Adine Grate Axén	●	19/21	7/9	–
Hans Schikan	●	19/21	–	7/8
Matthew Gantz	●	19/21	–	–
Catarina Larsson	3	21/21	–	–
Bo-Gunnar Rosenbrand	3	21/21	–	–

¹ Director to be regarded as dependent in relation to both the company and its management.

² Director to be regarded as dependent in relation to larger shareholders.

³ Employee representative.

⁴ The figures in the table show the total number of attendance/meetings. The Board held 21 meetings in 2013, whereof 9 ordinary card meetings and 12 extra board meetings. Out of the 12 extra board meetings, 5 meetings where decisions taken per capsulam.

Changes to the Board

The Board was re-elected in its entirety at the AGM in April.

Executive Leadership Team

Each year, the Board determines the division of duties between the Board, the Chairman of the Board, and the CEO. The Executive Leadership Team consists of the heads of the most important functions and meets at least every other month.

In 2013, the Executive Leadership Team met once a month and at year-end 2013, it consisted of 12 members.

For further details on the Executive Leadership Team, see pages 60–61.

Remuneration for senior management

In order to attract and retain talented and motivated employees Sobi has established long-term incentive programmes. All employees receive a fixed salary and a variable salary component. The variable component, which is in accordance with a system adopted by the Board, is based on both overall company goals and individual goals. The variable salary component may not exceed 10–50 per cent of the annual salary. For more information, see note 14.

System for internal control and risk management over the financial reporting

The Board is responsible for internal control in accordance with the Swedish Companies Act and the Swedish Corporate Governance Code. Below, the Board presents the most important features of the system for internal control and risk management with regards to financial reporting. In 2013, efforts to streamline and develop the processes in the accounting department have continued.

The internal control environment at Sobi follows the established COSO framework (Internal Control – Integrated Framework of the Committee of Sponsoring Organisations). It consists of the following five components:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

1. Control Environment

The control environment constitutes the basis of the company's internal control. The control environment mainly comprises the culture on which the Board and management base their work and communication. It is the foundation for all internal governance and control components, bringing order and structure in the form of manuals, processes and policies.

The basis for internal control of financial reporting consists of a clear organisational structure, decision-making processes, authority and responsibilities that are documented, and communicated in governing documents.

The guidelines for Sobi's business activities can be found on the Company's website and include the following:

- The Group's business concept, vision, strategies, goals and values.
- Sobi Code of Conduct & Ethics.
- Organisational structure and descriptions of positions.
- Administrative processes, guidelines and instructions such as authorities, authorisation instructions, risk management, purchasing and investment policies, workplace health and safety, accounting and reporting instructions.
- Information about the company's values, expertise issues and the regulatory environment in which the company is active.

2. Risk assessment

Effective risk assessment unites Sobi's business opportunities as well as results with the requirements of shareholders and other interested parties for stable, long-term value growth and control. One prerequisite for effective risk assessment is that set targets are communicated. Risk assessment involves identifying and analysing relevant events and risks that could have a negative impact on Sobi's ability to achieve its established goals, and as such is the basis for risk management.

Structured risk assessment or risk management make it possible to a) identify and mitigate risks that affect internal control with respect to financial reporting and b) identify and manage the specific risks associated with changes. Risk management is intended to minimise the number of risk factors within financial reporting, and to ensure that the opportunities available within the company are used in the best possible way.

The operating units and the relevant controllers carry out risk analysis regarding financial reporting to identify and assess risks in the various accounting and reporting processes. Work in 2013 included monitoring the units' work with process-based control, monitoring and reporting on internal governance and control. Risk work is reported quarterly to the Executive Leadership Team, Audit Committee and Board.

3. Control activities

Control activities involve the manuals, processes and policies that ensure that directives and decisions are implemented. Sobi has developed several control activities. These activities are implemented in all areas that affect financial reporting. The purpose of the control activities is to prevent, detect and correct errors and irregularities. Activities include analytical monitoring and comparison of financial performance or entries, account reconciliation, monitoring, checking Board decisions and the Board's established policies and procedures, approval and reporting of business transactions and agreements, mandate and authorisation instructions, as well as accounting and valuation principles.

The Controllers' responsibility for maintaining internal controls within each area is developed and managed within the company. They follow up activities through a variety of controls, such as forecasting and budgets follow-up, income and balance sheet analysis, reconciliations, as well as trend analysis and business intelligence. The result of this work is reported to the management of each business area, as well as to the Executive Management Team and Board.

Information on manufacturing can be found in the general risk section.

4. Information and communication

Sobi has information and communication channels aimed at ensuring efficient and accurate information services relating to financial reporting. Effective communication is important for all of the company's employees. Guidelines for financial reporting are communicated to employees through policies and are made accessible through the company's intranet. Meetings are held within the company at management level, then at the level that each department head considers appropriate, as well as several large meetings in which all employees participate.

The Board receives regular financial updates relating to the Group's financial position and performance.

Procedures for providing external information aim to provide the market with relevant, reliable and correct information concerning Sobi's development and financial position. Sobi has a communications policy meeting the requirements for a listed company.

To assess the materiality of information and ensure timely communication of important information to the market, a Disclosure Committee has been formed that includes the CEO, COO, CFO, General Counsel, VP External Affairs & Chief Patient Access Officer and Head of Communications.

Financial information is regularly presented in the form of:

- Interim reports and full-year reports.
- The Annual Report.
- Press releases on all matters which could materially affect the valuation of the company and the share price.
- Presentations and telephone conferences for financial analysts, investors and media representatives on the day of publication of full-year and quarterly results and in conjunction with the release of important news.
- Meetings with financial analysts and investors.

All reports, presentations and press releases are published at www.sobi.com at the same time as they are communicated to the market.

5. Monitoring

The Board and the Audit Committee decide on the arrangements for monitoring, following up and evaluating internal controls. Sobi's CFO is responsible for ensuring compliance with the internal controls in compliance with the resolution of the Board. Follow-up is done on various levels in the Group.

The Board deals with all quarterly financial statements and the Annual Report before publication, and monitors auditing of internal controls through the Audit Committee. The information provided is evaluated regularly. The company's auditors personally report their observations and assessment of internal controls to the Audit Committee.

Internal audit

Sobi does not have a separate internal audit function, but has chosen to carry out the follow-up and the annual evaluation of the compliance of the internal control and risk management over the financial reporting through the existing organisation. The Board and the Audit Committee regularly reconsider the question of the establishment of an internal audit function.

Violation

The company has not violated any of the rules of the stock exchange where the company's shares are listed or any good practices of the Swedish stock market.