

# CORPORATE GOVERNANCE REPORT

Probi AB (publ) is a Swedish limited liability company, listed on the NASDAQ OMX Stockholm since 2004. According to its Articles of Association, Probi shall engage in the development, manufacture and marketing of products stimulating growth and/or regulating the natural microbial flora in humans, and conduct other compatible operations.

Probi's Corporate Governance is based on applicable legislation, resolutions by the Annual General Meeting, Articles of Association, listing agreement, the Swedish Code of Corporate Governance (the "Code") and work by the Board of Directors and Group Management.

This Corporate Governance Report was prepared in accordance with the Code's regulations and pertains to the 2009 financial year. The report has not been reviewed by the company's auditors.

Probi's Articles of Association and additional information about Probi's Corporate Governance are available at [www.probi.se](http://www.probi.se), under "Investors".

## APPLICATION OF THE CODE

Probi, its Board of Directors and Nomination Committee, apply the Swedish Code of Corporate Governance. No deviation from the Code has taken place.

## SHAREHOLDERS

At 31 December 2009, Probi had 4,463 (4,500) shareholders according to Euroclear Sweden AB.

The ten largest shareholders are specified on page 11 of this Annual Report.

## ANNUAL GENERAL MEETING

Shareholders exercise their influence over the company at the Annual General Meeting, which is Probi's highest decision-making body. The Annual General Meeting is held within six months of the end of the financial year. The notification to convene is sent not earlier than six weeks and not later than four weeks prior to the Annual General Meeting. All shareholders listed in the shareholders' register and who registered their interest are entitled to participate in the Annual General Meeting and vote. Each share carries one vote.

## NOMINATION COMMITTEE

The Nomination Committee's principle tasks are to:

- Evaluate the Board's structure and duties,
- prepare proposals to the Annual General Meeting for election of Board Members and Chairman of the Board and their remuneration,
- prepare proposals to the AGM, when appropriate, concerning auditors and their remuneration.

On 6 May 2009, the AGM resolved that the Nomination Committee should consist of four owner representatives. Lars Gatenbeck (convener) (GZ Group), and Anders Olsson (Skånemejerier) were re-elected to the Nomination Committee and newly elected members were Ragnild Wi-

borg (Consepio) and Göran Molin (Professor of food hygiene at the Lund University and a member of the group of scientists that founded Probi AB). None of the Nomination Committee's members are dependent in relation to the company or the Management Group.

The Nomination Committee's proposals are presented in conjunction with the notice to attend the Annual General Meeting. Shareholders who wish to contact the Nomination Committee can do so as stipulated in the information provided on Probi's website at [www.probi.se](http://www.probi.se).

## BOARD OF DIRECTORS

According to Probi's Articles of Association, the Board of Directors shall consist of no fewer than three and not more than seven members, with not more than three deputies. The Annual General Meeting on 6 May 2009 elected a Board consisting of six members with no deputies according to the following:

(Figures in parentheses pertain to attendance at Board meetings in 2009).	
Per Lundin, Chairman, newly elected	(11 of 11)
Annika Espander, newly elected	(9 of 11)
Hilde Furberg, re-elected	(15 of 17)
Mats Lidgard, re-elected	(16 of 17)
Hans Wigzell, re-elected	(16 of 17)
Jan Barchan, newly elected	(0 of 11)

At the Annual General Meeting in May 2009, Lars Backsell (5 of 6) and Lena Åsheim (4 of 6) resigned.

Jan Barchan did not participate in any Board meetings in 2009. The reason is that the prosecutor at the Swedish National Economic Crimes Bureau took out a summons against him in June 2009 pertaining to suspicion of insider trading in Studsvik AB, and Jan Barchan decided not to participate in Probi's Board work during the period the matter is being processed.

All Board Members are independent in relation to the company and the Management Group. A presentation of the Board members is available on pages 56-57.

The AGM decides on principles and monetary limits for Board fees.

For 2009 the Board's fees were fixed at TSEK 700, of which TSEK 200 refers to the Chairman of the Board and TSEK 100 refers to each of the other Board Members.

For a brief period, Board members may perform consulting services for Probi. This is pursuant to a Board decision and only if it is deemed to be the most cost-efficient and advantageous option for the company. This type of consulting fee is recognised in the Annual Report.

For information regarding Board fees, see Notes 9 and 28.

## CHIEF EXECUTIVE OFFICER

A presentation of the CEO is available on page 58 of the Annual Report for 2009.

## WORK OF THE BOARD AND ITS FORMAL

## WORK PROCEDURES

The Board is ultimately responsible for Probi's organisation and the administration of the company's affairs. The Board decides on major organisational and operational changes, and whether to appoint or dismiss the CEO. The Board's tasks include evaluating and determining strategies, business plans and budgets. The Board also adopts quarterly reports and year-end report.

The Board annually prepares procedures and rules regulating the division of the work and responsibilities between the Board, Chairman and CEO. This formal work procedure is established in connection with the Board's statutory meeting.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board members continuously receive the relevant information in order to make decisions and evaluate Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters are not in contravention of the regulations regarding conflicts of interest stipulated by the Swedish Companies Act. The Board annually establishes instructions for the CEO with guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisation and disclosure requirements towards the Board.

The Board shall meet not fewer than four times distributed equally during the year and one statutory meeting. In addition to regular items, the scheduled meetings in 2009 focused primarily on strategic and structural issues. Aside from the scheduled meetings, a number of shorter meetings were held, mostly telephone meetings, and these meetings addressed primarily commercial issues in conjunction with the launch of Probi's immunology product.

## AUDIT COMMITTEE

Probi's audit committee comprises the Board in its entirety. The Board is continuously in contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information regarding the areas which future reports will specifically address, while the Board informs the auditors about issues or areas that the Board wishes to highlight.

## REMUNERATION COMMITTEE

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee determines salaries and the CEO's remuneration. Salaries and remuneration of senior executives are decided by the CEO in consultation with the Chairman of the Board. Policies for remuneration and other terms and conditions of employment for the CEO and senior executives are decided by the Annual General Meeting.

For information regarding salaries and remuneration to the CEO and other senior executives, see Note 9.

## AUDITORS

PricewaterhouseCoopers AB was appointed as the company's auditors at the 2006 AGM, with Authorised Public Accountant Lars Helgesen as Auditor-in-Charge until the 2010 AGM. At the 2010 Annual General Meeting, auditors for the coming four-year period will be elected.

## THE BOARD'S INTERNAL CONTROL REPORT

The Board is responsible for internal control of financial reporting.

This report is limited to the internal control of financial reporting and has not been subject to scrutiny by the company's auditors.

Authorisation and responsibility is documented and reported in the internal guidelines and instructions. This includes the division of responsibilities between the Board and CEO, attestation instructions and accounting and reporting instructions. The instructions in this document aim at minimising the risk of irregularities and improper benefits to other parties at the expense of the company.

The Board monitors the financial development partly through reporting at Board meetings and partly through monthly reports.

The CEO is responsible for preparing and presenting reports to the Board at each Board Meeting, with the following principal content for the reporting of the period in question:

- Sales and market developments and status of R&D projects
- Balance sheets, income statements and financing analyses
- Investments and capital tied up
- Key ratios
- Forecasts for current quarters and full year

In addition, the CEO must, as soon as possible after the end of each calendar month, submit a monthly financial report to the Board members.

## QUALITY OF FINANCIAL REPORTING

The Board is responsible for ensuring the quality of the company's financial reporting. This is partly done through ongoing contact with the company's auditors and partly through continuous evaluation of the information submitted by company management. Central to this work is ensuring that measures are undertaken to remedy any discrepancies arising in conjunction with audit and to ensure that proposed quality improvements are implemented. Furthermore, the Board has decided that the company's auditors shall conduct a limited review of all quarterly reports.

Considering the size of the company, it has not been deemed reasonable to establish a specific internal audit function. The issue regarding the establishment of a specific internal audit function shall be addressed annually by the Board.