

Corporate governance report

Probi AB (publ) is a Swedish limited liability company, listed on NASDAQ OMX Stockholm since 2004. According to its Articles of Association, Probi shall engage in the development, manufacture and marketing of products that stimulate the growth and/or regulate the natural microflora 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.

For more information about the contents of the Code, please refer to www.bolagsstyrningskollegiet.se.

This Corporate Governance Report was prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations and includes the 2011 financial year.

Probi's Articles of Association and additional information about Probi's Corporate Governance are available at 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.

OWNERSHIP STRUCTURE AND SHARE CAPITAL

At 31 December 2011, Probi had 4,463 (4,201) shareholders according to Euroclear Sweden AB. On that date, Probi had one owner with a shareholding representing at least one-tenth of the votes for all shares in the company: Consepio, which held 12.7% of the votes. At year-end, the company's share capital amounted to SEK 46,826,500 divided among 9,365,300 shares with a nominal value of SEK 5.00. All shares are of the same type and entitle their holder to one vote and equal rights to the company's assets and earnings. The Articles of Association include no limitations related to share assignability.

GENERAL MEETING OF SHAREHOLDERS

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

The Annual General Meeting was held in Lund on 28 April 2011. The Nomination Committee and Board of Directors were chosen at the Annual General Meeting, which also resolved on guidelines for the remuneration of senior executives, which is described in the following. In the period prior to the 2012 Annual General Meeting, on one or more occasions, the Board of Directors was also authorised to:

- make decisions regarding an acquisition of own shares. This authorisation includes acquisitions on NASDAQ OMX Stockholm of own shares in an amount that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition will take place at a price within the registered price interval on NASDAQ OMX Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. In 2011, Probi acquired 250,000 own shares for MSEK 11.8 in accordance with the authorisation by the Annual General Meetings in 2010 and 2011. At year-end, Probi held 250,000 treasury shares, corresponding to 2.7% of the total number of shares, with a quotient value of SEK 5 per share.
- make decisions regarding a transfer of treasury shares. This authorisation includes a transfer of not more than the number of outstanding shares held by the company at the time of transfer. According to the authorisation, any transfer will take place at a price within the registered price interval on NASDAQ OMX Stockholm on each

occasion, meaning the spread between the highest and lowest selling price. At 31 December 2011, this authorisation had not been exercised.

- make decisions regarding a new rights issue of up to a total of 936,530 shares. This authorisation includes the right to disregard shareholders' right of precedence as well as provisions under chapter 13, section 5, paragraph 1, page 6 of the Companies Act (payment in kind, payment by offset or other terms and conditions). The issue price for the new shares shall be determined on the basis of the prevailing market price at the time of issue. If the authorisation is exercised in its entirety, this will entail approximately 9% dilution of the capital and the number of votes. At 31 December 2011, this authorisation had not been exercised.

REMUNERATION TO SENIOR EXECUTIVES

The 2011 Annual General Meeting resolved on guidelines for remuneration to senior executives as follows: Probi shall offer total remuneration that is in line with market terms, enabling senior executives to be recruited and retained. Remuneration to executive management shall comprise a fixed salary, variable salary, pension and other remuneration. Combined, these comprise components of the employee's total remuneration. The fixed salary is to take into account the employee's areas of responsibility and experience. The variable salary is to depend on the employee's fulfilment of quantitative and qualitative goals and is not to exceed 50% of the fixed annual salary. Other remuneration and benefits are to be in line with market terms and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include notification stipulations. Under these agreements, termination initiated by the employee entails a notice period of three to six months, and a period of six to 12 months when initiated by the company. The same salary is paid during the notice period. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases. Ahead of the 2012 Annual General Meeting, the Board proposes that the Meeting resolve that these guidelines remain the same.

The 2011 AGM also resolved on a share-price related incentive programme for executive management, which is based on the company's share-price trend between 2011 and 2014. Under the proposal, the CEO and other senior executives will participate in the incentive program in 2011 and 2012, provided that the profitability and sales targets established at the beginning of each year are met. The result is dependent on a comparison between the company's share price and the general index of the NASDAQ OMX Stockholm in 2013 compared with 2010, and 2014 compared with 2011, whereby the share price must have exceeded the general index by at least 25% in 2013 compared with 2010, and by at least 25% in 2014 compared with 2011 for any right to remuneration to apply. Any remuneration will be paid in 2014 and 2015, respectively. The outcome of the incentive programme in 2014 and 2015 is maximised at an annual amount corresponding to 1.44 monthly salaries for the CEO and other senior executives participating in the incentive programme. The share-price related incentive programme must fall within the framework of the variable salary described above.

NOMINATION COMMITTEE

The Nomination Committee is elected at the Annual General Meeting and its principle tasks are to:

- evaluate the Board's composition and duties
- prepare proposals to the Annual General Meeting for the election of Board members and Chairman of the Board and their remuneration
- prepare proposals to the Annual General Meeting, when appropriate, concerning auditors and their remuneration

On 28 April 2011, the Annual General Meeting resolved that the Nomination Committee should consist of three owner representatives. Ragnhild Wiborg (Consepio) (convenor) and Anders Olsson (Skånemejerier) were re-elected to the Nomination Committee. Bengt Jeppsson (Professor at

the Department of Surgery at Lund University) was elected a new member of the Nomination Committee. None of the Nomination Committee's members are dependent in relation to the company or senior executives.

The Nomination Committee's proposals are presented in conjunction with the official notification of 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.

BOARD OF DIRECTORS

According to Probi's Articles of Association, the Board of Directors shall consist of not fewer than three and not more than seven members, with not more than three deputies, and be elected at the Annual General Meeting. The company's Articles of Association have no specific stipulations concerning the appointment and dismissal of Board Members and on amendments to the Articles of Association. The Annual General Meeting on 28 April 2011 elected a Board consisting of five members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2011)

Per Lundin, Chairman (re-elected)	(12 of 12)
Mats Lidgard (re-elected)	(11 of 12)
Jan Nilsson (re-elected)	(11 of 12)
Benedicte Fossum (new)	(8 of 8)
Eva Redhe Ridderstad (new)	(8 of 8)

At the Annual General Meeting in April 2011, Hilde Furberg (3 of 4) and Bengt Nilsson (0 of 4) resigned from the Board.

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available on page 65 of the printed version of the Annual Report for 2011 and on the company's website www.probi.se.

The Annual General Meeting decides on principles and monetary limits for Board fees. For 2011, the Board's fees were fixed at SEK 900,000, of which SEK 300,000 is paid to the Chairman of the Board and SEK 150,000 is paid 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 10 and 29.

CHIEF EXECUTIVE OFFICER

A presentation of the CEO is available on page 66 of the printed version of the Annual Report for 2011 and on the company's website www.probi.se.

AUDITORS

The 2010 Annual General Meeting appointed the registered auditing company Deloitte AB, with Authorised Public Accountant Per-Arne Pettersson as Auditor-in-Charge, until the 2014 Annual General Meeting.

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 evaluates the CEO's performance against the identified long and short-term objectives. In conjunction with this, the CEO's objectives for the coming financial year are set. No representative from the company management participated in this evaluation.

The Board also prepares quarterly reports, year-end reports and annual reports.

The Board annually prepares procedures that regulate the division of work and responsibilities between the Board, Chairman and CEO. This work procedure is established in connection with the Board's statutory meeting, which is held in conjunction with the Annual General Meeting.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board Members continuously receive the relevant information for making decisions and evaluating Probi. The Chairman must consult with the CEO on strategic issues, supervise Board

meetings and ensure that Board matters are not in contravention with the regulations regarding conflicts of interest stipulated by the 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 authorisations and disclosure requirements towards the Board.

The Board shall convene not fewer than four times distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled meetings in 2011 focused primarily on Probi's long-term development in the form of strategic and structural issues. Aside from the scheduled meetings, a number of short meetings were held by telephone. These meetings primarily addressed commercial issues in connection with agreement negotiations.

AUDIT COMMITTEE

Probi's Audit Committee comprises the Board in its entirety. The Board maintains continuous contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information regarding the specific areas that future audits will address, while the Board informs the auditors about issues or areas that the Board wishes to highlight. The Audit Committee held two meetings in 2011, at which four of five members participated.

REMUNERATION COMMITTEE

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee determines the salary and remuneration of the CEO. Salaries and remuneration of other 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. The Remuneration Committee held two meetings in 2011, at which four of five members participated.

For information regarding salaries and remuneration to the CEO and other senior executives, see Note 10.

THE BOARD'S INTERNAL CONTROL REPORT

The Board is responsible for the internal control of financial reporting. This report is limited to the internal control of financial reporting.

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

The Board monitors the company's financial development through reporting at Board meetings and through continuous 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 period in question:

- Sales and market developments and status of R&D projects
- Balance sheets, income statements and financing analyses
- Investments and tied-up capital
- 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 achieved by continuously evaluating the information submitted by company management. A key element of this work is to ensure that actions are taken concerning potential shortcomings that are detected and implementing the proposed quality improvements. In addition, continuous contact is maintained with the company's auditors who also conduct a review of all quarterly reports in accordance with the Board's decision.

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.