
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 Executive 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 2013 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 2013, Probi had 4,188 (4,980) shareholders, according to Euroclear Sweden AB. On that date, Probi had one owner with a shareholding representing at least one-tenth of the voting rights for all shares in the company: Symrise AG, Germany, with 29.7% of the votes.

At year-end, the company's share capital amounted to SEK 46,826,500 represented by 9,365,300 shares with a quotient 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.

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. These shares carry no voting rights and do not qualify for dividends.

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 have 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 24 April 2013. The Nomination Committee and Board of Directors were elected at the Annual General Meeting, which also resolved on guidelines for the remuneration of senior executives, as described in the following. The Board of Directors was also authorised during the period prior to the 2014 Annual General Meeting, on one or more occasions, to:

- make decisions regarding 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. The Board did not exercise this authorisation in 2013.
- 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. Any transfer may only take place at a price within the registered price span on NASDAQ OMX Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board did not exercise this authorisation in 2013.
- make decisions regarding a new rights issue of up to a total of 936,530 shares. This authorisation includes the right to disapply the shareholders' pre-emptive rights provided that the new share issue is paid for in kind in connection with acquisitions. The issue price for the new shares is to be determined on the basis of the prevailing market price at the time of issue. If the authorisation is exercised in its entirety, it will give rise to approximately 9% dilution of the share capital and voting rights. The Board did not exercise this authorisation in 2013.

Remuneration of senior executives

The 2013 Annual General Meeting (AGM) resolved on guidelines for remuneration of senior executives as follows: Probi is to offer

market-aligned total remuneration that enables the recruitment and retention of senior executives. Remuneration of executive management is to 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 market aligned and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include stipulations concerning periods of notice. 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. Unchanged 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 2014 AGM, the Board proposes that the Meeting resolve that these guidelines remain the same.

The 2011 AGM also resolved to introduce a share-price-related incentive programme for executive management to apply during the 2011 and 2012 financial years. The outcome is based on the company's share-price trend during the years 2011-2014. The CEO and other senior executives participated in the incentive programme during the years 2011 and 2012, when the profitability and sales targets that had been established at the beginning of each year were achieved. The programme for 2011, in which the outcome was based on a comparison between the company's share price and a general index on Nasdaq OMX Stockholm in 2013 compared with 2010, was concluded without entitling any bonus payment.

The programme for year 2012 is based on a comparison between the company's share price and a general index on Nasdaq OMX Stockholm. The company's share price must have outperformed the general index by at least 25% in 2014 compared with 2011 to entitle a bonus payment. Any remuneration will be paid in 2015. The outcome of the incentive programme is maximised to an amount corresponding to 1.44 monthly salaries for those covered by the programme. Probi's former CEO, Michael Oredsson, who resigned in 2013, is not participating in the programme.

The share-based incentive programme is to fall within the framework of the variable salary described above.

Nomination Committee

The Nomination Committee is elected at the AGM and its principal tasks are to:

- evaluate the Board's composition and duties
- prepare proposals to the AGM for the 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 24 April 2013, the AGM resolved that the Nomination Committee should consist of three owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor) and Bengt Jeppsson (Professor at the Department of Surgery at Lund University) were re-elected. Jimmy Bengtsson (Skandia Liv) was elected a new member.

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 may do so in accordance with the information provided on Probi's website 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 no more than seven members, with no more than three deputies, and be elected at the AGM. The company's Articles of Association lack specific stipulations concerning the appointment and dismissal of Board Member and on amendments to the Articles of Association. The AGM on 24 April 2013 resolved to elect a Board consisting of six Members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2013)

Per Lundin, Chairman (re-elected) (11 of 12)
Mats Lidgard (re-elected) (12 of 12)
Jan Nilsson (re-elected) (12 of 12)
Benedicte Fossum (re-elected) (12 of 12)
Eva Redhe Ridderstad (re-elected) (10 of 12)
Declan MacFadden (new) (6 of 8)

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available on pages 74-75 of the Annual

Report for 2013 and on the company's website www.probi.se.

The AGM resolves on principles and monetary limits for Board fees. For 2013, the Board's fees were fixed at SEK 1,050,000, of which SEK 300,000 was paid to the Chairman of the Board and SEK 150,000 to each of the other Board members.

For a brief period, Board members may perform consulting services for Probi. This requires a Board decision and is only permissible if it is deemed 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 26.

CEO

A presentation of the CEO is available on page 76 of the Annual Report for 2013 and on the company's website www.probi.se.

Auditors

The 2010 Annual General Meeting elected the registered accounting firm Deloitte AB with Authorised Public Accountant Per-Arne Pettersson as auditor-in-charge for the period up to 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 also include evaluating and determining strategies, business plans and budgets. The Board also adopts quarterly reports, year-end reports and annual reports.

Every year, the Board 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 executive management participated in this evaluation.

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 AGM.

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 do not contravene 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 no fewer than four times distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled meetings in 2013 focused primarily on Probi's long-term development in the form of strategic and structural issues. A number of brief telephone conferences were also held, mainly to address 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. In 2013, the Audit Committee held two meetings. Four of five members attended one meeting, while all six members attended the other meeting.

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 AGM. In 2013, the Remuneration Committee held two meetings. All members attended both meetings.

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 are documented and communicated 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 these documents 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:

- Marketing and sales development, and the 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, which is achieved by continuously evaluating the information submitted by executive management. A key element of this work is to ensure that actions are taken concerning potential shortcomings that are detected and implementing the adopted 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 need to establish a specific internal audit function is to be addressed annually by the Board.