

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 (AGM), 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, reference is made to www.bolagsstyrningskollegiet.se.

This Corporate Governance Report pertains to the 2016 financial year and has been prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at www.probi.se, under "Investor Relations."

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 2016, Probi had 4,729 (3,884) 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: Symrise AG, Germany, with 51.4% of the votes.

During the fourth quarter of 2016, Probi implemented an issue of new shares with preemptive rights for the company's shareholders for the purpose of financing the acquisition of Nutraceutix. The rights issue was fully subscribed and contributed proceeds of MSEK 587.3 to Probi after deductions for issue expenses. Probi's share capital amounted to SEK 58,220,625 (46,826,500) at the end of 2016, represented by 11,644,125 shares (9,365,300). 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 2.1% 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 General Meetings of Shareholders, Probi's highest decision-making body. The Annual General Meeting (AGM) 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 (AGM) was held in Lund on 27 April 2016. The Board of Directors, auditors and Nomination Committee were elected at the AGM, 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 2017 AGM to

- make decisions on one or more occasions regarding a new share issue of up to a total of 936,530 shares. This authorisation includes the right to dis-apply 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. At the date of the resolution by the AGM, full utilisation of the authorisation would have entailed 9% dilution of share capital and voting rights. The Board did not exercise this authorisation during 2016.
- make decisions regarding the 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 Stock-

holm on each occasion, meaning the spread between the highest and lowest selling price. The Board did not exercise this authorisation during 2016.

Remuneration of senior executives

The 2016 AGM resolved on the following guidelines for remuneration of senior executives. Probi is to offer market-aligned total remuneration that enables the recruitment and retention of senior executives. 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 when initiated by the company a notice period of six to 12 months. 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. As a result of the company's exceptionally positive performance in 2016, the Board decided on 8 December 2016 that variable salary would be payable to the CEO at a rate of 80% of fixed annual salary for the 2016 financial year.

Ahead of the 2017 AGM, the Board proposes that the Meeting resolve on guidelines with the same wording, with the addendum that variable salary is to be payable at a rate of no more than 60% of fixed annual salary.

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 for the AGM for the election of auditors and their remuneration

On 27 April 2016, the AGM resolved that the Nomination Committee should consist of four owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor), Bengt Jeppsson (Professor at the Department of Surgery at Lund University), Marianne Flink (Swedbank Robur Funds) and Jannis Kitsakis (Fourth Swedish National Pension Fund) were re-elected as members of the Nomination Committee.

The Nomination Committee's proposals are presented in conjunction with the official notification of the AGM. Shareholders who wish to contact the Nomination Committee can do so in accordance with the information provided on Probi's website at www.probi.se.

Board of Directors

According to Probi's Articles of Association, the Board is to 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 Members and concerning amendments to the Articles of Association. The AGM on 27 April 2016 resolved to elect a Board consisting of six members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2016).

Jean-Yves Parisot, Chairman
(re-elected) (17 of 17)

Jan Nilsson (re-elected) (16 of 17)

Benedicte Fossum (re-elected) (16 of 17)

Eva Redhe (re-elected) (16 of 17)

Jonny Olsson (re-elected) (16 of 17)

Jörn Andreas (re-elected) (17 of 17)

All Board Members are independent in relation to the company and senior executives. Four board members are independent in relation to major shareholders. On March 1,

2017 Jörn Andreas assumed the position as CFO of Probi, and resigned from the Board of Directors. A presentation of the Board Members is available on the company's www.probi.se website and in the printed version of the 2016 Annual Report on pages 74–75.

The AGM resolves on principles and monetary limits for Board fees. For 2016, the Board's fees were fixed at KSEK 1,175, of which KSEK 300 was paid to the Chairman of the Board and KSEK 150 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 11 and 30.

CEO

A presentation of the CEO is available on the company's www.probi.se website and in the printed version of the 2016 Annual Report on page 76.

Auditors

The 2016 AGM elected the registered accounting firm Deloitte AB with Authorised Public Accountant Per-Arne Petterson as auditor-in-charge for the period up to the 2017 AGM.

Extraordinary General Meeting

Probi AB held an Extraordinary General Meeting on 29 June 2016. At this Meeting, the Board of Directors was authorised, during the period up to the 2017 AGM, to resolve on the issue of new shares with pre-emptive rights for the company's shareholders. The authorisation pertained to at most the number of shares that corresponds to issue proceeds of approximately MSEK 600 and that is encompassed within the limits for the share capital. The purpose of the authorisation was to enable financing of the acquisition of the US company Nutraceutix's operations. The authorisation was utilised through the Board's decision of 29 September

2016. The rights issue was completed in October and contributed proceeds of MSEK 587.3 to Probi after deductions for issue expenses.

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 whether to appoint or dismiss the CEO, and on major organisational and operational changes. The Board's duties 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 in relation to 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 a procedure regulating the division of work and responsibilities between the Board, Chairman and CEO. This work procedure is adopted at 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. This include 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 is to convene no fewer than four scheduled Board meetings distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled Board meetings in 2016 focused primarily on acquisition matters as well as

strategic and structural issues involving Probi's long-term development and growth. In addition, the Board held 13 telephone meetings in 2016. Among other matters, these meetings addressed issues connected to acquisitions and negotiations of commercial agreements.

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 on the priority areas that future audits will examine, while the Board informs the auditors about issues or areas that the Board wishes to specifically highlight. In 2016, the Audit Committee held two meetings. One member was absent at one of these meetings.

Remuneration Committee

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee is tasked with determining the salary and remuneration of the CEO, as well as bonus systems for the company. 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 resolved by the AGM. In 2016, the Remuneration Committee held two meetings. All members attended both meetings.

For information regarding salaries and remuneration of the CEO and other senior executives, see Note 11.

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. These encompass the division of responsibilities between the Board and the CEO, attestation instructions and accounting and reporting instructions. The purpose of the instructions in these documents is 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 financial reporting. The CEO is responsible for preparing and presenting reports at each Board meeting, with the following principal content for the period in question:

- Sales and market development 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

The CEO must also, in accordance with the established time schedule, submit a financial report to the Board members.

Quality of financial reporting

The Board is responsible for ensuring the quality of the company's financial reporting. The information submitted by executive management is continuously evaluated by the Board. In this work, it is essential 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 conducted a review of all quarterly reports during 2016 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. Each year, the question of establishing a specific internal audit function is to be addressed by the Board.