

# PROBI SUSTAINABILITY REPORT 2019



Probi operates in the global healthcare products market and offers probiotics of the highest quality to food, healthcare and pharmaceutical companies. Probi aspires to be the innovative frontrunner within probiotics.

**Introduction**

This sustainability report applies to the 2019 financial year. The sustainability report concerns the parent company Probi AB (corporate ID number 556417-7540) and all units consolidated in Probi's consolidated accounts for the same period. The Board and the CEO have approved this sustainability report.

**Reporting standards**

This sustainability report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act, chapters six to eight.

**Probi's History & Business**

In the mid 1980s, a bold research project was launched at Lund University. The aim was to study if introducing "the right" sort of intestinal

bacteria could help save the lives of critically ill patients. The researchers, Probi's founders, observed correlations that prompted them to hypothesize that some bacteria lacking in the most seriously ill patients could actually provide medicinal benefits. Bacterial strains deemed to have the best chances of functioning were carefully selected, and Probi was founded to provide a platform for development towards a finished product.

Probi's business model is based on conducting research and development, obtaining patents for and documenting probiotics and developing and producing ready-made probiotic consumer products. Our business concept is to provide probiotics with clinically documented beneficial health effects to leading dietary supplement and food companies. The Group comprises the Parent Company, Probi AB, and two active subsidiaries: Probi USA Inc. and Probi Asia-Pacific Pte. Ltd. Probi's headquarters are based in Lund, Sweden, whilst the manufacturing facilities are located in the US: Redmond, WA and Lafayette, CO. Probi's main focus areas are gastrointestinal health, iron absorption, bone health and immune health, with an ambition to improve the well-being of people worldwide. Millions of people suffer from health issues that can benefit from careful addition of probiotics. This is what drives and inspires us.



## CREDIBLE

Experts in our field and with products that deliver

## CONFIDENT

Bold in exploring new scientific and commercial paths and unafraid to challenge set ways of thinking

# Probi's 4 Cs

## COMMITTED

Always willing to go the extra mile to ensure we and our products meet customer expectations

## CLEAR

Transparent in all our dealings, both internally among ourselves and externally with partners and customers

### Corporate Governance

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. Probi AB (publ) is a Swedish limited liability company whose shares have been listed on Nasdaq Stockholm since 2004.

50% of the management own shares in the company, including the CEO. The whole Board is independent in relation to the company, whilst the Chairman and one member are dependent in relation to major stakeholders.

BOARD OF DIRECTORS	SHARES IN THE COMPANY	INDEPENDENT IN RELATION TO THE COMPANY	INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS
Jean-Yves Parisot (Chairman)	-	Yes	No
Jörn Andreas	-	Yes	No
Charlotte Hansson	500	Yes	Yes
Irène Corthésy Malnoë	-	Yes	Yes
Jonny Olsson	1,284	Yes	Yes

The Board has adopted a communication policy that specifies procedures and systems designed to ensure that Probi provides the market with relevant, reliable, correct and current information concerning the company's development and financial position.

### Probi's values

Probi strives to provide a dynamic environment for its employees, where individuals can assume a large degree of responsibility and are offered substantial development opportunities. Strong teamwork is the foundation of Probi. Probi's business and personnel policy are based on four core values: Credible, Confident, Committed and Clear. Our vision is to be first in probiotics, with a mission to provide high-quality probiotics backed by science. These values, our vision and mission define our daily routines and workflows. How these values come to life is what makes our culture unique, enthusiastic, inspiring and fun.

### SEDEX Registration

During 2019, Probi completed a registration at The Supplier Ethical Data Exchange (SEDEX), which is a not-for-profit membership organization for businesses committed to the continuous improvement of ethical performance within their supply chains. Together with SEDEX, Probi as a supplier has the opportunity to share organizational sustainability data with multiple customers in an agreed format.

# VALUE CHAIN & RISKS

## Value Chain

Probi is a B2B partner that serves leading companies in various consumer markets. All stages of the value chain are now integrated, from research and development to sales. Probi utilizes and leverages its internal probiotic and finished format manufacturing capabilities in combination with longstanding collaborations with external manufacturing partners. Finding the right balance between own production and partnerships with contract suppliers is key. The decision is based on a range of factors, including volume, availability, demand, price and geography. Different formulation technologies are used for different types of products and applications, such as tablets, powders and drinks. Probiotics production includes fermentation, formulation and packaging. Probi's own fermentation and processing of bacterial cultures is carried out in Redmond, WA. In Lafayette, CO, capsules and tablets are produced and packaged for distribution to consumers.

## Sustainability risks

Probi's risks are comparatively low, as we do not develop or manufacture active pharmaceutical ingredients associated with side effects for patients in clinical trials or the environment. The sustainability risks in our value chain are mainly connected to our in-house production, our contract suppliers and our employees. The main risks are the environmental impact (resource consumption and emissions), neglecting social conditions (health, safety, diversity and equality), economics (violation of anti-corruption and trade sanctions laws) and business ethics (breach of data integrity, product quality, clinical studies and human rights). Within the frame of these areas, Probi's management has prioritized the key sustainability issues. Read more about these on the next pages.

Low standard of working conditions and resource wastefulness at our suppliers' can have considerable consequences for Probi's reputation. This can moreover affect our business relationships, quality of products, the environment and eventually profitability. Operations is responsible for purchasing, supply, production, product and application development, quality and the management of regulatory affairs. Our Quality Assurance team performs audits on our contract suppliers, making sure that the supplier meets our standards. Our contract suppliers have to answer our "Supplier Questionnaire" where aspects concerning (for instance) business ethics are highlighted.



State of the art research backed by a dedicated R&D team supporting our customers.



Our in-house fermentation allows flexibility and customization in combination with third party solutions.



Packaging is the last step before an idea hits the shelves!



We constantly explore new strains and new health benefits on existing strains.



We help our customers to bring new interesting applications to market – dietary supplements and food products.



Manufacturing capabilities create space for further innovation through effective delivery technologies.



## Main risks in the value chain

	Research	Clinical study	Application	Fermentation	Supply formats	Finished product
<b>Environment</b>						
Energy consumption				X	X	
Water consumption				X		
Freight delivery emissions						X
<b>Social</b>						
Diversity & Equality	X	X	X	X	X	X
Health & Safety	X	X	X	X	X	X
<b>Economic</b>						
Anti-corruption	X	X	X	X	X	X
Trade sanctions				X	X	X
<b>Ethics</b>						
Ethics in clinical trials	X	X				
Data integrity	X	X	X	X	X	X
Product quality			X	X	X	X

# ENVIRONMENTAL IMPACT

A natural progression from Probi's focus on health and well-being is to work for a better environment and for sustainable development. Probi's operations use resources in terms of energy (which contributes to CO2 emissions) and water. The consumption should be done in a sustainable manner so that people are able to live and feel well without hazarding future generations' wellbeing and style of life. According to Probi's Environmental Policy, these efforts shall be integrated into the daily operations including resource effectiveness. The negative environmental impact of operations should therefore diminish through continuous implementation of feasible improvements. We are aware that Probi's operations affect the environment by using packaging and transport of products as well. Probi initiated an upgrade program in our manufacturing unit in Redmond, WA, during the third quarter 2019, with the aim of further improving our manufacturing efficiency and quality of production to strengthen competitiveness. The investment programme will continue throughout 2020, but the full effect is not expected until 2021. We expect that the upgrade will have a positive impact on energy and water consumption during the upcoming years. Probi's fermentation and production facilities in Redmond, WA, and Lafayette, CO, are GMP certified and hold all licences required under US environmental law. A new initiative during the year resulted in that we will be expanding our software systems in Probi USA, designed to reduce the reliance on paper documentation, including systems for paperless quality checks.

## Energy & Water

According to U.S Energy Information Administration, Washington state where Probi has one of its facilities, is the nation's largest producer of hydroelectric power and the state's significant renewable energy resources are a major contributor to the state's energy production. Coal and natural gas are the primary fuels used to generate electricity in Colorado. During 2019, total electricity consumption in our production sites amounted to 2,085,225 kWh, corresponding to a CO2 consumption of 1,474 tonnes. United States Environmental Protection Agency's emissions factor is used for the calculation of the greenhouse gas equivalencies. Therms of natural gas is also used in the production and the total consumption of 54,083 therms resulted in a CO2 consumption of 286 tonnes in 2019. Probi measures the environmental efficiency of energy consumption as CO2 emissions in tonnes in relation to the Group's sales in SEK millions. The environmental index related to energy consumption for 2019 thereby amounted to 2.811, compared to previous year's environmental energy consumption index 3.349 (2018) and 3.147 (2017) respectively.

### ENERGY CONSUMPTION

	kWh	Therms	Total in MWh	Total CO2 (tonnes)	Index
2017	2,284,161	58,781	4,006	1,927	3.147
2018	2,396,711	61,772	4,207	2,023	3.349
2019	2,085,225	54,083	3,670	1,760	2.811

### WATER CONSUMPTION

	Total megaliters	Index
2017	-	-
2018	28.18	0.047
2019	27.60	0.044



During 2019, the total water consumption in the production sites amounted to 27.60 megaliters (28.18 megaliters in 2018). Probi measures the environmental efficiency of water consumption as megaliters in relation to the Group's sales in SEK millions. The environmental index related to water consumption for 2019 thereby amounted to 0.044 (0.047 in 2018).

It is not possible to collect information regarding energy and water consumption for Probi AB's office in Lund, since the Parent Company only leases a part of a building and the lessor only provides information for the whole building. Calculating the consumption rates per square meter would not be reliable data to report. Moreover, no production takes place in Lund, hence, the consumption is not relevant in relation to the rates in the production sites. Since there are only offices and a laboratory in Lund, the impact on the environment is also considered to be limited.

### Freight & Flight emissions

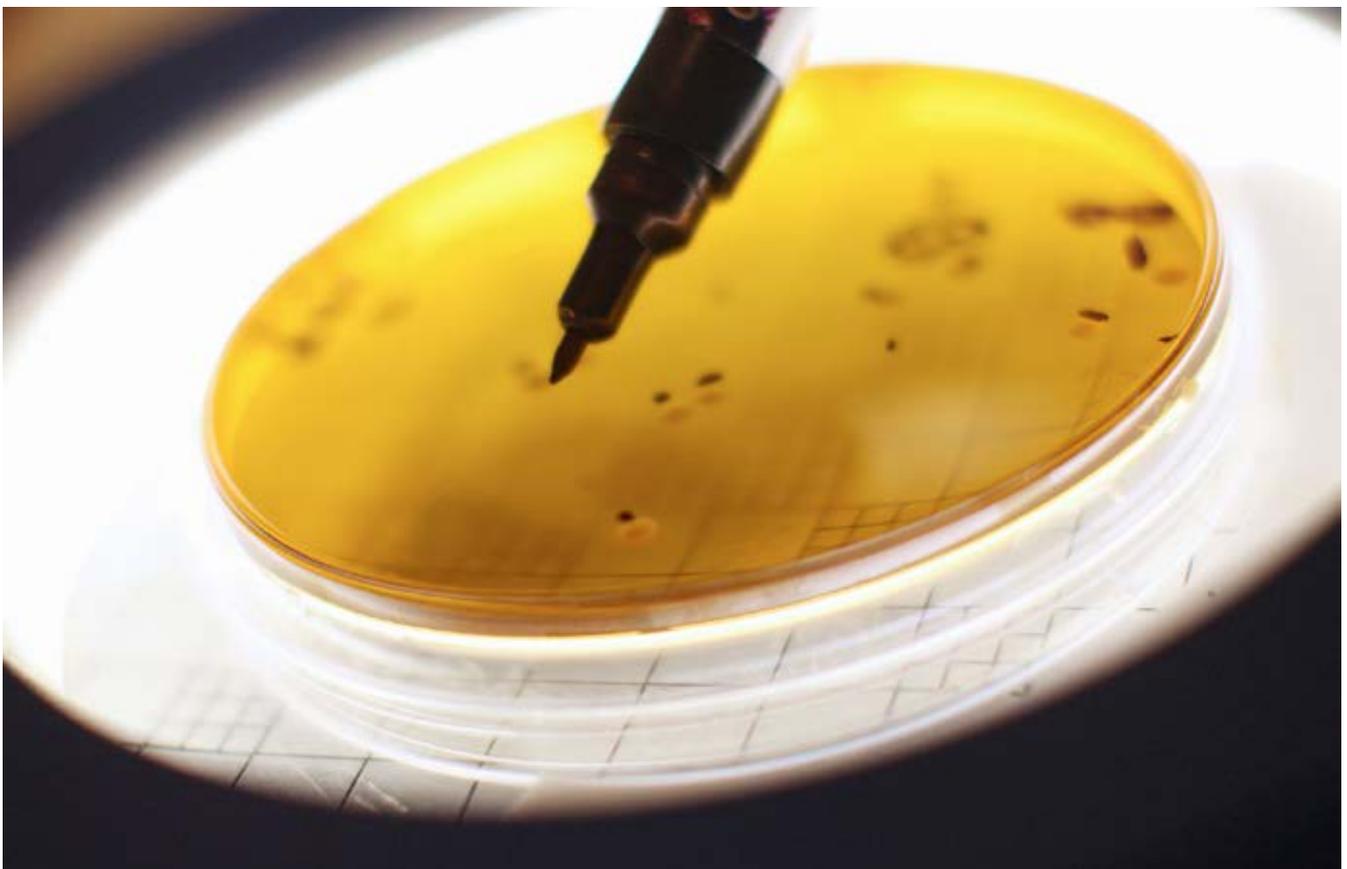
Probi hires professional freight carriers that have effective systems of transport. By hiring professional freight carriers, we can access more efficient transportation methods, thus reducing its environmental impact. During 2019, Probi AB's freight emissions amounted to 329.57 CO2 tonnes (327.88 tonnes in 2018). This slight increase is a result of growth in sales. Probi measures the environmental efficiency of freight emissions in relation to the Group's sales in SEK millions. The environmental index related to freight emissions for 2019 thereby amounted to 0.526 (0.543 in 2018).

This information was not available from the Probi USA's transports, due to large diversity of freight carriers and Probi Asia-Pacific is only a sales organization (all products are transported from either Probi AB or Probi USA). We are working on to get a consolidated view of Probi's freight emissions for the group.

### FREIGHT EMISSIONS

	Air	Road	Sea	Total CO2 (tonnes)	Index
2017	245.32	10.72	-	256.04	0.418
2018	320.13	7.76	-	327.88	0.543
2019	322.61	5.13	1.82	329.57	0.526

Probi takes initiative to have meetings with conference calls and other communications tools when face-to-face meetings are not necessary. However, Probi's international operations as a B2B company entail business travel by air and customer meetings, exhibitions and fairs are a crucial part of our business. To atone the emissions arising from flight travels, Probi offsets in the project Sustainable pastures in Mongolia, in partnership with ZeroMission in accordance with the Plan Vivo standard. The carbon offsetting relates to carbon emissions arising from the business-related air travel of Probi AB and Probi USA. The project includes more than 140 shepherd families in three different areas of 78,500 hectares. The project is about adapting to sustainable land use, preserving biodiversity and improving social conditions. Preserved biodiversity is achieved through the formation of cooperatives that invent and patrol the steppes to avoid illegal deforestation and poaching of important animal species. By educating and enabling nomad groups in how they can market and sell their products, their income also increases. Around 130,000 tonnes of carbon dioxide are estimated to be bound in the soil in total through improved land use methods.



# SOCIAL

Working with products that improve people’s health and well-being is a truly rewarding experience. Not only does it provide a stimulating and compelling reason for being, but it also breeds responsibility and enables people to grow on a personal level. Bad working conditions and high risk of accidents can have consequences for operations and affect the recruitment of new employees through the impact on Probi’s reputation. Probi is determined to create a good working environment for all employees. At Probi we offer safe and supportive working environment, both physically and psychologically. The aim is for everyone, regardless of their duties, to be given the opportunity for both influence and development as well as for cooperation and social contacts. Improvement of the work environment must be carried out as a natural part of the daily tasks, and partly as a systematic work in which we conduct regular studies of the working environment and implement and follow up the decided actions. Internal policies and Probi’s Code of Conduct set the basis for employees how to act and how we want to be perceived as a company. We work together to achieve a good working environment, which includes measures against alcohol and other drug abuse. Probi is a substance-free workplace and the use of illegal substances and/or alcohol is prohibited during working hours. Offensive treatment, behavior or bullying is not accepted at Probi, regardless of who it involves. Employees who are subjected to offensive treatment should quickly get help or support and can report the matter to our whistleblowing function. Probi has therefore drawn up a complaint procedure/action plan against offensive treatment with actions that will be taken if it would occur.

## Diversity & Equality

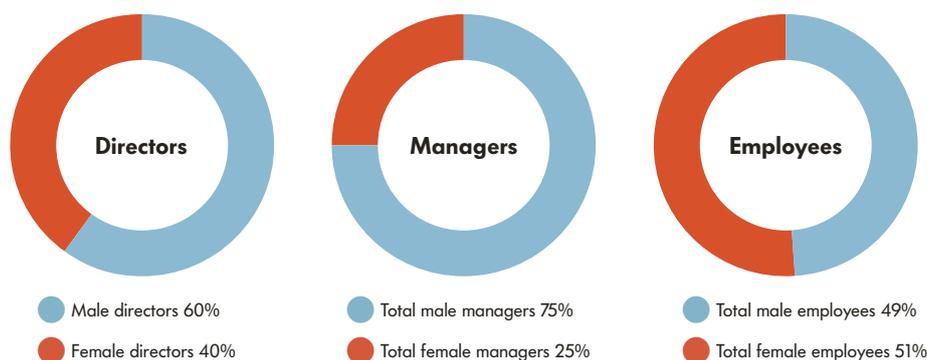
At Probi, we celebrate diversity and all our processes, policies and routines ensure fair treatment of all employees. We recognize the importance of diversity and the role it plays in breeding innovation, being relevant to our customers needs, and for being an attractive employer. All our employees regardless of gender, ethnic and religious background have the same prerequisites to be successful at Probi.

Consequently, all assessment should only be objective and gender-neutral, focusing on competence and suitability. All employees are entitled to be treated with respect. Probi’s Code of Conduct and Diversity Policy determines essential principles related to equality and diversity. People of both genders must be treated equally both internally and externally. Equality should prevail in connection with, for example, staff development, salary review and parenthood. Equal treatment and equal opportunities must apply to everyone.

The company strives to have as even gender distribution as possible on different positions. Probi’s Board of directors consists of five board members. Two of the board members are female and three are male. Probi’s executive management team consists of eight managers, where two of them are female. In addition, the Nomination Committee has in its work taken into account point 4.1 of the Swedish Code of Corporate Governance, which constitutes the diversity policy that the Nomination Committee has applied in preparing its proposal for the Board of Directors, whereby the Nomination Committee has strived for an appropriate composition, characterized by diversity and breadth of the proposed members’ competence, experience and background and an even gender distribution.

By the end of the reporting period, the employee turnover rate was 23% (32% in 2018) in Probi Group. This is mainly a result of the turnover rate among production workers in the US production sites. The total number of new employee hired during 2019 is 39 and the average age in Probi Group is 41 years.

The table below presents a comprehensive view of the age and gender distribution of all Probi employees. Since the Asia-Pacific region only consists of few employees, we report Europe-Middle East-Africa region together with the Asia-Pacific region in this report. Consultants are not included.



Age		< 30		30 - 50		50 <		No. of employees
Region	Company	Male	Female	Male	Female	Male	Female	
EMEA/APAC	Probi AB/Probi APAC	0%	100%	33%	67%	38%	62%	48
AMERICAS	Probi USA	48%	52%	54%	46%	67%	33%	119
ALL	Probi Group	34%	66%	48%	52%	58%	42%	167

## Occupational Health and Safety

The tasks of systematic improvement of Probi's work environment include the regular examination of working conditions and assessing the risks of ill health and accidents at work. The work also includes investigation of causes for accidents and serious incidents to prevent the risks of similar accidents. Probi's production facilities are complying with applicable OSHA (Occupational Safety and Health Administration) standards by the United States Department of Labor. Probi's production facilities in Lafayette, CO, and Redmond, WA, have occupational health and safety management systems implemented in order to eliminate and control workplace hazards. All employees must follow the safety manuals. Both production facilities have appointed safety committees that have meetings on a monthly basis, where they for example identify safety issues, develop solutions to safety problems, review accidents and evaluate the effectiveness of the safety program. Work related injuries and accidents can occur because employees are not trained in the proper job procedure or due to non-compliance of safety regulations. One way to prevent injuries and accidents is to establish proper job procedures and training of employees. The two production facilities do also conduct "Job Hazard Analyses" (SAFE-07) and have implemented a training program for the employees regarding, for example, the warehouse, sanitation, maintenance, production packaging and quality. The employees do also get training, for instance in general manufacturing practices and personal protection equipment.



We constantly work for the improvement of health of our employees and encourage activities to promote health, safety and well-being. Probi employees (at our production sites and at our headquarters) were offered training in First Aid and Cardiopulmonary resuscitation (CPR) during the year. This is an important training; knowledge increases the chances of survival for those in urgent need.

Probi as an employer encourages post-work activities, such as employee clubs and team building, which positively influences the "Probi culture". The work environment at Probi should be healthy, innovative and developing. High absence due to sickness or other reasons, could result in a negative impact on Probi's operations and possibly even damage our reputation as an employer. Probi offers various health benefits in order to improve the employees' health and well-being.

Healthcare in Sweden is largely tax-funded, a system that ensures everyone has equal access to healthcare services. Medical, vision and dental insurance is provided by Probi USA for all full-time employees. Probi USA pays a portion of the employee's premium cost of health coverage and provides long-term disability coverage to all full-time, permanent employees with no cost to the employee.

We periodically review the organization in different ways, such as mandatory development discussions and employee surveys. The objective of Probi's 2019's employee survey was to provide the organization with feedback on what we do well as an employer and in what areas we can improve. The survey had a 91% response rate and set the basis for an Employee Survey action plan to address improvement areas. Taskforces at our sites with representatives from different functions were established and the objective is to analyze site-specific answers, provide deeper feedback and suggestions on concrete, tangible actions the organization can take to address different focus areas highlighted in the results of the employee survey. The follow up survey to be conducted during 2nd half of 2020.

## ECONOMIC

A description of Direct Economic Value Generated and Distributed can be found in the Annual Report 2019 on [www.probi.com](http://www.probi.com) (pages 41 seqq.).

Incidents of corruption or violations against trade sanctions would harm Probi's reputation, affect business relationships and have a negative impact on our business performance.

### Anti-corruption

Probi performs its business operations in a responsible and credible manner. This is achieved through the adherence to applicable laws and regulations, strong company values, as well as maintaining good relationships with colleagues, customers and suppliers. Probi does not seek or accept business advantages based on illegal, improper, or unethical behavior. Non-compliance with anti-corruption laws can have a serious economical and reputational impact on the business and financial condition of Probi. Probi has therefore, in order to manage the risks of non-compliance with anti-corruption laws, adopted an anti-corruption policy for the prevention, deterrence and detection of corruption. The policy applies to all employees at Probi, including managers, executive officers and members of the board of directors. Probi provides adequate training for all employees consistent with Probi's risk profile and appropriate to employee responsibility. The Board of Directors and the CEO have the overall and ultimate

responsibility for the oversight and implementation of this policy. The CFO has been delegated the day-to-day responsibility, including monitoring its use and effectiveness, providing adequate training, procedures for selecting and monitoring agents and M&A procedures, dealing with any queries, interpretation, investigations and disciplinary actions. No incidents have been reported during 2019.

### Trade Sanctions

Probi conducts business in many parts of the world and must therefore ensure compliance with trade sanctions and embargoes. Not doing so can have a serious economical and reputational impact on the business and financial condition of the Probi group. Probi has a Trade Sanctions policy implemented and trade sanctions and embargoes refer to laws and regulations imposed by countries – usually in furtherance of foreign affairs, national security, or human rights objectives – that restrict dealings with targeted individuals, entities and governments. Such restrictions may include a general prohibition on all dealings with the government of a targeted country and individuals or entities located, resident, or organized in that country. Probi's CFO is responsible for the overall oversight and implementation of the Trade Sanctions policy. No violations have been reported during 2019.

## ETHICS

### Code of Conduct

Probi has a Code of Conduct that applies for the whole group, which is published on Probi's intranet where all employees can access the Code. This code covers, amongst other things, respect for human rights, equality, business principles and working conditions. The Probi Code of Conduct explicitly states that Probi shall not use child labor and/or forced labor for any of its work and respect international conventions on human rights. Equal treatment and equal opportunities must apply to everyone regardless of ethnic, social or national origin, skin color, disability, gender, sexual orientation, religion, political opinion, pregnancy or age. Probi respect its employees' rights of free association and collective bargaining. No employee should risk being harassed or retaliated against using these rights. A whistleblowing function is implemented if there would be any violations against the code. Whistleblowing means that an employee reports irregularities or problems that have caused or could cause serious damage to the company and/or interests of its stakeholders. All managers at Probi shall encourage their employees to report conduct that is contrary to the principles in the code. Probi's whistleblowing system is managed by an external law firm, which will receive all reports submitted in the whistleblowing system and evaluate whether or not they qualify as whistleblowing. No incidents have been reported through the whistleblowing function during 2019.



## Ethics in Clinical Trials

In 2019, Probi's research programme generated promising results, which strengthened the company's product offerings and benefited the launch of products in new fields of health. Several clinical trials completed during the year are expected to further contribute to a continued solid and innovative product portfolio.

Probi is continuously thriving to develop and investigate new possible indications where probiotics may have positive effects on a number of health areas. We are science-driven and evaluate new science areas for probiotics, as well as new possible scientific collaborations around the world. We collaborate both with independent researchers and with Contract Research Organizations (CRO). Since the bacterial flora is different in animals compared to humans, Probi does not perform pre-clinical in vivo studies on a regular basis. Our approach is to perform clinical studies in order to investigate our strains' positive effects. We conduct clinical trials in areas such as bone health, gastro health, immune health, and in relation to stress, Iron status and absorption, women health and Celiac disease/Gluten intolerance.

Our studies are performed in accordance with ethical principles, which stems from the Declaration of Helsinki and are consistent with International Conference on Harmonization (ICH)/Good Clinical Practice (GCP), EU Clinical Trials Directive and applicable local regulatory requirements.

## Data integrity

Probi recognizes the importance of protecting the privacy and integrity of individuals. All personal data shall be treated as confidential and in compliance with applicable data protection and privacy laws and regulations when processed by Probi. For this purpose, Probi has adopted a Group Data Protection policy based on the General Data Protection Regulation (GDPR). Probi aims to ensure that all personal data is maintained and processed in compliance with applicable laws and regulations and in a fair and transparent way. Furthermore, Probi strives to reduce the risk of violations as well as to ensure

governance and accountability to facilitate data protection compliance. As GDPR sets a high standard for data protection and privacy, compliance with GDPR would most likely result in compliance with the material requirements of corresponding data protection regulations applicable in other jurisdictions. However, each Probi Company must always take into account that they may be subject to additional local and/or national data protection legislation applicable where they operate. If such legislation conflicts with this policy, the more stringent requirement as regards data protection and privacy shall prevail. For instance, laws and regulations applicable to Probi's research activities must always be taken into account when applying this policy. Each Probi Company shall be responsible for, and be able to demonstrate, compliance with GDPR and other applicable legislation. No violations have been reported during 2019.

## Product Quality

Production of live and active probiotics is a very complex process and we put a lot of effort into ensuring our probiotics have the highest quality. Our contract suppliers are subjected to periodical reviews. The categorisation of the supplier and other information is documented in the list of suppliers. The list contains information of name, what service, applicable guidelines, categorisation, status and inspection status. Once a year, the status of the suppliers is reviewed, and this is documented. The review is done by supply, QA, P&A and COO. This is done by reviewing the present information of the supplier in the list and received additional information, such as if the supplier is still valid and used, need for audit or visit update, delivery precision, economic situation, situation for the environmental work and if there has been any problems or complaints from customer that require additional actions. Since 1998, Probi's laboratory activities in Lund have been accredited according to ISO 17025 requirements for testing laboratories – General requirements for the competence of testing and calibration laboratories. Swedac is the regulatory authority for the accreditation.

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This is the translation of the auditor's report in Swedish

### The auditor's report on the statutory sustainability report

To the general meeting of Probi AB, corporate, identity number 556417-7540.

### Engagement and responsibility

The Board of Directors is responsible for that the statutory sustainability report on pages 2-10 has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12. The auditor's report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### Opinion

A statutory sustainability report has been prepared.

Malmö, 30 of March 2020

Ernst & Young AB

Peter Gunnarsson  
Authorized Public Accountant

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