

CORPORATE GOVERNANCE REPORT

Probi AB (publ) is a Swedish limited liability company, listed on Nasdaq 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 2017 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.com, 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.

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 4 May 2017. 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 2018 AGM to

- make decisions on one or more occasions regarding a new share issue of up to a total of 1,164,412 shares. This authorisation includes the right to resolve on deviation from the shareholders' preferential right, and that payment shall be made in cash, by set-off or in kind. At deviation from the shareholders' preferential right, the issue price shall be determined in accordance with market practise. 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 2017.
- make decisions regarding acquisition of own shares. This authorisation includes acquisitions on Nasdaq 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 Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. Payment of the shares shall be made in cash. The Board did not exercise this authorisation in 2017.
- 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 Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board of Directors was further entitled to resolve, with or without preferential right for the company's shareholder, on the transfer of the company's own shares in other manners than as set forth above. The transfer may in such case be made for payment in cash, payment in kind or through the offsetting of debt. The Board did not exercise this authorisation during 2017.

Remuneration of senior executives

The 2017 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 cash salary, the possibility to participate in long-term share or share-price related incentive plans, 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 cash salary portion shall be based on the individual's fulfilment of quantitative and qualitative goals and shall amount to a maximum of 60% of the fixed salary for the CEO and a maximum of 50% of the fixed salary for other senior executives. 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. In case of termination by the employee, the notice period normally amounts to three to six months. In case of termination by the company, compensation during notice period and under severance agreements shall not exceed an amount corresponding to fixed salary for 24 months. The above guidelines do not comprise such share related incentive programs that may be adopted by the general meeting. 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 2018 AGM, the Board proposes that the Meeting resolve on guidelines with similar wording and the change that in case of termination by the company, compensation during notice period and under severance agreements shall not exceed an amount corresponding to fixed salary for 12 months.

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 4 May 2017, 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.com.

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 4 May 2017 resolved to elect a Board consisting of six members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2017).

Jean-Yves Parisot, Chairman (re-elected) (21 of 22)
 Jan Nilsson (re-elected) (22 of 22)
 Jonny Olsson (re-elected) (20 of 22)
 Anna Malm Bernsten (newly elected 4 May 2017) (19 of 22)
 Charlotte Hansson (newly elected 4 May 2017) (18 of 22)
 Scott Bush (newly elected 4 May) (19 of 22)

All Board Members are independent in relation to the company and senior executives.

Five board members are independent in relation to major shareholders. A presentation of the Board Members is available on the company's www.probi.com website and in the printed version of the 2017 Annual Report on pages 78-79.

The AGM resolves on principles and monetary limits for Board fees. For 2017, the Board's fees were fixed at KSEK 1,400, of which KSEK 400 was paid to the Chairman of the Board and KSEK 200 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 31.

CEO

A presentation of the CEO is available on the company's www.probi.com website and in the printed version of the 2017 Annual Report on page 80.

Auditors

The 2017 AGM elected the registered accounting firm Deloitte AB with Authorised Public Accountant Maria Ekelund as auditor-in-charge for the period up to the 2018 AGM.

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 includes 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 2017 focused primarily on strategic and structural issues involving Probi's long-term development and growth. In addition, the Board held 17 telephone meetings in 2017. Among other matters, these meetings addressed issues connected to strategic investment decisions, negotiations of commercial agreements and adoption of quarterly reports and year-end reports.

Audit Committee

Due to the size of the company and the composition of the Board, the Board has decided that the Audit Committee should comprise 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. Audit committee issues have been treated at four Board meetings in 2017. All members attended these meetings.

Remuneration Committee

Due to the size of the company and the composition of the Board, the Board has decided that the Remuneration Committee should comprise 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. Remuneration committee issues have been treated at two Board meetings in 2017. 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, and accounting, reporting and attestation instructions for the mother company and subsidiaries. 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. Considering the size and risk exposure 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.