

## **The Board of Directors' proposal for guidelines for remuneration to senior executives**

### **Scope**

The Board of Directors proposes that the Annual General Meeting (“**AGM**”) resolves to adopt the following guidelines for remuneration and other conditions of employment to the persons included in Probi's senior management, referred to below as “senior executives”.

These guidelines shall apply to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the AGM 2020. These guidelines do not apply to any remuneration decided or approved by the general meeting.

If a Board member performs work for the company in addition to the assignment as Board member, the Board member shall receive cash remuneration on market terms, taking into the account the nature of the assignment and the work effort. Such remuneration is resolved by the Board of Directors (or, if provided by law, by the general meeting).

Remuneration under employments subject to other rules than Swedish may be duly adjusted to comply with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

### **Promotion of the company's business strategy, long-term interests and sustainability**

Probi is a complete, integrated probiotics group with operations throughout most of the world. Probi's vision is to be the innovative research-driven leader within probiotics, with an ambition to enhance people's well-being throughout the world. Probi's mission is to offer probiotic products of high quality, based on science, grown with care and delivered in attractive formats.

The strategy consists of three focus areas where the first strategic goal is to double the company's sales. This is to be achieved through a strengthened position within premium solutions for digestive health and immune function, increased presence in the US, China and other growth markets, an increased number of global key customers and also through more strategic partnerships and acquisitions within relevant geographies and segments. The second strategic goal is to have a leading position within innovation and development, which shall be supported by an extended range with more clinically documented offerings, approved health claims in relevant markets, increased number of international research collaborations and evaluation of growth opportunities in fields related to probiotics. The third goal refer to the company's production capacity; the facilities shall have a secured high qualitative production capacity adapted to the market and address the need for new production opportunities in growth regions, focusing on long-term improvement of the gross margins.

The key to successful implementation of the strategy is committed and dedicated employees who work systematically and strategically. These guidelines are expected to contribute to the implementation of the strategy, including Probi's long-term interests and sustainability, by enabling Probi to offer a total remuneration that is competitive and on market terms in order to recruit and retain senior executives and by promoting the senior executive's abilities to carry out their duties.

### **Principles for different forms of remuneration, etc.**

The total remuneration to senior executives shall be competitive and on market terms and may consist of fixed cash salary (base salary), variable cash remuneration (bonus), pensions

and other benefits, and also further variable cash remuneration in certain extraordinary circumstances. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, long-term share-related or share price-related incentive programs.

### ***Fixed cash salary***

The fixed cash salary (base salary) shall take into account the individual's potential, areas of responsibility and experience.

### ***Variable cash remuneration***

#### *Annual variable remuneration*

The annual variable cash remuneration may, for the CEO, amount to a maximum of 60% of the fixed annual cash base salary and may, for the other senior executives, amount to a maximum of 50% of the fixed annual cash base salary. For senior executives employed in the American organization, the annual variable cash remuneration may amount to a maximum of 100% of the fixed annual cash base salary. Annual variable cash remuneration shall be linked to the senior executive's fulfilment of pre-determined quantitative and qualitative goals. The goals may be financial, for example by relating to result or net sales and non-financial, for example by relating to how the individual contribute to Probi's work with matters on diversity and the maintenance and building of Probi's culture. The goals shall, among other things, aim to secure a long-term commitment for the company's progress, whereby they are expected to contribute to the successful implementation of Probi's business strategy, long-term interests and sustainability. The fulfilment of criteria for awarding annual variable cash remuneration shall be measured on a yearly basis.

#### *Long-term cash bonus (LTI-bonus)*

In addition to the fixed cash salary and the annual variable cash remuneration, senior executives and other selected key employees (up to ten persons) may each year be granted a variable long-term cash bonus (LTI-bonus). The LTI-bonus shall award EPS growth during the year of inclusion, which is also the performance year (year 1). The initial grant value shall be based on reach of the performance goal and shall amount to a maximum of 7.5-37.5% of the annual salary in the year of inclusion of each participant, depending on position. The initial grant value shall be vested over the following three years (year 2-4) and shall thereafter, upon pay-out, be indexed to reflect the share price development during the vesting period; i.e. if during the vesting period the share price has increased by 25%, the initial grant value shall upon payout of the LTI-bonus be increased by 25%. If during the vesting period the share price has declined by more than 33%, there shall be a guaranteed minimum of 67% of the grant value. If the share price has increased by more than 50% during the vesting period, the LTI-bonus payout shall be capped at 150% of the initial grant value. Should the initial grant value be the maximum value of 37.5% of the annual salary and the share price development over the vesting period be more than 50%, then the maximum payout value of the individual LTI-bonus should be 56.25% of the annual salary as per the year of inclusion. Payout of the LTI-bonus is conditional upon continued employment by the end of the vesting period (subject to customary exceptions). The costs associated with the LTI-bonus are regular personnel costs associated with cash compensation.

#### *Determination of the outcome for variable cash remuneration, etc.*

Ahead of each yearly measurement period for the criteria for awarding variable cash remuneration, the Board of Directors shall, based on the Remuneration Committee's

proposal, establish which criteria that are deemed to be relevant for the upcoming measurement period. To which extent the criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The Board of Directors is responsible for the evaluation so far as it concerns variable remuneration to the CEO. For variable cash remuneration to other executives, the CEO and the Chairman of the Board is responsible for the evaluation. Evaluations regarding fulfilment of financial targets shall be based on established financial basis for the relevant period.

Variable cash remuneration can be paid after the measurement period has ended or be subject to deferred payment. The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to in whole or in part reclaim variable remuneration paid on incorrect grounds.

#### ***Further variable cash remuneration***

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining senior executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Such remuneration may not exceed 30% of the fixed annual cash base salary and may not be paid more than once each year per individual. Any resolution on such remuneration shall be made by the Board of Directors.

#### ***Pensions***

For senior executives, pensions, including health insurance (Sw: *sjukförsäkring*), shall be based on defined contribution plans. Variable cash remuneration shall qualify for pension benefits. The pension premiums for the contribution defined pension shall follow the ITP1 plan and shall amount to not more than 4.5% of the pensionable salary up to 7.5 income base amounts, and not more than 30% on exceeding salary. Additionally, according to applicable collective agreements, a part of the senior executive's pensionable salary may be allocated as a complement to the senior executive's pension as set out in his or her employment contract (Sw: *deltidspensionspremie*).

#### ***Other benefits***

Other benefits may include, for example, life insurance, medical insurance (Sw: *sjukvårdsförsäkring*) and company cars, and may be provided to the extent that such benefits are deemed to be on market terms for senior executives in equivalent positions in the market where the senior executive is active. Such benefits may amount to not more than 10% of the fixed annual cash base salary.

#### **Termination of employment**

Senior executives shall be employed until further notice. The notice period may not exceed twelve months for the CEO and nine months for other senior executives if notice of termination of employment is made by the company. Fixed cash base salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash base salary for twelve months. The period of notice may not exceed six months, without any right to severance pay, when termination is made by the executive.

Additionally, remuneration may be paid for non-compete undertakings. Such remuneration shall compensate for loss of income and may only be paid in so far as the previously

employed executive does not receive severance pay. The remuneration shall amount to not more than 60% of the fixed cash base salary at the time of termination of the employment, unless otherwise provided by mandatory collective agreement provisions and be paid during the time the non-compete undertaking applies, however not for more than twelve months following termination of the employment.

### **Salary and employment conditions for employees**

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Remuneration Committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

### **The decision-making process to determine, review and implement the guidelines**

The Board of Directors has established a Remuneration Committee. The committee's tasks include preparing the Board of Director's decisions to propose guidelines for remuneration to senior executives. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit to the AGM. The guidelines shall be in force until new guidelines are adopted by the general meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the senior executives, the application of the guidelines for remuneration to senior executives as well as the current remuneration structures and compensation levels in the company. The members of the Remuneration Committee are independent of the company and its senior management. The CEO and other senior executives do not participate in the Board of Director's processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

### **Derogation from the guidelines**

The Board of Directors may derogate from these guidelines if the Board of Directors considers that, in a specific case, there is special cause for the derogation and a derogation is necessary to serve Probi's long-term interests, including its sustainability, or to ensure Probi's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

### **Transitional provisions applicable for the AGM 2020**

Details of the total remuneration to senior executives, including previous commitments not yet due for payment, is presented in note 10 in the annual report for 2019.

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Lund in April 2020

Probi AB (publ)  
*The Board of Directors*